

## CHAPTER I

### ACCOUNTS AND FINANCES OF LOCAL BODIES

#### CHAPTER SUMMARY

- **There was no system in place to consolidate the details relating to the revenue and expenditure of PRIs.**
- **The Andhra Pradesh Municipal Accounts Manual was yet to be adopted in many ULBs.**
- **The Budget and Accounts formats for PRIs are yet to be implemented in Mandal Praja Parishads and Gram Panchayats.**
- **The functioning of District Planning Committees is to be streamlined.**
- **TFC grants were mis-utilised/diverted.**
- **Data Base grants remained unutilised and instead parked in fixed deposits.**

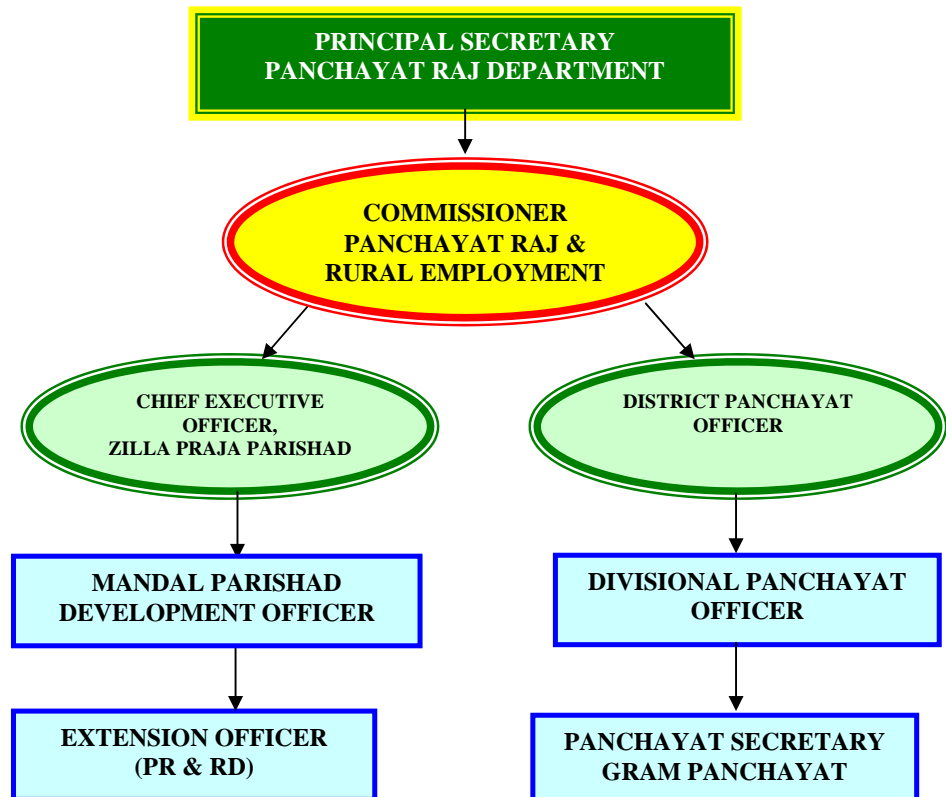
## 1.1 PANCHAYAT RAJ INSTITUTIONS

### 1.1.1 Introduction

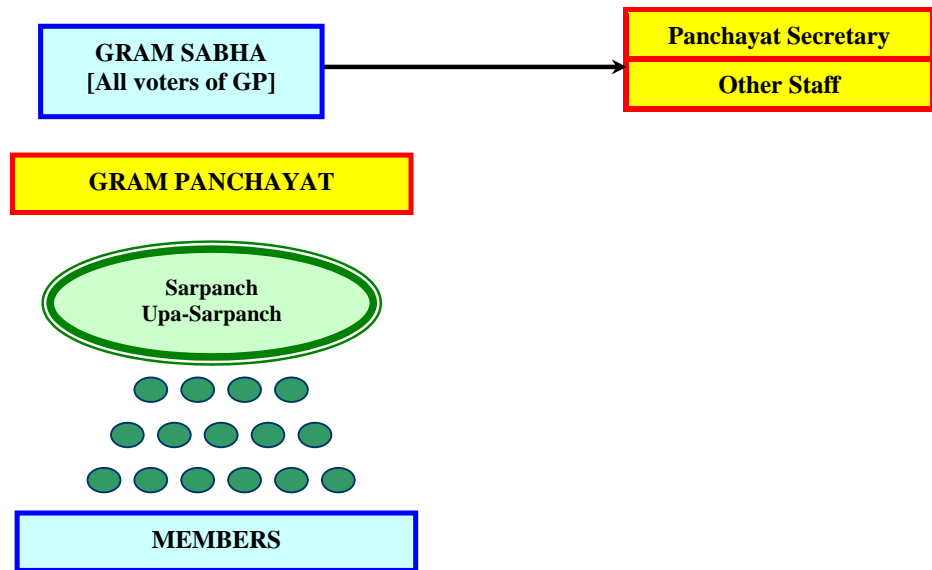
In conformity with 73<sup>rd</sup> Constitutional Amendment Act, the Andhra Pradesh Panchayat Raj (APPR) Act was enacted in 1994 repealing all existing Acts, to establish a three-tier system at the Gram Panchayat, Mandal Praja Parishad and Zilla Praja Parishad level. As per the 2001 census, the total population of Andhra Pradesh State was 7.57 crore, of which 5.52 crore (72.92 per cent) lived in rural areas. As on 31 March 2008, there were 22927 Panchayat Raj Institutions (PRIs) in the State consisting of 22 Zilla Praja Parishads (ZPPs), 1098 Mandal Praja Parishads (MPPs) and 21807 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 Organisational set-up

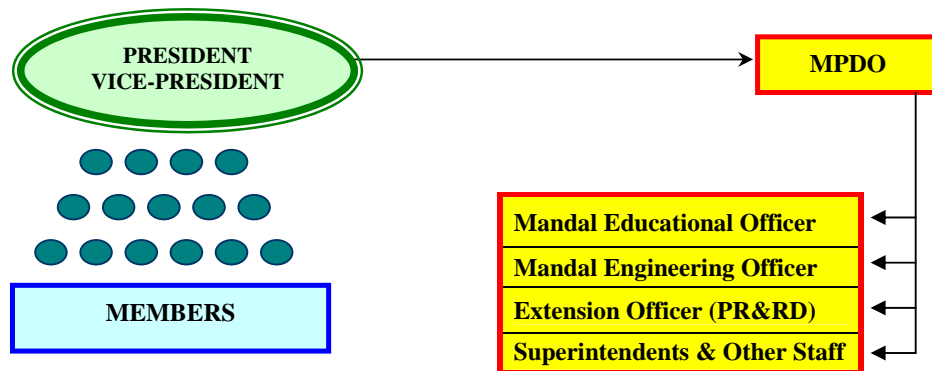
The organisational set-up of PRIs in the State is as under:



**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 Sabha (GS) consisting of persons registered in the electoral rolls pertaining to the area of the Village. The organisation structure is given below:

