

CHAPTER I

AN OVER VIEW OF THE ACCOUNTS AND FINANCES OF LOCAL BODIES

CHAPTER SUMMARY

- **There was no system in place to consolidate the revenue and expenditure of PRIs.**
- **Andhra Pradesh Municipal Accounts Manual was adopted by the Government of AP but is yet to be implemented in ULBs.**
- **The Budget and Accounts formats for PRIs are yet to be implemented in Mandal Parishads and Gram Panchayats.**
- **District Planning Committees have not been constituted so far.**
- **EFC/TFC grants were mis-utilised/ diverted.**
- **SFC recommendations were partially implemented.**

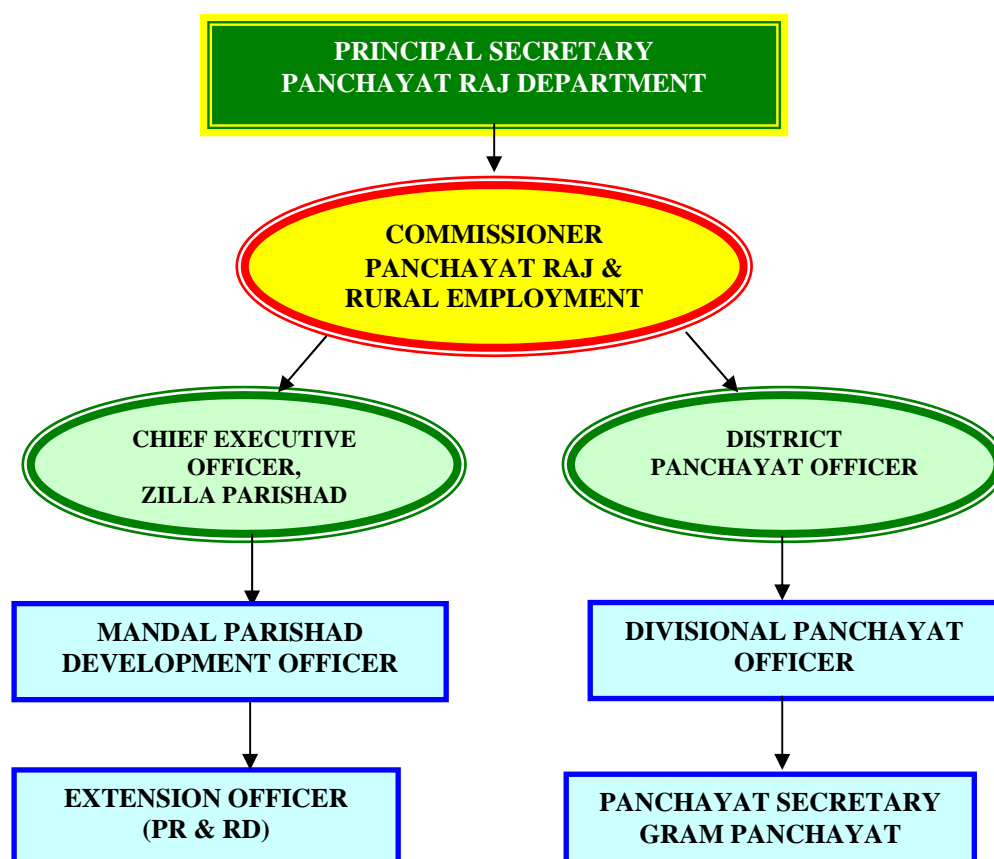
1.1 PANCHAYAT RAJ INSTITUTIONS

1.1.1 Introduction

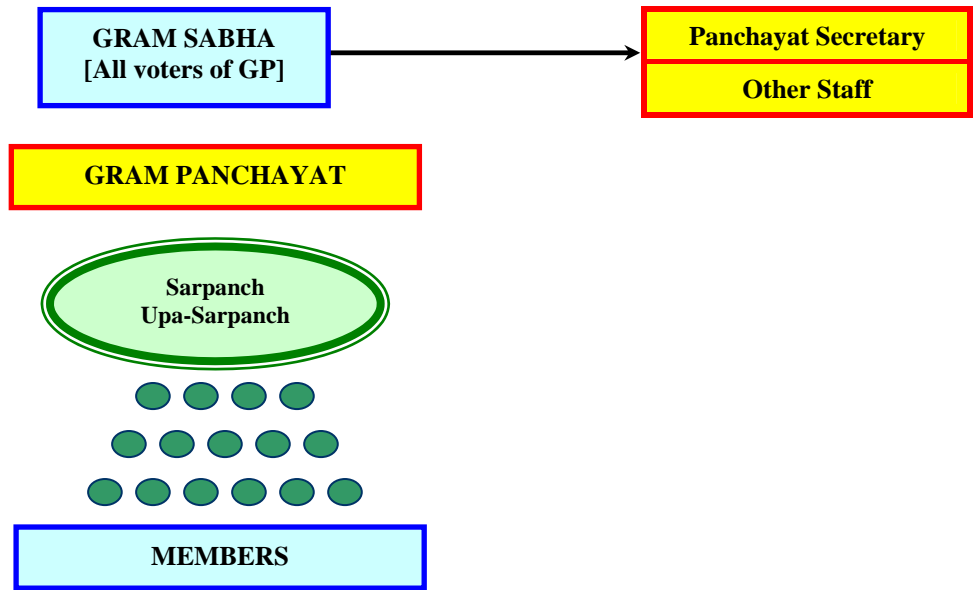
In conformity with the 73rd Constitutional Amendment Act, the Andhra Pradesh Panchayat Raj (APPR) Act was enacted in 1994 repealing all existing Acts, to establish a three tier system at the Gram Panchayat, Mandal Parishad and Zilla Parishad level. As per the 2001 census, the total population of Andhra Pradesh was 7.57 crore, of which 5.52 crore (72.92 per cent) lived in rural areas. As on 31 March 2006, there were 23084 Panchayat Raj Institutions (PRIs) in the State which consisted of 22 Zilla Parishads (ZP's), 1119 Mandal Parishads (MPs) and 21943 Gram Panchayats (GPs). Elections to the PRIs were conducted in the months of July and August 2006 and newly elected members took charge in October 2006.

