

## CHAPTER III

### SECTION 'A' AN OVERVIEW OF URBAN LOCAL BODIES

#### 3.1 Introduction

**3.1.1** The 74<sup>th</sup> Constitutional amendment enacted in 1992 envisioned creation of local self-governments for the urban area population wherein municipalities were provided with the constitutional status for governance. The amendment empowered Urban Local Bodies<sup>86</sup> (ULBs) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 subjects listed in the XII Schedule of the Constitution.

The category-wise ULBs in the State as of March 2013 are shown in **Table 3.1** below.

**Table 3.1: Category-wise ULBs in Karnataka State**

Category	Number of ULBs
City Corporations (CCs)	8
City Municipal Councils (CMCs)	44
Town Municipal Councils (TMCs)	94
Town Panchayats (TPs)	68
Notified Area Committees (NACs)	5

Source: Administrative Report of UDD for the year 2012-13

The CCs are governed by Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by Karnataka Municipalities Act, 1964 (KM Act). Each Corporation/Municipal area is divided into a number of wards, which are determined and notified by the State Government considering the population, geographical features, economic status, *etc.*, of the respective area.

#### 3.2 Organisational structure

**3.2.1** The Urban Development Department (UDD) is headed by Principal Secretary to Government of Karnataka and is the nodal department. The organisational structure with respect to functioning of ULBs in the State is shown in **Appendix 3.1**.

The Directorate of Municipal Administration (DMA), established in December 1984, is the nodal agency to control and monitor the administrative, developmental and financial activities of the ULBs except Bruhat Bangalore Mahanagara Palike (BBMP), which functions directly under the UDD.

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<sup>86</sup> Classified as City Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats based on the population

### 3.2.2 Composition of ULBs

All the ULBs have a body comprising Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected on majority by the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. While the ULBs other than BBMP have four<sup>87</sup> Standing Committees, BBMP has 12<sup>88</sup> Standing Committees to deal with their respective functions. The Commissioner/Chief Officer is the executive head of ULBs.

3.2.3 The subordinate wings of UDD and their responsibilities are indicated in **Table 3.2** below.

**Table 3.2: Subordinate wings of UDD and their responsibilities**

Wing	Responsibilities
Municipal Administration	<ul style="list-style-type: none"> <li>To ensure that ULBs discharge their functions and guide them in discharge of obligatory, special and discretionary functions</li> <li>Urban reforms, especially relating to revenue collection, computerisation and accounting</li> <li>Implementation of the Centrally Sponsored and State Government Schemes</li> </ul>
Town Planning	<ul style="list-style-type: none"> <li>Assist the Government in formulation of policies on matters related to planning and development of urban and rural areas of the State</li> <li>Extending technical support to Urban Development/Planning authorities, ULBs in preparation and enforcement of development plans and preparation of town extension schemes, <i>etc.</i></li> </ul>
Urban Land Transport	<ul style="list-style-type: none"> <li>Periodical assessment of travel demand in a given urban area through scientific methods</li> <li>Determination of the level of public transport required in different corridors and the type of transport systems required based on a comprehensive appraisal of public transport technologies</li> <li>Assessment and recommendation of the new investments needed for creation of infrastructure over a specified time horizon</li> <li>Liaisoning with the municipal bodies/ Urban Development Authorities (UDAs) in designing and developing integrated policies and plans for city level transportation and their financing</li> </ul>

Source: Administrative Report of UDD for the year 2012-13

3.2.4 In order to ensure comprehensive development and to improve service delivery system in thickly populated areas and urbanised areas in the

<sup>87</sup> 1) Accounts 2) Public Health, Education and Social Justice 3) Taxation, Finance and Appeals 4) Town Planning and Improvement

<sup>88</sup> 1) Accounts 2) Appeals 3) Education 4) Establishment and Administrative Reforms 5) Horticulture 6) Major Public Works 7) Markets 8) Public Health 9) Social Justice 10) Taxation and Finance 11) Town Planning and Improvement and 12) Ward level public works

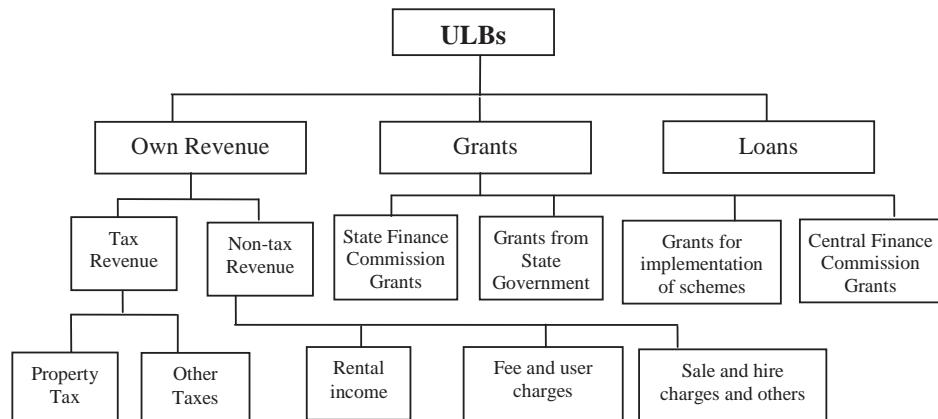
State, the State Government constituted various Boards/Authorities<sup>89</sup> assigning specific functions to them.