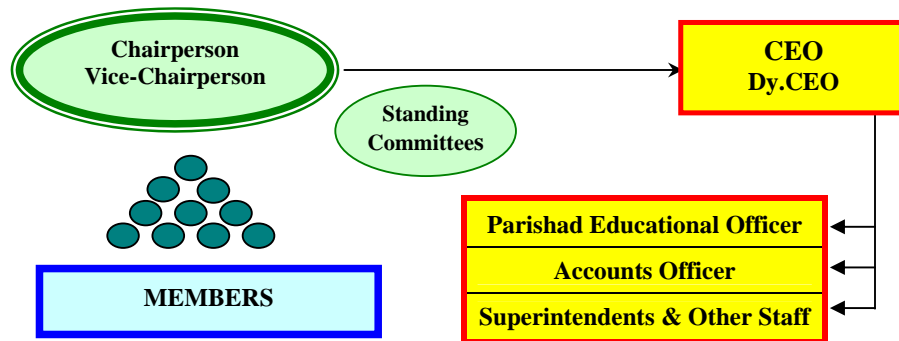


**Mandal Praja Parishad:** A district may be divided into Mandals<sup>1</sup> comprising such contiguous villages as may be specified in the notification by the State Government and for every Mandal there is a MPP which is divided into many territorial constituencies having population between three and four thousand. One member shall be elected to the MPP from each territorial constituency. The structure of the MPP is depicted below:



<sup>1</sup> The Blocks as a unit of development is obliterated and in its place the Mandal has emerged. 332 Panchayat Samithies constituted earlier were replaced by 1098 Mandal Praja Parishads.

**Zilla Praja Parishad:** The ZPP 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 Legislative Council of States (MLC), who is a registered voter in the district concerned and two co-opted members belonging to minorities. Each ZPP 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 ZPP 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 revenue from property tax and water tax and non-tax revenue from various fees such as tap connection fees, rents from properties etc. The MPP and ZPP do not generate any tax revenue and depend mainly on Grants-in-aid. The funds are utilised 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.

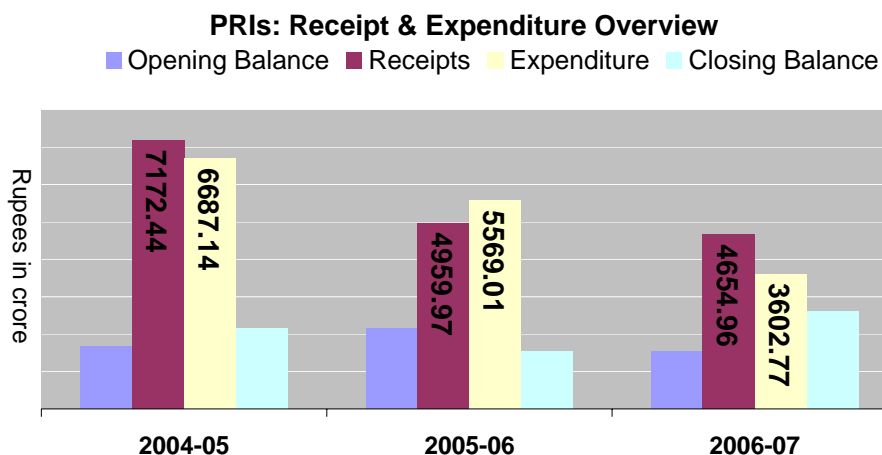
**Financial Position of the PRIs:** As there was no system to consolidate the finances at Commissioner level, the receipt and expenditure particulars of PRIs for the year 2006-07<sup>2</sup> were obtained from State Audit Department and the details are tabled below along with figures of 2004-05 and 2005-06.

(Rupees in crore)

<b>Zilla Praja Parishad</b>					
<b>Year</b>	<b>Opening balance</b>	<b>Receipts</b>	<b>Total</b>	<b>Expenditure</b>	<b>Closing balance</b>
2004-05	1024.28	2326.97	3351.25	2396.54	954.71
2005-06	954.71	1805.19	2759.90	1758.75	1001.15
2006-07	1001.15	3041.82	4042.97	1982.98	2059.99
<b>TOTAL</b>	<b>2980.14</b>	<b>7173.98</b>	<b>10154.12</b>	<b>6138.27</b>	<b>4015.85</b>
<b>Mandal Praja Parishad</b>					
<b>Year</b>	<b>Opening balance</b>	<b>Receipts</b>	<b>Total</b>	<b>Expenditure</b>	<b>Closing balance</b>
2004-05	462.94	2317.48	2780.42	2261.97	518.45
2005-06	518.45	1259.09	1777.54	1263.70	513.84
2006-07	513.84	760.73	1274.57	852.52	422.05
<b>TOTAL</b>	<b>1495.23</b>	<b>4337.30</b>	<b>5832.53</b>	<b>4378.19</b>	<b>1454.34</b>
<b>Gram Panchayat</b>					
<b>Year</b>	<b>Opening balance</b>	<b>Receipts</b>	<b>Total</b>	<b>Expenditure</b>	<b>Closing balance</b>
2004-05	177.56	2527.99	2705.55	2028.63	676.92
2005-06	676.92	1895.69	2572.61	2546.56	26.05
2006-07	26.05	852.41	878.46	767.27	111.19
<b>TOTAL</b>	<b>880.53</b>	<b>5276.09</b>	<b>6156.62</b>	<b>5342.46</b>	<b>814.16</b>

The receipts of ZPPs increased in the year 2006-07 compared to 2005-06 but declined to a large extent in respect of MPPs and GPs. The Director, State Audit had not furnished specific reasons for the same when sought for. In case of MPPs expenditure during 2006-07 is more than the receipts.

<sup>2</sup> As the accounts for 2007-08 were not finalised, State Audit Department furnished the figures for only 2006-07.



**Sources of Funds:** The details of receipts for PRIs from 2004-05 to 2006-07, as furnished by the State Audit department are given below.

(Rupees in crore)

Source of Funds		2004-05	2005-06	2006-07
<b>Gram Panchayats</b>				
<b>1. Own Revenue</b>				
a.	Taxes (House tax, Water tax, etc.)	203.00	186.41	143.37
b.	Non-taxes (Market rents, rents of shops and other property, auctions, etc.)	302.61	215.43	151.50
<b>Total</b>		<b>505.61</b>	<b>401.84</b>	<b>294.87</b>
<b>2. Grants-in-aid</b>				
a.	Salary Grant	151.26	128.59	36.59
b.	Sampoorna Grameena Rozgar Yojana (SGRY)	334.18	265.41	
c.	Eleventh Finance Commission (EFC)	317.46	176.75	
d.	State Finance Commission (SFC)	192.70	105.44	
e.	Other grants (per capita grant, seignorage charges, profession tax etc.)	740.86	605.76	363.42*
<b>Total</b>		<b>1736.46</b>	<b>1281.95</b>	<b>400.01</b>
<b>3. Deposits and Advances</b>		11.24	18.67	11.99
<b>4. Other Receipts</b>		274.68	193.23	145.54
<b>Total</b>		<b>2527.99</b>	<b>1895.69</b>	<b>852.41</b>

\* Break-up for remaining items of Grant-in-aid was not furnished by the Director, State Audit for 2006-07.