1.1.2 Organizational set up

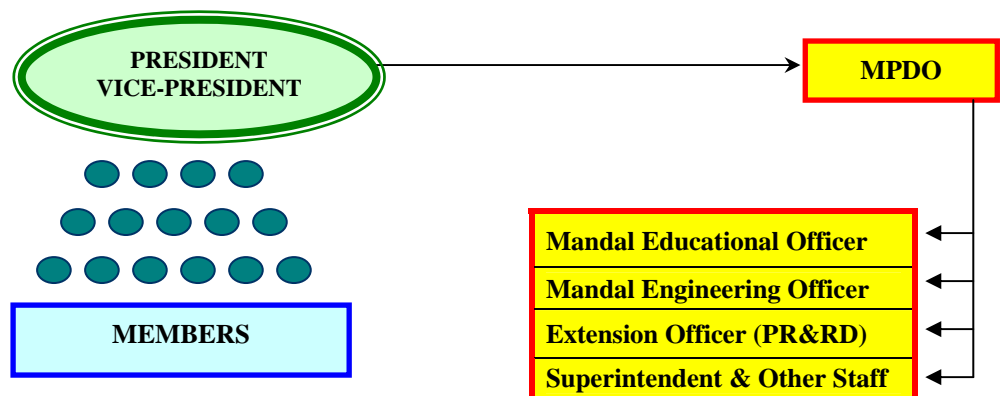
The organizational set up of PRIs in the state is as under:



Gram Panchayat: The Government may by notification and in accordance with the rules in this behalf declare any revenue Village or Hamlet thereof or any part of a Mandal to be a Village for the purpose of the APPR Act, 1994 and specify the name of the Village. For every village the State Government shall constitute a Gram Panchayat. Every village shall have a Gram Saba (GS) consisting of persons registered in the electoral rolls pertaining to the area of the village. The structure of the Gram Saba is given below:

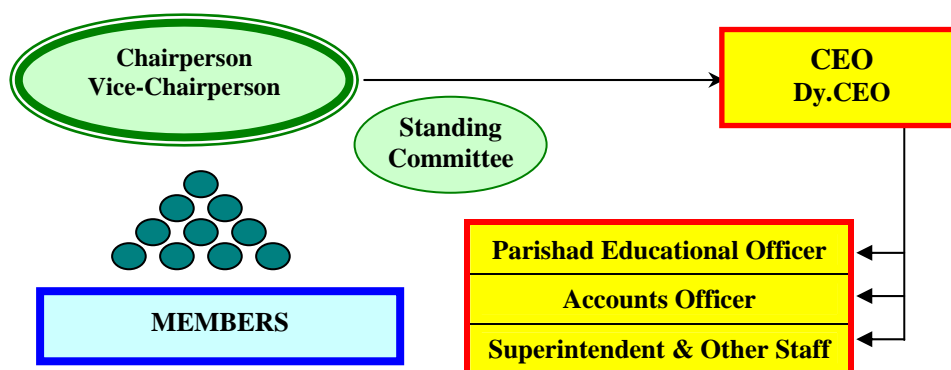


Mandal Parishad: A district may be divided into Mandals¹ comprising of such contiguous villages as may be specified in the notification by the State Government, and for every Mandal there is a Mandal Parishad which is divided into many territorial constituencies having a population between three and four thousand. One member shall be elected to the Mandal Parishad from each territorial constituency. The structure of the Mandal Parishad is depicted below:



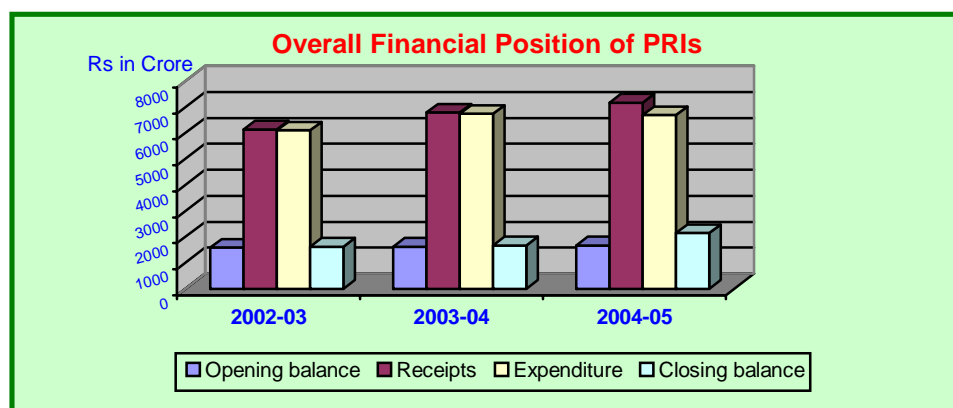
¹ The Blocks as a unit of development is obliterated and in its place the Mandal has emerged. 332 Panchayat Samities constituted earlier were replaced by 1119 Mandal Parishads

Zilla Parishad: The ZP consists of one elected member from each Mandal besides Member of Legislative Assembly (MLA) of the State representing the constituency, Member of House of People (MP) representing a constituency, Member of the Council of State (MLC), who is a registered voter in the district concerned and two co-opted members belonging to minorities. Each ZP has seven Standing Committees (Planning and Finance, Rural Development, Agriculture, Education and Medical Services, Women Welfare, Social Welfare and Works) and the Chairperson is the Ex-officio member of all standing committees. The District Collector, who is a permanent invitee, shall be entitled to participate in all the standing committee meetings without right to vote. The structure of a ZP is depicted below:



1.1.3 Funding of Panchayat Raj Institutions

The State and Central Government funded the PRIs through Grants-in-aid for general administration and development activities. The Gram Panchayats generate tax revenue from property and water taxes and non tax revenue from various fees such as tap connection fee, rent from properties, etc. The Mandal Parishad and Zilla Parishad do not generate any tax revenue and depend mainly on Grants-in-aid. The funds are utilized by the PRIs for providing civic amenities and welfare measures. Though the accounts are prepared by the PRIs individually, there is no system in place to consolidate the revenue and expenditure figures under various heads of accounts of all the PRIs, due to which effective monitoring of the finances was not possible and an overall picture of finances of PRIs could not emerge. With the available information and figures furnished by the Director of State Audit, the following financial analysis has been made.



Financial Position of the PRIs: The receipt and expenditure of PRIs from 2002-03 to 2004-05, as furnished by the State Audit department, is detailed in the table below.

(Rupees in crore)

Zilla Parishad					
Year	Opening balance	Receipts	Total	Expenditure	Closing balance
2002-03	1118.18	2538.09	3656.27	2560.96	1095.31
2003-04	1095.31	2771.16	3866.47	2842.19	1024.28
2004-05	1028.28	2326.97	3351.25	2396.54	954.71
TOTAL		7636.22		7799.69	
Mandal Parishad					
Year	Opening balance	Receipts	Total	Expenditure	Closing balance
2002-03	456.80	2373.77	2830.57	2360.23	470.34
2003-04	470.34	2608.80	3079.14	2616.20	462.94
2004-05	462.94	2317.48	2780.42	2261.97	518.45
TOTAL		7300.05		7238.40	
Gram Panchayat					
Year	Opening balance	Receipts	Total	Expenditure	Closing balance
2002-03	6.45	1220.29	1226.74	1177.81	48.93
2003-04	48.93	1406.16	1455.09	1277.53	177.56
2004-05	177.56	2527.99	2705.55	2028.63	676.92
TOTAL		5154.44		4483.97	

It would be seen from the above that the receipts of the GPs have increased considerably during 2004-05 compared to the previous years, while in case of ZPs and MPs, the same has decreased.

Sources of Funds: The receipts for PRIs from 2002-03 to 2004-05, as furnished by the State Audit department, is depicted below.