### 3.3 Financial profile

#### 3.3.1 Resources of ULBs

The ULBs do not have a large independent tax domain. The finances of ULBs comprise receipts from own sources, grants and assistance from Government of India (GOI)/State Government and loans procured from financial institutions or nationalised banks as the State Government may approve. The property tax on land and buildings is the mainstay of ULB's own revenue. While power to collect certain taxes is vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, *etc.*, are vested with the State Government. The own non-tax revenue of ULBs comprise fee for sanction of plans/mutations, water charges, *etc.*

Grants and assistance released by the State Government/GOI as well as loans raised from financial institutions are utilised for developmental activities and execution of various schemes. The flow chart of finances of ULBs is as shown below.



#### 3.3.2 Custody of funds in ULBs

The grants received from the State Government are kept in Personal Deposit account of ULBs maintained at Treasury. All receipts are to be credited into the treasury/bank and any money required for disbursement is drawn from the treasury/bank through cheque. The grants received for implementation of schemes are kept in banks duly authorised by the State Government. The

<sup>89</sup> Bangalore Development Authority, Bangalore Metro Rail Corporation Limited, Bangalore Metropolitan Regional Development Authority, Bangalore Metropolitan Task Force, Bangalore Water Supply and Sewerage Board, Karnataka State Town Planning Board, Karnataka Urban Infrastructure Development and Finance Corporation, Karnataka Urban Water Supply and Drainage Board, UDAs for 27 cities

Drawing and Disbursing Officers (DDOs) under ULBs are empowered to draw the grant from the treasury/banks after getting sanction from the Commissioner/Chief Officer.

### 3.3.3 Release of grants to ULBs

The details of grants released by the State Government to ULBs during the period from 2008-09 to 2012-13 are as shown in **Table 3.3**.

**Table 3.3: Statement showing release of grants to ULBs**  
(₹ in crore)

ULBs	2008-09		2009-10		2010-11		2011-12		2012-13	
	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	802	749	679	662	617	616	2,800	2,864	3,544	2,669
CMCs/ TMCs	1,210	1,259	1,335	1,372	1,789	1,936	1,252	1,126	1,513	1,126
TPs/ NACs	449	331	351	438	474	423	285	258	290	214
<b>Total</b>	<b>2,461</b>	<b>2,339</b>	<b>2,365</b>	<b>2,472</b>	<b>2,880</b>	<b>2,975</b>	<b>4,337</b>	<b>4,248</b>	<b>5,347</b>	<b>4,009</b>

Source: State Budget Estimates and Finance Accounts

It could be observed from the table above that though the grants released by the State Government to all ULBs increased by six *per cent* in 2009-10, 20 *per cent* in 2010-11, 43 *per cent* in 2011-12, the same decreased by six *per cent* in 2012-13 when compared to the release of previous year. The grants released to CMCs/TMCs decreased by 11 *per cent* in 2011-12 and 2012-13 when compared to the release of 2008-09. The grants released to CCs increased by 282 *per cent* during 2011-12 and 256 *per cent* during 2012-13 when compared to 2008-09. The increase in grant to CCs was mainly due to release of grants under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) to BBMP and CC, Mysore and also due to release of grants under Mukhya Mantri Nagarothan Yojane, Tribal Sub-Plan (TSP)/Special Component Plan (SCP) to all CCs. The decrease in grants to CMCs and TPs was due to non-release of grants under SCP and TSP programmes.

### 3.3.4 Revenue and expenditure of ULBs

The revenue of ULBs include own revenue, assigned revenue, grants, loans, etc. Details of revenue and expenditure of ULBs are shown in **Table 3.4** below.