(Rupees in crore)

<b>Mandal Praja Parishads</b>				
<b>Grants and other receipts including fund accounts</b>		<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
a.	General Fund (per-capita grant, seignorage charges, profession tax, stamp duty, own revenue from rents and leases, auction amounts, etc.)	104.17	248.94	146.84
b.	Social Welfare	16.84	50.29	20.85
c.	Minor Irrigation and Rural Water Supply	1.92	12.09	7.17
d.	Roads and Bridges maintenance	2.92	5.41	1.75
e.	Education	2085.41	609.93	205.52
f.	SGRY	25.18	146.91	86.22
g.	EFC/TFC/SFC	1.72	5.79	26.51
h.	Others (Building grant, Natural Calamity grant, NABARD, MPLADS, Pension grants, etc)	62.64	160.30	251.09
i.	Deposits, Advances and Loans	16.68	19.43	14.78
<b>Total</b>		<b>2317.48</b>	<b>1259.09</b>	<b>760.73</b>
<b>Zilla Praja Parishads</b>				
<b>Grants and other receipts including fund accounts</b>		<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
a.	General Fund (per-capita grant, seignorage charges, profession tax, stamp duty, own revenue from rents and leases, auction amounts, etc.)	122.42	384.00	405.54
b.	Social Welfare	27.92	24.67	13.69
c.	Minor Irrigation and Rural Water Supply	148.53	136.91	154.06
d.	Roads and Bridges maintenance	131.57	68.34	108.27
e.	Education	1099.14	234.44	244.69
f.	SGRY	318.26	373.46	97.31
g.	EFC/TFC/SFC	17.07	45.12	276.29
h.	Minimum Needs Programme (MNP)	3.07	6.95	-
i.	NABARD	6.50	26.71	19.86
j.	Others (Building grant, Natural Calamity grant, MPLADS, Pension grants, etc)	206.61	350.26	539.62
k.	Deposits, Advances and Loans	245.88	154.33	1182.49
<b>Total</b>		<b>2326.97</b>	<b>1805.19</b>	<b>3041.82</b>
<b>GRAND TOTAL (GP, MPP &amp; ZPP)</b>		<b>7172.44</b>	<b>4959.97</b>	<b>4654.96</b>

The income of GPs and MPPs declined drastically in the year 2006-07 (Rs 852.41 crore and Rs 760.73 crore) compared to previous year (Rs 1895.69 crore and Rs 1259.09 crore). As seen from above, release of grants by the Government was reduced to a large extent i.e by 55 *per cent* in case of GPs and 40 *per cent* in case of MPPs over the previous year. The overall receipts of PRIs decreased from Rs 4959.97 crore in 2005-06 to Rs 4654.96 crore in 2006-07 i.e. by 6 *per cent* over the previous year.

### Application of funds:

The PRIs incur expenditure mainly on providing and maintaining civic amenities such as roads, sanitation, water supply, lighting, etc. It includes both recurring expenditure on maintenance and non-recurring expenditure on creation of capital assets. The information relating to sector-wise expenditure was not available with the Commissioner, PR&RE. However, as per the data made available by the Director, State Audit, the sector wise expenditure incurred by PRIs from 2004-05 to 2006-07 is detailed below:

(Rupees in crore)

Application of Funds		2004-05	2005-06	2006-07
<b>Gram Panchayats</b>				
<b>Expenditure particulars</b>				
a.	Salary	194.01	229.82	72.27
b.	Works expenditure from grants received under SGRY, EFC, SFC, etc.	1306.15	1772.70	380.85
c.	Maintenance Expenditure	266.04	275.18	176.66
d.	Deposits and Advances	17.85	47.78	18.05
e.	Other administrative expenditure	244.58	221.08	119.44
<b>Total</b>		<b>2028.63</b>	<b>2546.56</b>	<b>767.27</b>
<b>Mandal Praja Parishads</b>				
<b>Expenditure particulars</b>				
a.	Education	2046.66	646.10	224.46
b.	Social Welfare	16.12	54.10	22.96
c.	Minor Irrigation and Rural Water Supply	1.33	12.24	27.60
d.	Roads and bridges maintenance	4.35	23.83	24.28
e.	Scheme works such as SGRY, Janmaboomi, other grants and other programmes expenditure.	68.63	143.33	358.33
f.	Expenditure from General Fund account	105.34	216.09	142.84
g.	Deposits, Advances and Loans	14.31	12.01	20.33
h.	Other expenditure	5.23	156.00	31.72
<b>Total</b>		<b>2261.97</b>	<b>1263.70</b>	<b>852.52</b>
<b>Zilla Praja Parishads</b>				
<b>Expenditure Particulars</b>				
a.	Education	1095.55	235.72	203.09
b.	Social Welfare	13.70	18.98	14.36
c.	Minor Irrigation and Rural Water Supply	131.06	134.00	186.51
d.	Roads and Bridges maintenance	95.99	85.30	164.42
e.	Scheme works such as SGRY, Janmaboomi, other grants and other programmes expenditure.	486.42	391.18	745.07
f.	Expenditure from General Fund account	132.23	288.55	377.40
g.	Deposits, Advances and Loans	154.16	310.73	274.69
h.	Other expenditure	287.43	294.29	17.44
<b>Total</b>		<b>2396.54</b>	<b>1758.75</b>	<b>1982.98</b>
<b>GRAND TOTAL (GP, MPP &amp; ZPP)</b>		<b>6687.14</b>	<b>5569.01</b>	<b>3602.77</b>



The expenditure incurred on works by MPPs and ZPPs in 2006-07 was 150 per cent and 90 per cent respectively more than the previous year whereas there was huge decline in expenditure of Gram Panchayats on works. The expenditure on Education sector declined due to direct payment of GOAP to Teaching Staff with effect from April 2005.

#### 1.1.4 Accounting arrangements

The PRIs maintain accounts on cash basis. The Budget and Accounting formats prescribed by the CAG were adopted by the State Government (May 2005). The GPs and MPPs have started implementing these formats from 2006-07 onwards, while ZPPs implemented the same from the year 2005-06. Government issued (September 2007) orders for deployment of a Master Book-Keeper in each Mandal through CDS- Andhra Pradesh Academy of Rural Development (APARD) to assist in maintenance of accounts and feeding the data of all GPs of respective Mandal. However the Commissioner stated (February 2009) that the issue of deployment of Master Book-keepers was still in discussion stage with the Commissioner, AMR-APARD.

#### 1.1.5 Creation of Data Base of PRIs

GOAP released EFC grants amounting to Rs 22.96 crore (2002-04) and TFC grants of Rs 26.98 crore (2005-09) to the Commissioner, Panchayat Raj and Rural Employment for creation of database on the finances of PRIs. The Commissioner kept the above funds with the Chief Executive Officer, Zilla Praja Parishad, Ranga Reddy District. The PR Department initiated a project for computerisation of GPs for which the NIC, Hyderabad developed an 'e' Panchayat software. Initially the Government selected 475 GPs for implementation of the project and based on the Major Modules developed by the NIC on the functional areas like House Tax, Trade Licenses, Issue of Birth and Death Certificate and Pension schemes, the GPs started implementing the project.

The following expenditure was so far incurred on the project.