(Rupees in crore)

Source of Funds		2002-03	2003-04	2004-05
Gram Panchayats				
1. Own Revenue				
a.	Taxes (House tax, water tax, etc.)	113.68	97.20	203.00
b.	Non-taxes (Market rents, rents of shops and other property, auctions, etc)	96.12	90.84	302.61
	Total	209.80	188.04	505.61
2. Grants-in-aid				
a.	Salary Grant	127.01	95.59	151.26
b.	Sampoorna Grameena Rozgar Yojana (SGRY)	172.28	208.15	334.18
c.	Eleventh Finance Commission (EFC)	118.86	157.57	317.46
d.	State Finance Commission (SFC)	0	76.40	192.70
e.	Other grants (per capita grant, seinorage charges, profession tax, etc.)	454.16	537.72	740.86
	Total	872.31	1075.43	1736.46
3. Deposits and Advances		6.13	9.49	11.24
4. Other Receipts		132.05	133.20	274.68
TOTAL		1220.29	1406.16	2527.99
Mandal Parishads				
5.Grants and other receipts including fund accounts				
a.	General Fund (per capita grants, seinorage charges, profession tax, stamp duty, own revenue from rents and leases, auction amounts, etc.)	110.48	102.48	104.17
b.	Social Welfare	16.76	19.44	16.84
c.	Minor Irrigation and rural water supply	1.28	1.59	1.92
d.	Roads and bridges maintenance	2.33	4.18	2.92
e.	Education	2132.72	2381.49	2085.41
f.	SGRY	4.04	31.49	25.18
g.	EFC	0	0	1.72
h.	Others (Building grant, natural calamity grant, NABARD, MPLADS, Pension grants, etc)	72.21	35.66	62.64
I.	Deposits, Advances and Loans	33.95	32.47	16.68
TOTAL		2373.77	2608.80	2317.48
Zilla Parishads				
6.Grants and other receipts including fund accounts				
a.	General Fund (per capita grants, seinorage charges, profession tax, stamp duty, own revenue from rents and leases, auction amounts, etc.)	175.21	115.92	122.42
b.	Social Welfare	37.90	21.06	27.92
c.	Minor Irrigation and rural water supply	91.70	133.15	148.53
d.	Roads and bridges maintenance	143.94	236.47	131.57
e.	Education	1154.60	1307.28	1099.14
f.	SGRY	188.29	380.45	318.26
g.	EFC	1.05	9.46	17.07
h.	Minimum Needs Programme (MNP)	3.84	4.66	3.07
I.	NABARD	18.28	31.36	6.50
j.	Others (Building grant, natural calamity grant, MPLADS, Pension grants, etc)	394.95	331.45	206.61
k.	Deposits, Advances and Loans	328.33	199.90	245.88
TOTAL		2538.09	2771.16	2326.97
GRAND TOTAL (GP, MP & ZP)		6132.15	6786.12	7172.44

The total receipts of PRIs increased from Rs 6132.15 crore in 2002-03 to Rs 7172.44 crore in 2004-05 i.e. by 16.96 per cent. This was mainly due to increase in collection of tax and non-tax revenue by GPs in 2004-05 compared to the previous years. There was also a significant inflow of funds through EFC grants and assistance under centrally sponsored schemes. Despite the increase in collection of taxes, it was observed from the Demand, Collection and Balance particulars furnished by the Commissioner, PR, that there were huge arrears in collection of tax and non-tax revenue by the GPs. As of March 2006, Rs 109.63 crore was in arrears on these accounts. Recovery of tax arrears was poor in the districts of Karimnagar, Nizamabad, Krishna and Warangal² where the outstanding amounts were to the tune of Rs 29.1 crore. Similarly, recovery of non-tax arrears was poor in the districts of Karimnagar, Krishna, East Godavari, West Godavari and Warangal³ where the outstanding amounts were to the tune of Rs 17.4 crore.

Application of funds:

The major expenditure of PRIs is on providing and maintaining civic amenities such as roads, sanitation, water supply, lighting, etc. The expenditure includes both recurring expenditure on maintenance and non-recurring expenditure on creation of capital assets. The sector-wise expenditure and expenditure incurred from the scheme funds such as SGRY, EFC, etc. were not available with the Commissioner PR. However, based on the data made available by the Director of State Audit, the expenditure incurred by PRIs from 2002-03 to 2004-05, is depicted below:

(Rupees in crore)

Application of Funds		2002-03	2003-04	2004-05
Gram Panchayats				
Expenditure particulars				
a.	Salary	136.48	135.92	194.01
b.	Works expenditure from grants received under SGRY, EFC, SFC, etc.	812.04	866.09	1306.15
c.	Maintenance Expenditure	119.54	133.90	266.04
d.	Deposits and Advances	7.24	13.29	17.85
e.	Other administrative expenditure	102.51	128.33	244.58
Total		1177.81	1277.53	2028.63
Mandal Parishads				
Expenditure particulars				
a.	Education	2145.85	2389.29	2046.66
b.	Social Welfare	11.49	15.22	16.12
c.	Minor Irrigation and rural water supply	2.61	2.64	1.33
d.	Roads and bridges maintenance	2.50	3.83	4.35
e.	Scheme works such as SGRY, Janmaboomi, other grants and other programmes expenditure.	66.04	56.75	68.63
f.	Expenditure from general funds account	100.60	108.97	105.34
g.	Deposits, Advances and Loans	22.94	30.74	14.31
h.	Other expenditure	8.20	8.76	5.23
Total		2360.23	2616.20	2261.97

² Karimnagar: Rs 7.9 crore, Nizamabad: Rs 6.5 crore, Krishna: Rs 5.5 crore and Warangal: Rs 9.2 crore

³ Karimnagar: Rs 2.8 crore, Krishna: Rs 2.1 crore, Warangal: Rs 2.2 crore, East Godavari: Rs 2.3 crore, West Godavari: Rs 8 crore

Application of Funds		2002-03	2003-04	2004-05
Zilla Parishads				
Expenditure particulars				
a.	Education	1260.46	1290.06	1095.55
b.	Social Welfare	35.41	17.61	13.70
c.	Minor Irrigation and rural water supply	92.75	132.90	131.06
d.	Roads and bridges maintenance	166.22	243.57	95.99
e.	Scheme works such as SGRY, Janmaboomi, other grants and other programmes expenditure.	532.58	759.68	486.42
f.	Expenditure from general funds account	113.64	134.11	132.23
g.	Deposits, Advances and Loans	240.85	193.32	154.16
h.	Other expenditure	119.05	70.94	287.43
Total		2560.96	2842.19	2396.54
GRAND TOTAL (GP, MP & ZP)		6099.00	6735.92	6687.14

The expenditure incurred on works was 64 per cent to 69 per cent during the year 2002-03 to 2004-05 in Gram panchayats and more than 90 per cent of the funds were utilised for the Education sector in Mandal Parishads. In Zilla Parishads, the expenditure on the Education sector showed a declining trend i.e. from 49 per cent to 46 per cent during 2002-03 to 2004-05

1.1.4 Accounting arrangements

The PRIs maintain accounts on cash basis. In May 2005, Government of AP adopted the Budget and Accounting formats prescribed by the C&AG, based on the EFC's recommendations. While these formats have been implemented in ZPs, they have not been implemented in the other two tiers.

1.1.5 Creation of Data base of PRIs

EFC allocated grants of Rs 18.26 crore, for creation of database on finances of PRIs and as of March 2005, Rs 17.85 crore had been utilized. The work was entrusted to National Informatics Centre (NIC) by the Commissioner, PR and is in progress.

1.1.6 Audit arrangements

Director, State Audit is the statutory auditor for PRIs under the A.P. State Audit Act 1989. C&AG conducts audit of PRIs under Section 14 of C&AG's (DPC), Act, 1971. Further, based on the recommendations of EFC, the State Government entrusted the C&AG with the responsibility of providing Technical Guidance and Supervision under Section 20 (1) of C&AG (DPC) Act, for the proper maintenance of accounts and audit of Local Bodies. While there were no arrears in audit conducted by Director, State Audit in respect of ZPs, marginal arrears existed in respect of MPs. However, there were huge arrears in the case of GPs. As of March 2006, audit of 6987 GPs was in arrears. Out of these, audit of only 71 GPs had been completed by December

2006. The Director, State Audit had so far prepared Consolidated State Audit and Review Reports for the years 1998-99 to 2003-04 and had submitted them to the Finance Department. Though the State Audit Act prescribes that the reports should be laid on the table of the Legislative Assembly, the same had not been done so far by the Government. Some of the major findings by Director, State Audit related to excess/non-utilization/diversion/mis-utilization of grants, non-collection of dues, advances pending adjustments, violation of rules, wasteful expenditure, etc.

1.1.7 District Planning Committees

In terms of Article 243-ZD of the Constitution, District Planning Committees (DPCs) are to be constituted by the State Governments so as to consolidate the development plans formulated by the local bodies based on planning at the grass roots level. However, DPCs were not constituted in the State and the ZPs and MPs were submitting proposals to the Government thereby defeating the objective of preparing a consolidated development plan. Further, the implementation was also not reviewed and monitored at the District level. In the absence of a DPC, there was no formal mechanism to make recommendations to the Government for the integrated development of the districts.

1.1.8 Finance Commissions

Eleventh Finance Commission: The EFC had recommended grants amounting to Rs 8000 crore to PRIs. The position of grants released under EFC during 2000-2005 in the State was as follows:

(Rupees in lakh)	
1. Grants released from the Centre	68421.72
2. Matching contribution provided by	
a) Local Bodies	8489.72
b) State Government	10125.00
3. Total (1+2)	87036.44
4. Grants released to Local Bodies	78546.72
5. Utilization of grants by Local Bodies	
a) Maintenance of Accounts	1322.04
b) For creation of data base	1785.20
c) For maintenance of Civic Services	83929.20

As per the EFC guidelines, the grants had to be utilized for maintenance of civic services and the projects should normally have been those that were not covered under any other schemes of GOI/State Government. The utilization of EFC grants was test checked in three districts⁴ covering three ZPs, three DPOs and Engineering divisions and 16 GPs to whom the funds were released. The following points were noticed.

⁴ Kurnool, East Godavari and Ranga Reddy districts

- In four GPs⁵, out of EFC grant of Rs 36.93 lakh, Rs 6.65 lakh was diverted for construction of GP office and market buildings in violation of the guidelines.
- Similarly, out of Rs 13.55 lakh given to Executive Engineer (EE), Kurnool, Rs 5.86 lakh was diverted for purchase of stationery. The EE, further released Rs 37.20 lakh to District Primary Education Project (DPEP) for construction of Upper Primary and High Schools, although the guidelines stipulated that funds should be released only for primary schools.
- In three GPs⁶, Rs 6.45 lakh out of total release of Rs 50.47 lakh lapsed due to non-utilization of the amounts within the stipulated time. Similarly, in three engineering divisions⁷ Rs 80.27 lakh out of Rs 1.48 crore lapsed.
- As per the guidelines, the EFC grants had to be released to the PRIs within three months of their release to Government of Andhra Pradesh (GOAP). However, it was observed that DPO, Kurnool released funds to GPs after a delay of seven months.
- GOAP released Rs 4.68 crore (February 2005) and 2.18 crore (July 2005) to District Panchayat Officer, Ranga Reddy (RR) district, who, in turn, released the same to 705 GPs in the district for execution of development activities. Utilisation Certificates for the second instalment of Rs 2.18 crore are yet to be obtained (April 2007).
- An amount of Rs 10.25 crore out of total grant of Rs 111.40 crore received by ZP, RR district was kept in fixed deposits from March 2003, thereby depriving the targeted rural population of the intended benefits.
- Similarly, out of Rs 12.80 crore placed with ZP, RR district for computerization of GPs (March 2004), Rs 6.08 crore was released (Rs 4.18 crore for procurement of hardware and installation to GPs and Rs 1.90 crore was placed with NIC for creation of data base) in August 2004 and the remaining amount of Rs 6.72 crore was kept in fixed deposits from March 2004 onwards and is yet to be utilized.

Twelfth Finance Commission:

As per paragraph 6.4 of TFC guidelines, the funds that were released by GOI have to be transferred to the PRIs within 15 days. In case of delayed transfer beyond the specified period of 15 days, the State Government should allow interest at a rate equal to the RBI interest rate, along with the transfer of grants to the PRIs. During audit of release and utilization of TFC grants, it was observed that there were delays ranging between 39 and 110 days, in transfer from Government to the lowest tier in case of three districts test checked. However, interest was given by the GOAP only for 21 days. Though the interest on delayed transfers was required to be transferred along with the release of grants to the PRIs, the interest portion was actually released after a delay of 44 days in respect of the 1st installment and 121 days in respect of the 2nd installment. Further, there were inordinate delays in transfer of funds to the

⁵ Golla mamidi, Neelapalli, Annavaram and Kowthalam Gram panchayats

⁶ Dowaleswaram, Golla Mamidi, Neelapalli GPs

⁷ EEs, RWS, Kurnool, Adoni and Nandyal

MPs and GPs ranging between 11 to 47 days. While the delay in transferring the interest portion by ZP ranged between 36 to 215 days, in Mahboobnagar ZP, the interest portion pertaining to Gram Panchayats had not been released so far.

State Finance Commission:

The First State Finance Commission (SFC) was constituted during 1994. The Second SFC started functioning from December 1998 and its Report (2001-05) was placed in the legislative assembly in August 2002. While reviewing the implementation of the recommendations of the First SFC, the Second SFC pointed out that 34.5 percent of the recommendations relating to Local Bodies were not accepted or accepted partially and several recommendations, though accepted, were not implemented by GOAP.

Out of 63 recommendations made by the Second SFC, 18 recommendations viz., maintenance of minor irrigation, abolition of land cess, additional grants to small panchayats, creation of additional posts in Mandal Parishads, etc., were deferred and 12 recommendations viz., levy of surcharge on market cess, adjustment of profession tax, taxes on village products like sugar cane, coffee, black pepper and special grants for maintenance of civic services, etc., were pending for further examination. The Second SFC also recommended immediate transfer of all the functions enlisted in the Eleventh Schedule of the Constitution to the PRIs. The status of transfer of functions is detailed in paragraph 1.1.9. The Third State Finance Commission was constituted in January 2003 and its report is awaited. Test check of utilization of SFC grants in Zilla Parishad, Nellore and Mandal Parishad Development Office, Dattirajeru revealed that an amount of Rs 42.69 lakh (ZP, Nellore : Rs 40.64 lakh and MPDO, Dattirajeru : Rs 2.05 lakh) released during 2003-2005 was neither utilized nor remitted back to Government Account and was lying in savings bank accounts (February 2007).