(Rupees in crore)

Sl.No.	Name of the office	Amount transferred	Purpose
1.	District Collector (Panchayat Wing)	4.27	Purchase of systems and data entry of existing records.
2.	NIC, Hyderabad	1.90	For supply of hardware/operating system and training to GPs staff etc.,
3.	Commissionerate /PR	0.41	Purchase of computer hardware

The balance amount of Rs 43.36 crore was parked in fixed deposits at various Banks.

The other applications relating to Meetings, Works Monitoring, Personal Data of Employees, Regional Training Institutes, Elections and Data of Elected Representatives under "e" panchayat are under progress. Similarly, the development of 'Panchayat Raj Institutions Accounts (PRIA)' software for

maintenance of accounts by PRIs in the revised accounting formats prescribed by CAG was also entrusted to NIC and the same is under progress.

Thus even after six years, the objective of creation of a database to consolidate the details of finances of PRIs remained unachieved.

### 1.1.6 Audit arrangements

CAG conducts audit of PRIs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of EFC, GOAP entrusted (August 2005) the responsibility for providing Technical Guidance and Support (TGS) in connection with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

#### 1.1.6.1 Audit by the Director, State Audit

Director, State Audit is the statutory auditor for PRIs under the Andhra Pradesh State Audit Act, 1989. There were no arrears in audit conducted by the Director, State Audit in respect of ZPPs and there were marginal arrears in respect of MPPs. However, there were huge arrears in case of GPs. To the end of March 2008, audit of 7773 GPs was in arrears, of which only 814 GPs were audited to the end of December 2008. Director attributed various reasons viz., non-production of records by Sarpanchs, loss of records due to theft, floods etc.

#### 1.1.6.2 Submission of Consolidated State Audit and Review Reports

As per Section 11(2) of the State Audit Act, the Director, State Audit is to prepare Consolidated State Audit Review Reports and present the same to the State Legislature. The Director, State Audit has so far prepared Consolidated State Audit and Review Reports for the years 1989-90 to 2005-06 and submitted to the Finance department. The Government tabled the Consolidated Audit and Review Reports in the Andhra Pradesh Legislative Assembly for the period from 1989-90 to 1997-98 and 1998-99 to 2004-05 in March 2008 and December 2008 respectively. Report of 2005-06 is yet to be placed. Some of the major findings by the Director, State Audit related to excess utilisation/non-utilisation/diversion/misutilisation of grants, non-collection of dues, advances pending adjustments/violation of rules, wasteful expenditure etc.

#### 1.1.6.3 Misappropriation Cases

The following misappropriation cases were noticed during the years 2005-06 and 2006-07 by the Director, State Audit and remained to be disposed off to the end of 31 March 2008.

(Rupees in lakh)

S.No	Name of the Institution	2005-06		2006-07	
		No. of misappropriation cases	Amount involved	No. of misappropriation cases	Amount involved
1.	Zilla Praja Parishads	4	1.34	4	7.05
2.	Mandal Praja Parishads	113	28.36	100	30.17
3.	Gram Panchayats	863	278.53	2123	667.92

### 1.1.6.4 Issue of Surcharge Certificates

According to Section 10 of the Andhra Pradesh State Audit Act, 1989 the Director, State Audit is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of Local authorities or other authorities. In this regard, details of surcharge certificates issued, the amount recovered/waived and balance pending as of March 2008 against all the three tiers of PRIs are as shown below:

(Rupees in crore)

Sl. No	Unit	No of certificates issued		Recovered/ Waived		Balance	
		Cases	Amount	Cases	Amount	Cases	Amount
1.	Zilla Praja Parishads	185	0.13	1679	2.37*	122133	86.56*
2.	Mandal Praja Parishads	821	0.69				
3.	Gram Panchayats	122806	88.11				
<b>Total</b>		<b>123812</b>	<b>88.93</b>	<b>1679</b>	<b>2.37</b>	<b>122133</b>	<b>86.56</b>

\*Unit wise (ZPP, MPP & GP) details of cases waived and the cases pending were not made available to audit.

### 1.1.7 District Planning Committees

In terms of Article 243-ZD of the Constitution of India, District Planning Committees (DPCs) are to be constituted by the State Government so as to consolidate the development plans formulated by the local bodies. Accordingly, GOAP enacted Andhra Pradesh District Planning Committee Act, 2005 (Act 40 of 2005) for constitution of DPCs. Though enactment was made in the year 2005 for constitution of DPCs, the Government issued (January 2007 / October 2007) orders after a gap of two years for framing the rules for electing the members and guidelines for functioning of DPCs.

All the 22 districts have formed the DPCs and Action Plans for the year 2007-08 were submitted to the State Level High Power Committee. However the Action Plans prepared by DPCs were restricted to only release of funds in respect of the scheme, Backward Region Grant Fund (BRGF). The details of funds released to PRIs based on the Action Plans submitted by DPCs were not furnished by the Government though sought for.

### 1.1.8 Finance Commissions

#### Twelfth Finance Commission:

As per para 7 of the TFC guidelines, CAG is empowered to audit the release and utilisation of TFC grants. The audit of release and utilisation of TFC grants for the year 2006-07 was undertaken during June - September 2008.

During the year 2006-07, the following were the releases of TFC grants made by the State Government to PRIs.

(Rupees in crore)

Details of release	Amount	Date of Release by GOI	Date of release by the State Govt. to PRIs	No. of days delayed	Details of interest released.
1 <sup>st</sup> Instalment	158.70	13.9.06	19.9.06	No delay	-
2 <sup>nd</sup> Instalment	158.70	18.5.07	28.5.07	No delay	-

The following observations were made on scrutiny of records:-

- Though the CPR&RE adjusted the amounts within the stipulated time, there was a considerable delay ranging from 10 to 222 days in respect of first instalment and 1 to 130 days for second instalment in adjusting the funds to the accounts of PRIs by the Treasury authorities.
- A huge sum of Rs 17.93 crore (36.86 *per cent*) remained unutilised to the end of March 2007 out of the total grant of Rs 48.64 crore released to the PRIs of six<sup>3</sup> test checked districts.
- An amount of Rs 68.45 lakh was incurred on ineligible works like formation/construction of roads, construction of shopping complexes, diversion to other schemes like ISLs, SFC/General funds, payment of salaries, construction of bus shelters etc., by 44 Gram Panchayats, two Engineering Divisions and five Mandals of five test checked districts as detailed in *Appendix 1*.
- The consolidated abstract showing the details of receipts, expenditure and balance available to the end of financial year was not being furnished by the CEOs and DPOs of all the test checked districts to the CPR&RE which resulted in non-accountal/reporting of excess expenditure of Rs 19.56 lakh noticed in three<sup>4</sup> test checked ZPPs.
- There was improper maintenance of Records and Registers resulting in lack of assurance that the funds were properly utilised.

### State Finance Commission

According to Article 243-I of the Constitution and Section 235 (1) & (2) of Andhra Pradesh Panchayat Raj Act, 1994 constitution of State Finance Commission (SFC) once in five years to recommend devolution of funds from the State Government to Local Bodies is mandatory. The First SFC was constituted during 1994. The Second SFC started functioning from December 1998 and its Report was placed in the State Legislature in August 2002.