1.1.9 Devolution of funds, functions and functionaries to PRIs

The 73rd Amendment of the Constitution identified 29 functions to be devolved to the Panchayat Raj Institutions (PRIs) and the same were incorporated in the Eleventh Schedule of the Constitution. All the 29 functions listed under the Eleventh Schedule of the Constitution were provided in the Andhra Pradesh Panchayat Raj (APPR) Act⁸ 1994. However, the envisaged functions, functionaries and funds were not devolved to PRIs even after a decade of issue of the APPR Act 1994. The Second Finance Commission (SFC) observed that some of the 17 functions devolved from time to time (June 1998 to November 2000) were actually partial transfers without corresponding functionaries and the funds being transferred. SFC also recommended (from June 1998 to November 2000) immediate transfer of the remaining functions along with funds and functionaries. However, most of these transfers were only on paper as functionaries and funds had not been actually

⁸ Amendment Act No. 5 of 1995 Schedule 1 read with Sections 46, 161 and 192

transferred along with the functions even as of January 2007 as per the status indicated in *Appendix- 1*.

A task force constituted by the Union Ministry of Rural Development had suggested (August 2001), an Activity Mapping Matrix for effective devolution of functions to PRIs. This involves identification of activities related to devolved functions and assignment of appropriate activity to the appropriate level of PRI. Activity Mapping is being done only in respect of 10 out of the 29 matters listed in the Eleventh Schedule of the Constitution. Government Orders for operationalizing Activity Mapping in respect of these 10 matters⁹ have been prepared.

Andhra Pradesh has undertaken to complete Activity Mapping and issue necessary notifications transferring schemes based on Activity Mapping, during the first half of the financial year 2006-07. It is expected that Andhra Pradesh will commence Activity Mapping in respect of the remaining 19 matters during the next financial year. The Joint Secretary, Panchayat Raj and Rural Development Department stated (January 2007), that the devolution of funds, functions and functionaries to the PRIs in Andhra Pradesh, was patterned on the activity mapping. The effective devolution of powers to PRIs had been achieved by linking Functions, Functionaries and Funds and that the prioritization of nine important subjects for devolution was under active consideration of the Government.

Non-release of funds through PRIs:

As per Para 6.2 of the Eleventh Finance Commission guidelines issued by the Ministry of Finance, GOI, budget estimates of the State Government (Demand 31) pertaining to Panchayat Raj, under Major Head 2515 - Other Rural Development Programmes and other related Major Heads, (as well as provisions for release of funds), were to be made as grants-in-aid under Minor Head 196 – Assistance to Zilla Parishads for schemes, minor works, work charges, maintenance of rural roads, RWS and other schemes. Similarly, assistance to Mandal Parishads and Gram Panchayats was to be shown under Minor Heads 197 and 198 respectively. Although the State Government's budget depicts the release of funds as assistance to PRIs under these designated Minor Heads, not all the funds are directly released to the PRI concerned. This was seen in case of schemes like ARWS, PMGSY, PWS, RIDF¹⁰, etc., where the funds were being released to Executive Engineers concerned through PAO by LOC system. The Executive Engineers of PR Engineering and RWS divisions were in turn accountable to Engineer-in-Chief, PR, who is the administrative authority for EEs and hence PRIs do not have any effective control over execution of works.

⁹ Agriculture, Animal Husbandry, Social welfare, Fisheries, Backward classes welfare, Health, Rural development, Tribal Welfare, Rural Water supply, Women and Child welfare.

¹⁰ Rural Infrastructure Development Fund (RIDF).

1.1.10 Conclusion:

The Commissioner, Panchayat Raj did not consolidate the receipts and expenditure accounts of PRIs reflecting poor monitoring of finances. Recovery of tax and non-tax arrears was poor in GPs. The Budget and Accounts formats for PRIs were implemented only in ZPs. These were implemented partially in Mandals and were yet to be implemented in GPs. District Planning Committees were not constituted in the State. Several deviations from the guidelines and diversion of funds were noticed in utilization of Eleventh and Twelfth Finance Commission grants. The State Finance Commission's recommendations were either not implemented or were partially implemented. Although, the EFC had recommended devolution of 29 functions to PRIs, only 17 functions were devolved from time to time without corresponding transfer of functionaries and funds.

1.1.11 Recommendations:

- The PRIs should make efforts to improve performance of collection of arrear taxes and non-taxes and also utilize the available funds in a time bound manner.
- The Audit Reports of Director, State Audit need to be laid on the table of the Legislature as stipulated in the Act.
- District Planning Committees need to be set up without delay. Grants should be utilized within a stipulated time to avoid lapse of funds.
- New accounting formats should be implemented at MPs & GPs level at an early date.
- The State Government should expedite devolution of the three 'Fs' i.e. Functions, Functionaries and Funds in respect of all the 29 subjects listed in the Eleventh Schedule/Schedule I of APPR Act, 1994, for achieving the objective of decentralization and grass-roots democracy in rural areas, as laid down in the Constitution.
- To exercise effective control over execution of works, etc. by the PR Engineering and RWS divisions, all the allocated funds should be routed through PRIs.
- The recommendations of the State Finance Commissions should be implemented.

1.2 URBAN LOCAL BODIES

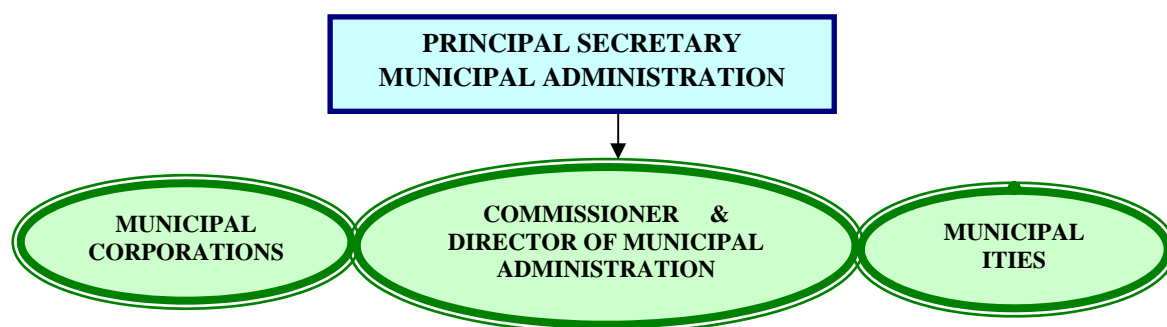
1.2.1 Introduction

The 74th Constitutional Amendment identified 18 functions for Urban Local Bodies (ULBs) as listed in the Twelfth Schedule of the Constitution. The Andhra Pradesh Municipal Corporations Act, 1994 was enacted (Act 25 of 1994) to provide for the establishment of Municipal Corporations in Andhra Pradesh and for matters connected therewith or incidental thereto. However, save as otherwise expressly provided, all the provisions of Hyderabad Municipal Corporation Act, 1955 including the provisions relating to the levy and collection of any tax or fee were extended to Visakhapatnam, Vijayawada and all other Municipal Corporations also. Thus, the provisions of the Hyderabad Municipal Corporation Act, 1955 as amended from time to time and the rules framed thereunder are followed by Corporations in the State. The Municipalities are governed by the Andhra Pradesh Municipalities Act, 1965.

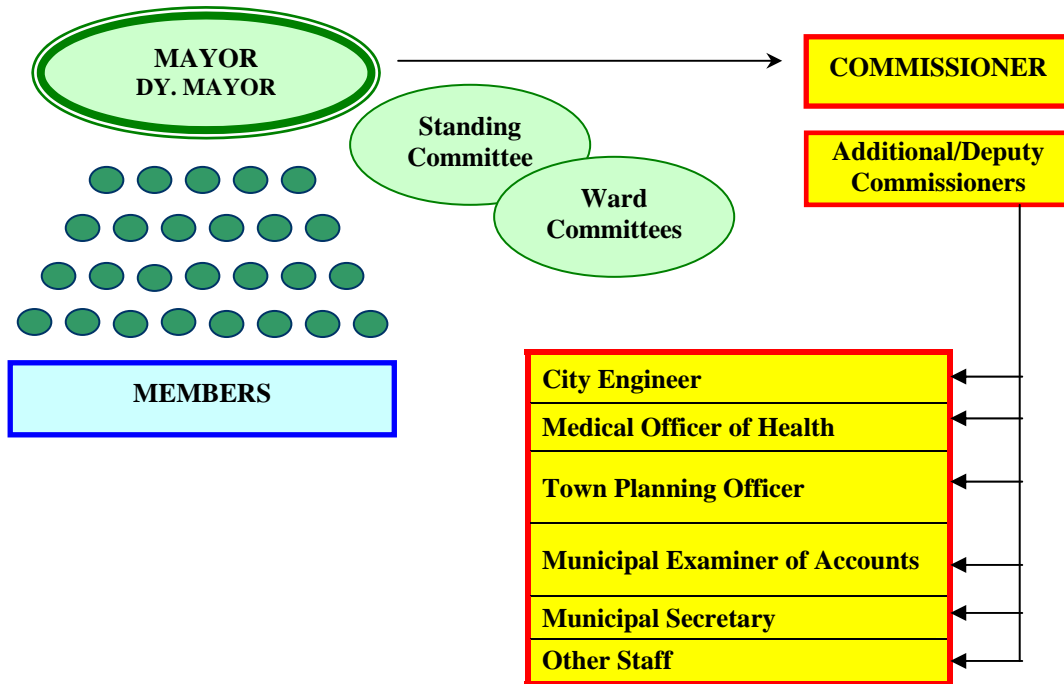
As per the 2001 census, the total population of Andhra Pradesh was 7.57 crore, of which 2.05 crore reside in urban areas (27.08 per cent). As on 31 March 2006, 134 Urban Local Bodies (ULBs) existed in the State. Out of these, 120 were Municipalities and 14 were Municipal Corporations. The State Election Commission conducted elections to the ULBs in the month of September 2005.

1.2.2 Organizational set-up

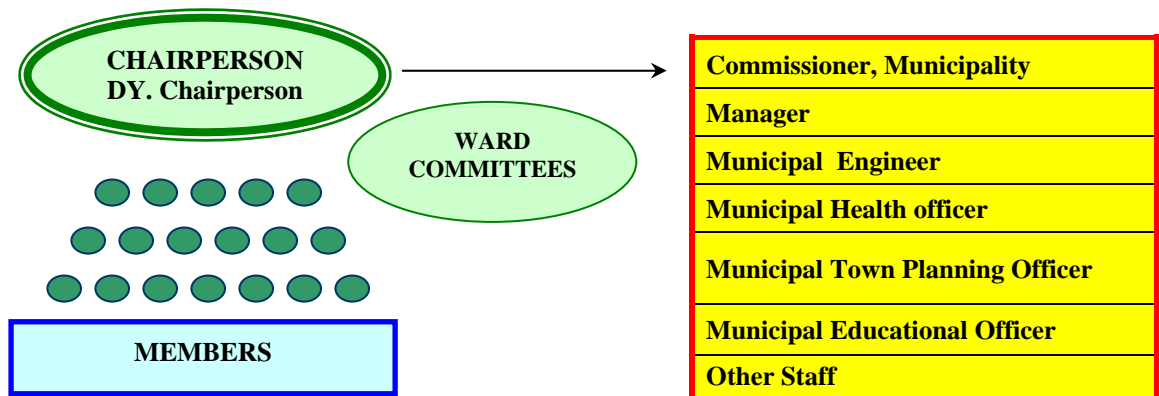
All the ULBs consist of such number of elected members (Corporators/Councilors) as may be notified from time to time by the Government. The Municipal Council in respect of Municipalities is headed by the Chairperson and by Mayor in Corporations. The organizational setup of ULBs in the state is depicted below:



MUNICIPAL CORPORATION



MUNICIPAL COUNCIL



The Municipal Council and the Corporations transact their business as per the provisions of the Act concerned. There is a Standing Committee consisting of the Chairpersons of all the Ward Committees in a Corporation. There are Ward Committees in Municipalities. The Standings Committees and Ward Committees shall meet for the transaction of business in the Corporation/Municipalities from time to time; make such regulations with respect to such meetings and with respect to the scrutiny of the municipal accounts. The functions of the ward committee include maintenance of sanitation, water supply and drainage, street lighting, roads, market places and play grounds and school buildings and review of the revenue collections, preparation of the Annual Budget and forwarding of the same to the Municipal Council and sanctioning of works and schemes. The day-to-day administration

rests with the Commissioner and his/her staff. Below the Commissioner there are Additional/Deputy/Assistant Commissioners, Municipal Engineer, Medical Officer, Examiner of Accounts, Town Planning Officer and other staff.

1.2.3 Funding of ULBs:

Resources by volume and sources

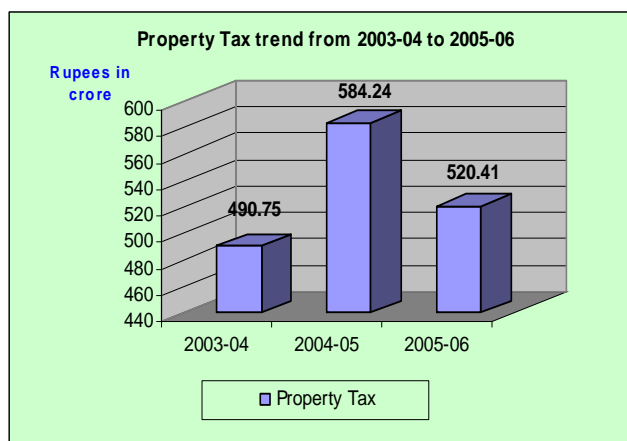
The resources of ULBs consist of grants and assistance from Government of India (GOI) and State Government under various schemes, loans from Financial Institutions (HUDCO etc.,) and own revenue generated through various tax and non-tax collections. The tax revenue mainly accrues from property tax and taxes on advertisement, while non-tax revenue comes from water charges, encroachment fee, developmental charges, buildings fee, etc. Figures given in the following tables furnished by Commissioner and Director of Municipal Administration (CDMA), are not certified figures, as the audit of ULBs is in arrears ranging up to 20 years of accounts in most of the ULBs as detailed in para 1.2.5