<sup>3</sup> East Godavari, West Godavari, Prakasam, Nalgonda, Khammam and Chittoor.

<sup>4</sup> Chittoor, Nalgonda and Khammam.

**(a) Second State Finance Commission (SSFC)**

As per the recommendations of SSFC, Rs 200 crore per annum are to be allocated in the budget for release to PRIs. The following amounts were released to PRIs during 2005-06 to 2007-08 under SSFC as furnished by the Commissioner/PR&RE.

(Rupees in crore)

Unit	Amount released		
	2005-06	2006-07	2007-08
Zilla Praja Parishads	20.00	113.55	20.00
Mandal Praja Parishads	12.50	8.73	12.50
Gram Panchayats	167.50	47.16	157.50
<b>Total</b>	<b>200.00</b>	<b>169.44</b>	<b>190.00</b>

- As against the recommended amount of Rs 200 crore, there was a shortfall in release of funds to the extent of Rs 30.56 crore in the year 2006-07 and Rs 10 crore in the year 2007-08.
- The releases were further inclusive of pending dues (CC charges, construction of ISLs, RESCO) of PRIs adjusted by the Government for Rs 286 crore during 2005-06 to 2007-08.
- Audit noticed discrepancies in the figures furnished by the Director, State Audit and the Commissioner/PR&RE for the year 2006-07 as shown below:

(Rupees in lakh)

Unit	Figures furnished by the Director, State Audit	Figures furnished by Commissioner/ PR&RE
Zilla Praja Parishads	4527.87	1755.37
Mandal Praja Parishads	827.25	873.28

- In contravention of the guidelines of SFC, Audit noticed inadmissible expenditure of Rs 2.53 crore<sup>5</sup> incurred on construction of CC Roads, Community Centres, Culverts, side drains etc. instead of taking up works such as provision of Drinking Water and Sanitary latrines in the ZPP schools, maintenance works of Rural roads, ZPP buildings and ZPP school buildings.

**(b) Third State Finance Commission**

The Third SFC constituted in January 2003 with a term of eighteen months was given extension up to January 2008. The Third SFC submitted its Report in January 2008. The Government constituted (March 2008) a committee of Ministers/Secretaries to examine the recommendations of the Third SFC and to table the Action Taken Report in the Andhra Pradesh Legislative Assembly/Council. So far the Action Taken Report was not placed in the APLA/LC.

<sup>5</sup> Rs 245 lakh by ZPP Ananthapur during 2004-05 and 2005-06 and Rupees eight lakh by ZPP/Ongole during 2005-06.

### 1.1.9 Devolution of Funds, Functions and Functionaries to PRIs

The 11<sup>th</sup> Schedule of the 73<sup>rd</sup> Constitutional Amendment Act, 1992 enlisted 29 subjects for devolution to strengthen the PRIs. The Ministry of Panchayat Raj, Government of India held seven Round Table Conferences at various places in the country with State Governments to arrive at a blue print for effective devolution of powers to Panchayat Raj Institutions.

During 2007-08, the Government of Andhra Pradesh devolved the following 10 functions to PRIs.

1. Agriculture and Agriculture Extension
2. Animal Husbandry, Dairy and Poultry
3. Fisheries
4. Rural Development
5. Drinking Water and Sanitation (RWS)
6. Primary, Secondary and Adult Education
7. Health, Sanitation, PHC, Dispensaries, Family Welfare
8. Social Welfare
9. Backward Classes Welfare
10. Women and Child Development

Accordingly, the line departments released the following funds during 2007-08 to some of the PRIs as detailed below:

(Rupees in lakh)

Sl. No	Department	Purpose for which the funds were released	Name of the unit to which funds were released	Amount
1.	Agriculture	Soil and Water Conservation Watershed Development	ZPPs of Nine <sup>6</sup> districts	37.00
		Risk Management	ZPPs of four <sup>7</sup> districts	1580.80
2.	Fisheries	Development of Inland and Marine Fisheries and Welfare scheme for fishermen	ZPPs of nine <sup>8</sup> districts	55.32
3.	Social Welfare	Construction of Community Halls	ZPPs of five <sup>9</sup> districts	10.00
4.	Backward Classes Welfare	Incentives to inter-caste married couples	ZPP Guntur	0.20

However the above funds were released without transfer of corresponding functionaries. As a result, in some of the ZPPs test checked, the amounts were drawn and returned to the line departments concerned as pointed out in the long para on 'Functioning of two ZPPs'(para 2.1) incorporated in Chapter-II of the Report. Thereby the objective of the devolution of funds to PRIs was not fully achieved.

<sup>6</sup> Medak, Kadapa, Nellore, East Godavari, Chittoor, Ananthapur, Warangal, Kurnool and Vizianagaram.

<sup>7</sup> Medak, Nellore, Chittoor and Guntur.

<sup>8</sup> Kadapa, Nellore, East Godavari, Chittoor, Kurnool, Vizianagaram, Guntur, Khammam and Srikakulam.

<sup>9</sup> Medak, Kadapa, Nellore, Guntur and Khammam.

### **1.1.10 Status of CAG's Audit observations**

Test audit of accounts of five ZPPs (including engineering divisions), 23 MPPs and 670 GPs was conducted under Section 20(1) of CAG's (DPC) Act, 1971 during the year 2007-08. As of April 2009, there were 726 Inspection Reports comprising 4632 objections pending settlement with PRIs up to the year 2007-08. These Reports include the items relating to audit conducted under Section 14 prior to entrustment of Local Bodies Audit under TGS in 2005-06.

### **1.1.11 Internal Control**

The system of internal control in any organisation promotes economical, efficient and effective operations. It seeks to safeguard the resources against loss due to waste, abuse, mismanagement, errors, fraud and irregularities by ensuring adherence to the laws, regulations and management directives.

Test check (2007-08) of accounts of PRIs revealed several financial irregularities, lapses in utilization of grants/funds resulting in diversion of funds, excess expenditure, incomplete projects, loss of revenue, locking up of funds etc., which were communicated through the Inspection Reports. Some of the major findings are incorporated in para 3.1 of Chapter III of the Report. Similarly, the compliance to the pending inspection reports of PRIs was also poor.

### **1.1.12 Conclusions**

The Commissioner, Panchayat Raj is not consolidating the receipts and expenditure particulars of PRIs reflecting poor monitoring of finances. The income of GPs and MPPs declined drastically during 2006-07. The recovery of Tax and Non-Tax revenues by GPs during 2006-07 was poor as compared to 2005-06. The transfer of funds in respect of subjects devolved to PRIs was inadequate and the utilisation of these funds suffered due to non-transfer of functionaries. The Data Base to consolidate the details of finances was not created even after lapse of six years of releasing the funds. Deviations to the guidelines were noticed in utilisation of Twelfth Finance Commission and State Finance Commission grants. Though the DPCs are constituted in all the districts, the functioning was still deficient.

### **1.1.13 Recommendations**

- Diversion of TFC/SFC grants should be avoided.
- GOAP should ensure timely release of TFC grants to PRIs.
- The State Government may expedite transfer of functionaries to facilitate effective functioning in the areas of subjects devolved.
- Creation of database should be expedited.
- Functioning of DPCs should be streamlined.
- Replies to the Inspection Reports may be expedited.