Position of overall receipts during 2003-06 is depicted below:

(Rupees in crore)

Source of Funds		2003-04	2004-05	2005-06
Own Revenues				
a.	Taxes			
i)	Property tax	490.75	584.24	520.41
ii)	Other Tax revenue (Advertisement tax, taxes on animals and taxes on carriages and carts)	13.60	18.07	20.03
Total Tax revenue		504.35	602.31	540.44
b.	Non-Taxes			
i)	Water charges	104.15	104.69	119.91
ii)	Encroachment fee	24.17	1.65	84.90
iii)	Betterment/Development charges	40.52	50.46	59.83
iv)	Building license fee	32.38	37.04	42.73
v)	Others (Water supply donations, market fee, slaughter house fee, shops rent, trade license fee, etc.)	70.36	92.35	107.78
Total Non-Tax revenue		271.58	286.19	415.15
Assigned Revenue				
i)	Entertainment tax	63.98	61.72	46.52
ii)	Surcharge on stamp duty	266.76	292.30	282.83
iii)	Profession tax	89.53	91.07	111.65
Total Assigned Revenue		420.27	445.09	441.00
Non-Plan Grants		291.63	201.95	198.99
Plan Grants		188.64	138.03	120.28
Loans		46.11	54.14	10.99
Other Income		407.12	293.02	290.65
Grand Total		2129.70	2020.73	2017.50

The tax revenue comprising mainly of property tax increased sharply from Rs 504.35 crore in 2003-04 to Rs 602.31 crore in 2004-05. This was due to the Government's decision (October 2004) to waive interest on payment of arrears of property tax. The non-tax revenue increased from Rs 271.58 crore in 2003-04 to Rs 415.15 crore in 2005-06. Water charges (Rs 119.91 crore) and encroachment fee (Rs 84.90 crore) were the major contributors to non-tax revenue. As of March 2006, the tax and non-tax revenue pending collection amounted to Rs 284.85 crore and Rs 208.00 crore respectively.



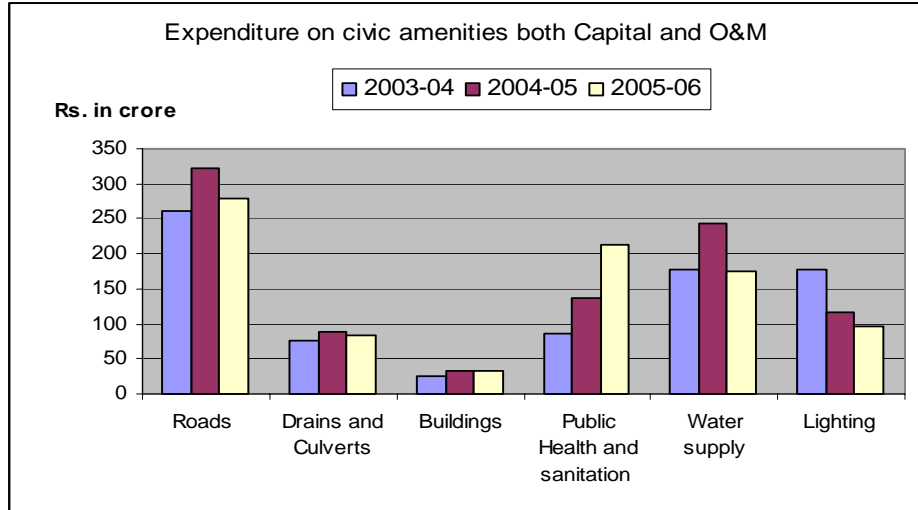
Application of funds

The expenditure of ULBs comprises recurring expenditure like pay and allowances to staff maintenance of capital assets etc., and non-recurring expenditure like creation of capital assets. There was a decline of 9.78 per cent in the total expenditure during 2005-06 (Rs 2037.91 crore) over the previous year (Rs 2258.71 crore). The details of expenditure by ULBs in the past three years as furnished by CDMA are depicted below:

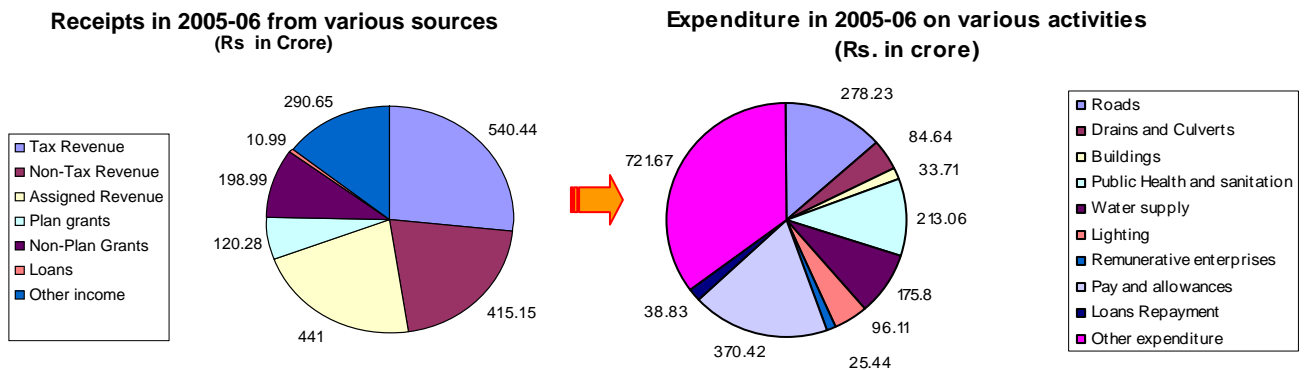
(Rupees in crore)

Application of Funds		2003-04			2004-05			2005-06		
		Non-Recurring	Recurring	Total	Non-Recurring	Recurring	Total	Non-Recurring	Recurring	Total
a.	Roads	207.98	52.24	260.22	257.51	63.80	321.31	208.08	70.15	278.23
b.	Drains and Culverts	65.38	11.69	77.07	76.50	12.36	88.86	71.75	12.89	84.64
c.	Buildings	19.24	5.93	25.17	26.16	7.67	33.83	26.97	6.74	33.71
d.	Public Health and sanitation	22.23	63.69	85.92	21.70	114.40	136.10	17.17	195.89	213.06
e.	Water supply	76.57	100.30	176.87	153.46	89.71	243.17	94.48	81.32	175.80
f.	Lighting	36.66	142.06	178.72	27.29	89.74	117.03	27.51	68.60	96.11
g.	Remunerative enterprises	12.27	4.97	17.24	13.63	7.36	20.99	17.70	7.74	25.44
Total		440.33	380.88	821.21	576.25	385.04	961.29	463.66	443.33	906.99
h.	Pay and allowances		383.01	383.01		370.47	370.47		370.42	370.42
i.	Loans Repayment		58.50	58.50		65.89	65.89		38.83	38.83
j.	Other expenditure (town planning, land acquisition management expenses, etc.)		424.16	424.16		861.06	861.06		721.67	721.67
Total			865.67	865.67		1297.42	1297.42		1130.92	1130.92
GRAND TOTAL		440.33	1246.55	1686.88	576.25	1682.46	2258.71	463.66	1574.25	2037.91

Expenditure on pay and allowance during 2005-06 was 18.36 per cent of total receipts and 18.18 per cent of total expenditure. The expenditure on Public Health and Sanitation showed an increasing trend from 2004-05 to 2005-06. The expenditure on various civic amenities in the last three years is depicted below:



Based on the details of sources and application of funds over three years, it was noticed that the percentage of recurring expenditure to that of receipts increased from 58.53 percent in 2003-04 to 78.03 percent in 2005-06. The comparison of receipts and expenditure for 2005-06 is depicted through pie charts below.



1.2.4 Accounting arrangements

Accounts of ULBs are being maintained on cash basis. However, Municipal Corporation of Hyderabad had adopted the double entry system for maintaining its accounts since 2002-03. Compilations of accounts by ULBs are in arrears since 1986. Therefore, the Director of State Audit could not carry out audit and certify the accounts in time. Ministry of Urban Development and Poverty Alleviation, GOI and C&AG had formulated a

National Municipal Accounts Manual (NMAM) with double entry system, for greater transparency and control over finances, and requested the States to adopt the same with appropriate modifications to meet States specific requirements. Accordingly, a Steering Committee was constituted by GOAP and the Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. The APMAM is now being implemented by the State Government.

1.2.5 Audit

Director, State Audit is the statutory auditor for ULBs under the A.P. State Audit Act 1989. C&AG conducts audit of the ULBs under Section 14 of C&AG's (DPC) Act, 1971. Based on the recommendations of EFC, GOAP entrusted the C&AG with provisions of technical guidance and supervision for audit and accounts of Local Bodies under Section 20(1) of C&AG (DPC), Act.

Though, Director, State Audit conducts audit periodically, the audit of accounts of ULBs for the past several years was pending, as the accounts were yet to be compiled by the ULBs. The arrears ranged up to 20 years in some Municipal Corporations¹¹. The District wise arrears position in respect of Municipalities furnished by Director, State Audit ranged between four to 42 years. The Director, State Audit had, so far, submitted the Consolidated State Audit and Review Reports for the years 1998-99 to 2003-04 to the Finance department. Though the State Audit Act prescribes that the reports should be laid on the table of the Legislative Assembly, the same was not done by GOAP. Some of the major areas commented on by Director, State Audit are excess/non-utilization/diversion/mis-utilization of grants, non-collection of dues, advances pending adjustments, violation of rules, wasteful expenditure, etc.

1.2.6 District Planning Committees

District Planning Committees are to be constituted in terms of Article 243-ZD of Constitution of India to discharge the functions of the State Government as detailed in para 1.1.7. However, due to non-constitution of the District Planning Committees as commented upon earlier, the objective of preparation of a consolidated development plan for integrated development of the district was not achieved.

1.2.7 Finance Commissions

Eleventh Finance Commission:

The EFC had recommended Grants amounting to Rs 2000 crore to ULBs. The position of grants released under EFC during 2000-2005 in the State is as follows:

¹¹ Vishakhapatnam: 20 years, Hyderabad: 12 years, Rajahmundry: seven years, Kurnool: six years

(Rupees in lakh)

1. Grants released from the Centre	16465.70
2. Matching contribution provided by	
a) Urban Local Bodies	7126.16
b) State Government	--
3. Total (1+2)	23591.86
4. Grants released to Urban Local Bodies	16465.00
5. Utilization of grants by Urban Local Bodies	
a) Maintenance of Accounts	0
b) For creation of data base	21.86
c) For maintenance of Civic Services	23570.00

As per the EFC guidelines, the grants had to be utilized for maintenance of civic services. However, it was observed that out of EFC grants of Rs 164.65 crore, Rs 54.41 crore (33.05 *per cent*) was utilized for payment of outstanding electricity consumption dues in violation of the guidelines. Rs 29.91 crore was utilized in 2001-02 itself for payment of outstanding dues of previous years. As per the guidelines, the funds were not permitted to be diverted for any other purpose than for which released. However, the GOAP adjusted the pending electricity charges of the ULBs directly, while releasing the grant by settling with APTRANSCO. The guidelines also stipulated that only works not covered under other schemes of GOI/State Government could be taken up. However, GOAP released Rs 14.09 crore to ULBs for 'Chief Minister's Assurances' scheme. In Chittoor Municipality, an amount of Rs 1.95 crore intended for improvement of water supply was diverted for payment of salaries, office expenses, etc. Instances of parking of funds in fixed deposits were also noticed in Kurnool Municipal Corporation which have been highlighted separately in Para 3.2.5 of this Report.

Twelfth Finance Commission:

As per TFC guidelines, the funds released by the GOI have to be transferred to the ULBs within 15 days. However, there were delays ranging from 41 days to 94 days in transferring the TFC funds to ULBs. Further, the delay was calculated only up to the date on which the CDMA issued proceedings transferring the funds, instead of taking the actual date of receipt by the ULBs. The interest on delayed transfers was released after a delay of another 110 days in respect of 1st installment and the amounts were still lying (January 2007) with the CDMA and were yet to be transferred to ULBs. The interest portion for the second installment was yet to be released by GOAP. Moreover, GOAP was yet to make available (January 2007), the records and information to take up audit of utilization of TFC grants.

State Finance Commissions:

The Second SFC had made 39 recommendations pertaining to financial devolutions and structural reforms covering nine major sectors in ULBs. Out of these, 14 recommendations such as providing additional amounts to

Municipalities for civic amenities, grants linked to the performance of Local Bodies and transfer of schools to Municipalities/Corporation in Urban areas of Telangana Region, etc., were pending further examination. The Third SFC was constituted in January 2003; its report is awaited.

1.2.8 Conclusion

The collection of property tax, which is the major source of tax revenue in ULBs, revealed fluctuations. There were substantial amounts of tax and non-tax revenue pending collection in ULBs. The Andhra Pradesh Municipal Accounts Manual adopted by the State Government is yet to be implemented. There were huge arrears in audit of ULBs by the Director, State Audit, primarily due to non-compilation of accounts. District Planning Committees have not been constituted so far in the State. Several deviations to the prescribed guidelines and diversion of funds were noticed in utilization of Eleventh and Twelfth Finance Commission grants.

1.2.9 Recommendations

- The ULBs should take steps to improve collection of arrear tax and non-tax revenue.
- ULBs should compile annual accounts that are in arrears in order to enable audit by Director, State Audit and thereby ensure greater transparency and accountability. As stipulated in the Act, Government should place the Audit Reports of the Director, State Audit in the Legislature.
- Government should ensure that District Planning Committees are set up at the earliest to ensure that district plans are approved only after proper appraisal by the DPCs.
- Diversion of grants should be avoided and timely release of grants to the ULBs be ensured for utilization for the purposes for which released. The recommendations of State Finance Commissions need to be implemented in time.