## **1.2 URBAN LOCAL BODIES**

### **1.2.1 Introduction**

The 74<sup>th</sup> Constitutional Amendment Act identified 18 functions for Urban Local Bodies (ULBs) as incorporated in 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 the State of 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 all other Municipal Corporations in the State. Thus, the provisions of the Hyderabad Municipal Corporation Act, 1955 as amended from time to time and the rules framed there under are followed by Corporations. The Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965.

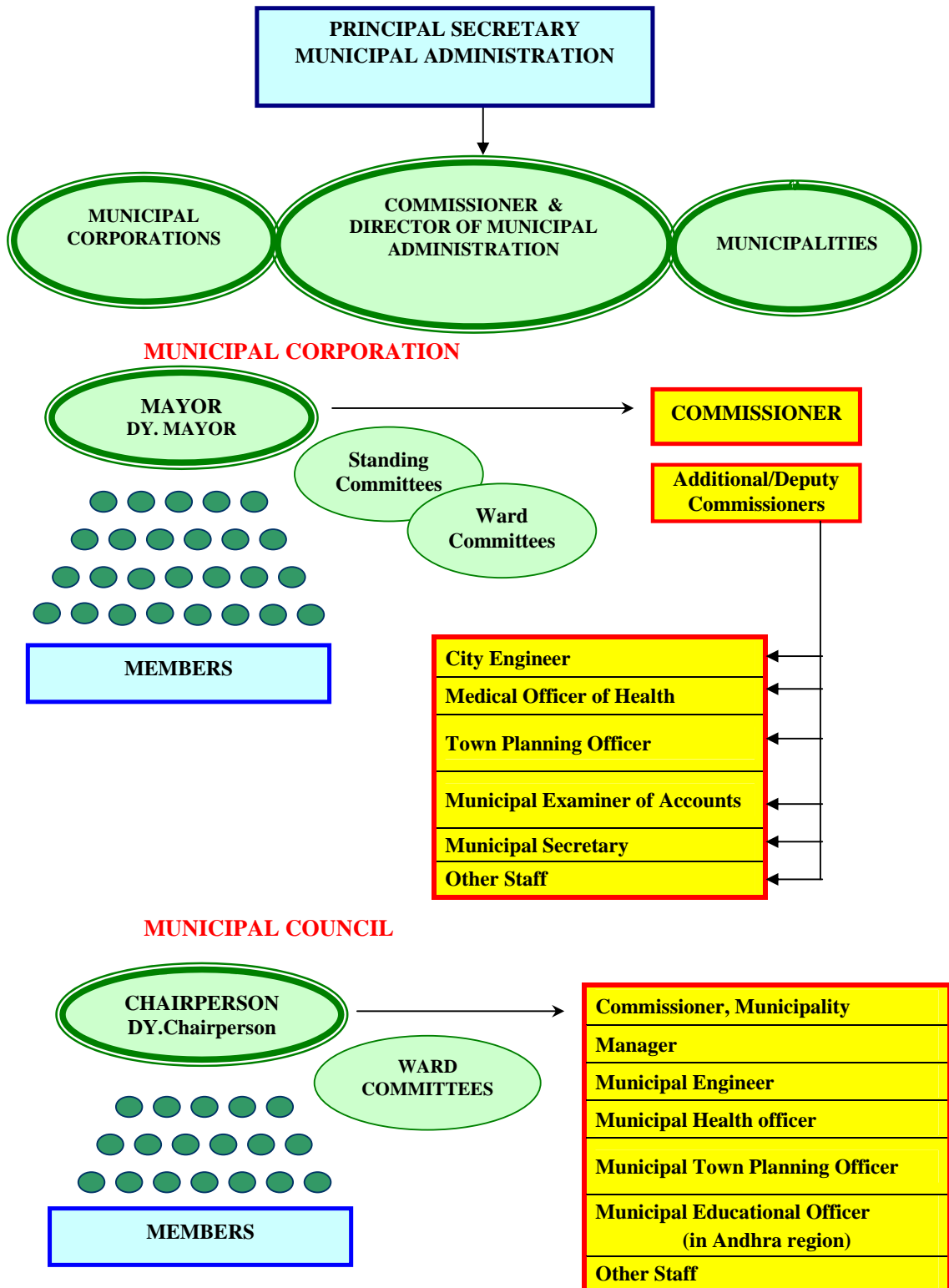
As per 2001 census, the total population of the State of Andhra Pradesh was 7.57 crore of which 2.05 crore (27.08 *per cent*) reside in urban areas. As on 31 March 2008, there were 124 Urban Local Bodies (ULBs) in the State. Of these, 109 were Municipalities and 15 were Municipal Corporations. The State Election Commission conducted elections to the ULBs in the month of September 2005.

### **1.2.2 Organisational set-up**

All the ULBs consist of such number of elected members (Corporators/Councillors) 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 organisational set up of ULBs in the state is depicted below:



The Municipal Council and the Corporation transact their business as per the provisions of the concerned Act. There is a Standing Committee consisting of the Chairpersons of all the Ward Committees in a Corporation. There are Ward Committees in Municipalities. The Standing 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 to the scrutiny of municipal accounts. The main functions of ward committee include maintenance of sanitation, water supply and drainage, street lighting, roads, market places, play grounds, school buildings, review the revenue collections, preparation of Annual Budget and sanctioning the works. The day-to-day administration rests with the Commissioner. He is assisted by Additional/Deputy/Assistant Commissioner, Municipal Engineer, Medical Health Officer, Examiner of Accounts, Town Planning Officer and other staff.

### **1.2.3 Funding of Urban Local Bodies**

The resources of ULBs consist of grants and assistance from the Government of India (GOI) and the 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, building fee, etc. Figures given in the following table were furnished by the Commissioner and Director of Municipal Administration (CDMA). These figures were, however, not certified as the audit of ULBs was in arrears ranging from 2 to 32<sup>10</sup> years in most of the ULBs as detailed in para 1.2.5.

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<sup>10</sup> Ananthapur 32 years.

Position of overall receipts during 2005-06 to 2007-08 is detailed below:

(Rupees in crore)

Source of Funds		2005-06	2006-07	2007-08
<b>Own Revenues</b>				
<b>A</b>	<b>Taxes</b>			
i)	Property tax	520.41	495.76	772.29
ii)	Other Tax revenue (Advertisement tax, taxes on animals and taxes on carriages and carts)	20.03	134.04 <sup>11</sup>	32.46 <sup>12</sup>
<b>Total Tax revenue</b>		<b>540.44</b>	<b>629.80</b>	<b>804.75</b>
<b>B</b>	<b>Non-Taxes</b>			
i)	Water charges	119.91	130.06	150.60
ii)	Encroachment fee	84.90	2.18	1.61
iii)	Betterment/Development charges	59.83	66.91	86.53
iv)	Building license fee	42.73	66.36	65.47
v)	Others (Water supply donations, market fee, slaughter house fee, shops rent, trade license fee, etc.)	107.78	258.19	253.79
<b>Total Non-Tax revenue</b>		<b>415.15</b>	<b>523.70</b>	<b>558.00</b>
<b>Assigned Revenue</b>				
i)	Entertainment tax	46.52	26.44	37.81
ii)	Surcharge on stamp duty	282.83	312.96*	315.24
iii)	Profession tax	111.65	36.58	91.09
<b>Total Assigned revenue</b>		<b>441.00</b>	<b>375.98</b>	<b>444.14</b>
<b>Non-Plan Grants</b>		198.99	220.45**	347.76
<b>Plan Grants</b>		120.28	185.95**	179.02
<b>Loans</b>		10.99	9.67**	-
<b>Other Income</b>		290.65	344.93#	159.63
<b>Grand Total</b>		<b>2017.50</b>	<b>2290.48</b>	<b>2493.30</b>

\* including the figures of Entertainment Tax and Profession Tax pertaining to Municipal Corporation of Hyderabad (MCH) as the break-up for the items of Assigned Revenue was not furnished.

\*\* excluding the figures of MCH

# includes the non plan grants, plan grants and loans of MCH.

The tax revenue comprising mainly Property Tax increased sharply (56 per cent) from Rs 495.76 crore in 2006-07 to Rs 772.29 crore in 2007-08. Similarly there was an increase in other receipts viz., Non-tax revenue, Assigned revenue and Non-plan grants during 2007-08 compared to 2006-07. As of March 2008, the total Tax and Non-tax revenue pending collection by ULBs amounted to Rs 256.92 crore and Rs 88.61 crore respectively.

<sup>11</sup> Other ULBs – Rs 15.01 crore, MCH – Rs 119.03 crore.

<sup>12</sup> Tax revenue in respect of GHMC under Conservancy Tax, Lighting Tax, Education Tax and Vehicle Tax was nil in 2007-08 compared to Rs 76.26 crore realised during 2006-07.

### Application of funds:

The expenditure of ULBs comprises recurring expenditure on pay and allowances, maintenance of capital assets etc., and non-recurring expenditure on creation of capital assets. The expenditure for ULBs in the past three years as furnished by CDMA is detailed below:

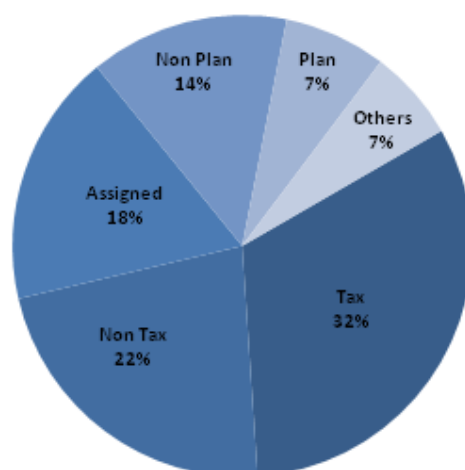
(Rupees in crore)

Application of Funds		2005-06			2006-07			2007-08		
		Non-Recurring	Recurring	Total	Non-Recurring	Recurring	Total	Non-Recurring	Recurring	Total
a.	Roads *	208.08	70.15	278.23	112.36	33.51	145.87	463.98	136.24	600.22
b.	Drains and Culverts*	71.75	12.89	84.64	46.66	6.46	53.12	91.44	29.46	120.90
c.	Buildings*	26.97	6.74	33.71	27.88	4.82	32.70	43.94	16.08	60.02
d.	Public Health and sanitation	17.17	195.89	213.06	17.86	245.90	263.76	19.66	171.42	191.08
e.	Water supply*	94.48	81.32	175.80	86.21	66.51	152.72	163.38	88.72	252.10
f.	Lighting*	27.51	68.60	96.11	13.85	50.48	64.33	43.29	133.70	176.99
g.	Remunerative enterprises*	17.70	7.74	25.44	22.44	5.05	27.49	17.49	3.79	21.28
<b>Total</b>		<b>463.66</b>	<b>443.33</b>	<b>906.99</b>	<b>327.26</b>	<b>412.73</b>	<b>739.99</b>	<b>843.18</b>	<b>579.41</b>	<b>1422.59</b>
h.	Pay and allowances	-	370.42	370.42	-	533.66	533.66	-	567.99	567.99
i.	Loans Repayment*	-	38.83	38.83	-	60.98	60.98	-	46.67	46.67
j.	Depreciation (MCH)	-	-	-	-	119.66	119.66	-	-	-
i.	Other expenditure (town planning, land acquisition, management expenses, etc.)	-	721.67	721.67	-	*682.37	682.37	-	931.75	931.75
<b>Total</b>		<b>-</b>	<b>1130.92</b>	<b>1130.92</b>	<b>-</b>	<b>1396.67</b>	<b>1396.67</b>	<b>-</b>	<b>1546.41</b>	<b>1546.41</b>
<b>GRAND TOTAL</b>		<b>463.66</b>	<b>1574.25</b>	<b>2037.91</b>	<b>327.26</b>	<b>1809.40</b>	<b>2136.66</b>	<b>843.18</b>	<b>2125.82</b>	<b>2969.00</b>

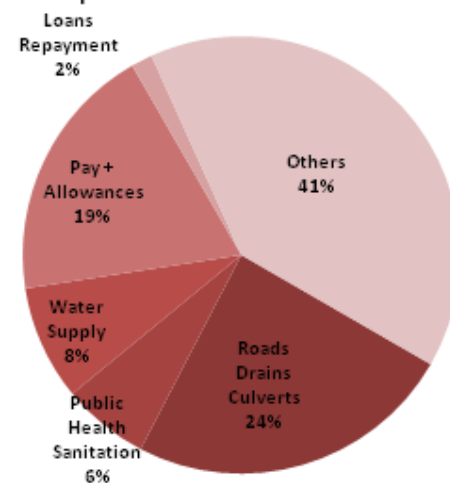
\* Details are excluding the figures of MCH for the year 2006-07. Expenditure of MCH relating to these sectors for the year 2006-07 is included in other expenditure.

The total expenditure during 2007-08 (Rs 2969 crore) increased by 38.95 per cent over previous year (Rs 2136.66 crore). The expenditure on pay and allowances during 2007-08 was 22.78 per cent of total receipts and 19.13 per cent of total expenditure. The figures of receipts and expenditure for 2007-08 are depicted through pie chart as shown below.

Receipts: Rs 2493.30 Crore



Expenditure: Rs 2969.00 Crore



### 1.2.4 Accounting arrangements

Accounts of ULBs are being maintained on cash basis. The Municipal Corporation of Hyderabad has adopted accrual based double entry system for maintaining its accounts since 2002-03. Ministry of Urban Development and Poverty Alleviation, GOI and CAG had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system, for greater transparency and control over finances and requested (May 2005) the States to adopt the same with appropriate modifications to meet States specific requirements. Accordingly, a Steering Committee was constituted by GOAP (May 2005) and the Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. The State Government issued orders during August 2007 for adoption of Andhra Pradesh Municipal Accounts Manual in all the ULBs in the State. During the year 2007-08, 13<sup>13</sup> out of 15 Municipal Corporations and 46 out of 109 municipalities switched over to the Double Entry Accrual Based accounting system while the GHMC adopted the same in 2006-07. Compilation of accounts by ULBs was in arrears since 1980-81 onwards in most of the units.

### 1.2.5 Audit arrangements

The Director, State Audit is the statutory auditor for ULBs under the Andhra Pradesh State Audit Act, 1989. CAG conducts audit of ULBs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of EFC, GOAP entrusted the Technical Guidance and Support for audit and accounts of Urban Local Bodies to CAG under Section 20 (1) of CAG's (DPC) Act.

According to Rule 4 of Andhra Pradesh Municipalities (Preparation and Submission of Accounts and Abstracts) Act, 1970, ULBs are to compile their Accounts annually and forward a copy to Auditor not later than 15 June. Certification of accounts gives an assurance that the funds have been utilized as per codal provisions. However, the audit of accounts of ULBs by the Director of State Audit was pending for the past several years, as the accounts were yet to be compiled by ULBs. As of March 2008, district wise arrears position in respect of Municipalities and Municipal Corporations ranged between 2 to 32 years. However, in case of certain Municipal Corporations, audit by the Director, State Audit was pending despite finalisation of Annual Accounts due to shortage of manpower. List of such cases as of April 2008 are vide *Appendix 2*.

As per Section 11(2) of the State Audit Act, the Director, State Audit is to prepare Consolidated State Audit Review Reports and present the same to the State Legislature. The Director, State Audit has so far prepared Consolidated State Audit and Review Reports for the years 1989-90 to 2005-06 and submitted to the Finance department. The Government tabled the Consolidated Audit and Review Reports in the Andhra Pradesh Legislative Assembly for

<sup>13</sup> Greater Visakhapatnam Municipal Corporation, Vijayawada, Guntur, Kakinada, Rajahmundry, Eluru, Nellore, Tirupathi, Kurnool, Ananthapur, Karimnagar, Nizamabad and Warangal Municipal Corporations.

the period from 1989-90 to 1997-98 and 1998-99 to 2004-05 in March 2008 and December 2008 respectively. Report of 2005-06 is yet to be placed. Some of the major findings by the Director, State Audit related to excess utilisation/non-utilisation/diversion/misutilisation of grants, non-collection of dues, advances pending adjustments/violation of rules, wasteful expenditure etc. Delay in audit results in delay in remedial action on deficiencies noticed in audit.

### 1.2.6 Finance Commissions

#### Twelfth Finance Commission:

During the year 2006-07, following were the releases of TFC grants made by the State Government to ULBs.

(Rupees in crore)

Details of release	Amount	Date of Release by GOI	Date of release by State Govt. to ULBs	No. of days delayed	Interest payable	Interest paid by GOAP
1 <sup>st</sup> Instalment	37.40	14.11.06	29.12.06	30 days	Not worked out	-
2 <sup>nd</sup> Instalment	37.40	18.05.07	10.07.07	37 days	Not worked out	-

Test check of records (June - September 2008) relating to TFC grants for the year 2006-07 revealed the following-

- According to TFC guidelines, the grant should be credited to the accounts of the ULBs within 15 days from the date of receipt of grants of GOI. However, it was noticed that the State Government released the grants amounting to Rs 74.80 crore for the year 2006-07 in two instalments with a delay of 30 to 37 days. The amounts were credited in respective banks accounts of ULBs with further delays of 41 to 79 days by CDMA. However, the State Government did not work out and transfer the interest for delayed releases to ULBs in contravention of the guidelines.
- As against the available amount of Rs 15.32 crore for the year 2006-07, the test checked 25 ULBs utilised an amount of Rs 1.38 crore (9 per cent) only leaving a huge unspent balance of Rs 13.94 crore due to delay in making arrangements for lands required for setting up of compost yards.
- As per the TFC guidelines, 50 per cent of the grants should be utilized for Solid Waste Management (SWM) and ULBs (with population more than one lakh) should prepare and submit Comprehensive Action Plan (CAP) for implementation of SWM. It was, however, noticed that the CAPs prepared by the test checked ULBs and approved by the CDMA were ineffective as the amounts to the tune of Rs 67.61 lakh (Rs 45.55 lakh + Rs 22.06 lakh) were parked in fixed deposits by the two test checked municipalities (Suryapeta and Kothagudem) due to land acquisitions and other related problems.

- Although segregation of solid waste is one of the important items of work in SWM, importance was given to collection and transportation of waste only and no plan for fruitful utilisation of solid waste which would have generated income to the ULBs by way of producing compost and recyclable dry waste.
- Though as per TFC guidelines, funds are to be earmarked for creation of database and maintenance of accounts, no funds were earmarked.

**State Finance Commission:** The second SFC made 39 recommendations pertaining to financial devolution 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/Corporations in urban areas of Telangana region were yet to be acted upon.

The Third SFC submitted its report in January 2008. The Government constituted (March 2008) a committee of Ministers/Secretaries to examine the recommendations of the Third SFC and to table the Action Taken Report in the Andhra Pradesh Legislative Assembly/Council. So far the Action Taken Report was not placed in the APLA/LC.

#### **1.2.7 Status of CAG's observations**

Test audit of accounts of six Municipal Corporations and eight Municipalities was conducted under Section 20(1) of CAG's DPC Act, 1971 during the year 2007-08. As of April 2009, there were 74 Inspection Reports comprising 1495 objections pending settlement with ULBs up to the year 2007-08. The Inspection Reports includes the items relating to audit conducted prior to entrustment of Local Bodies Audit under TGS in 2005-06.

#### **1.2.8 Internal Control**

The system of internal control in any organization promotes economical, efficient and effective operations. It seeks to safeguard the resources against loss due to waste, abuse, mismanagement, errors, fraud and irregularities by ensuring adherence to the laws, regulations and management directives.

Test check (2007-08) of accounts of 14 ULBs revealed several financial irregularities, lapses in utilization of grants/funds resulting in diversion of funds, excess expenditure, incomplete projects, loss of revenue, locking up of funds etc., which were communicated through the Inspection Reports. Some of the major findings are incorporated in para 3.2 of Chapter III of the Report. Audit observed that there was poor compliance to Inspection Reports from ULBs. The internal control system was totally inadequate and did not ensure economical/efficient operation.

### **1.2.9 Conclusions**

Compilation of accounts by ULBs is in arrears since 1980-81 onwards in most of the units. The Andhra Pradesh Municipal Accounts Manual was yet to be adopted in many ULBs. TFC grants were released with delay. TFC grants were not utilised for Solid Waste Management and not earmarked for Database. There were huge arrears ranging between 2 to 32 years in audit by the Director, State Audit, primarily due to arrears in compilation of accounts by ULBs.

### **1.2.10 Recommendations**

- The Municipal Administration Department needs to oversee and ensure that the compilation of Annual Accounts is taken up in earnestness and the arrears cleared in time bound manner, so as to facilitate timely audit and remedial action on deficiencies.
- Adoption of Andhra Pradesh Municipal Accounts Manual should be expedited by remaining 64 ULBs.
- Delay in release of TFC grants should be avoided and the utilisation of TFC grants on SWM should be prioritised.
- With increasing trend in urbanisation, emphasis is to be laid on speedy implementation of recommendations of SFC.
- Replies to the Inspection Reports are to be expedited.