**Table 3.4: Statement showing revenue and expenditure of ULBs**  
(₹ in crore)

Revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Own Revenue	1,024.77	1,669.73	2,459.29	2,469.56	1,481.85	9,105.20
Assigned revenue and devolutions	2,391.33	2,505.59	3,026.46	3,391.34	3,807.58	15,122.30
Central Government Grants	-	343.85	306.80	582.78	749.75	1,983.18
Loans and other capital grants	1,918.95	963.51	2,680.94	2,090.66	2,246.68	9,900.74
Finance Commission Grants	175.03	120.41	185.46	440.89	521.66	1,443.45
<b>Total</b>	<b>5,510.08</b>	<b>5,603.09</b>	<b>8,658.95</b>	<b>8,975.23</b>	<b>8,807.52</b>	<b>37,554.87</b>

Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Establishment	499.83	532.81	481.51	685.44	927.99	3,127.58
Maintenance	519.83	517.91	534.90	591.87	619.86	2,784.37
Welfare Expenditure of Citizens	27.24	72.68	49.92	54.46	58.34	262.64
Capital Expenditure	523.02	746.54	825.76	766.45	751.23	3,613.00
Others	62.31	81.91	89.27	105.41	89.77	428.67
<b>Total</b>	<b>1,632.23</b>	<b>1,951.85</b>	<b>1,981.36</b>	<b>2,203.63</b>	<b>2,447.19</b>	<b>10,216.26</b>

Source: As furnished by DMA (Previous years' figures revised by DMA based on the Fund Based Accounting System maintained by the ULBs)

The above position indicated that though the collection of own revenue increased by 141 *per cent* during the period 2008-09 to 2011-12, it decreased by 40 *per cent* in 2012-13 when compared to that of 2011-12. Further, the total own revenue collected during the period 2008-09 to 2012-13 constituted only 24 *per cent* of the total revenue of all ULBs during the same period. Thus, the ULBs were largely dependent on Government grants.

The maintenance expenditure constituted 27 *per cent* of the total expenditure during the period 2008-13, whereas the capital expenditure constituted 35 *per cent* during the same period.

### 3.3.5 Financial position of selected ULBs

Out of 214 ULBs in the State, Audit test-checked the records of BBMP and 14<sup>90</sup> other ULBs to review the budgetary control and financial reporting system in ULBs.

#### 3.3.5.1 Financial position of BBMP

The financial position of BBMP for the period 2008-12 is given in **Appendix 3.2**. Audit scrutiny of the financial statements of BBMP prepared under Fund Based Accounting System (FBAS) for the years 2008-09 to 2011-12 showed the following.

- General Fund registered an increase of 209 *per cent* during the last four years period ended 31 March 2012 whereas Enterprise Fund registered an insignificant increase of two *per cent* over the same period.
- The liabilities showed an increasing trend during the period 2008-12. It registered an increase of 123 *per cent*.
- Long term debt (Loans) increased from ₹1,314.12 crore in 2008-09 to ₹3,476.12 crore in 2011-12 (165 *per cent*).
- Fixed assets registered an increase of 82 *per cent* from ₹6,538.12 crore in 2008-09 to ₹11,878.22 crore in 2011-12.
- The current assets also increased from ₹1,052.60 crore in 2008-09 to ₹2,966.45 crore as at the end of 2011-12. The increase was 182 *per cent*.

<sup>90</sup> Two CCs – Davanagere and Hubli-Dharwar; Three CMCs – Doddaballapura, Harihara and Mandya; Five TMCs - Devanahalli, Harapanahalli, Maddur, Nelamangala and Srirangapatna; Four TPs – Channagiri, Honnali, Nagamangala and Pandavapura

- Details of assets and liabilities were not disclosed in the financial statements.

### 3.3.5.2 Financial position of other ULBs

The details of own revenue *i.e.*, tax and non-tax revenue realised in 13 test-checked ULBs are shown in **Appendix 3.3**. The TMC, Harapanahalli had not furnished the details.

The analysis of revenue indicated that:

- There was increasing trend in tax revenue of ULBs as the tax revenue increased from ₹30.32 crore to ₹46.14 crore during 2008-09 to 2011-12 mainly due to increase in collection of property tax.
- The main sources of non-tax revenue were rent, water charges, building licence fee, trade licence fee, *etc.* It increased from ₹25.79 crore to ₹39.00 crore during 2008-09 to 2011-12.
- The own resources of ULBs were not adequate and they were dependent on grants and loans from the Central and State Governments for recurring expenditure also.

### 3.3.5.3 Property Tax

The State Government introduced the Self Assessment Scheme (SAS) applicable to all municipalities of the State with effect from 1 April 2002. The position of property tax demanded, collected and outstanding at the end of March 2013 in respect of 213 ULBs (except BBMP) in the State is as shown in **Table 3.5** below.

**Table 3.5: Position of demand, collection and balances of property tax**  
(₹ in crore)

Year	Opening Balance	Current year Demand	Total	Collection	Balance	Percentage of collection
2008-09	175.60	180.55	356.15	200.11	156.04	56
2009-10	156.04	199.50	355.54	216.16	139.38	61
2010-11	139.38	258.66	398.04	290.03	108.01	73
2011-12	108.01	290.61	398.62	288.79	109.83	72
2012-13	109.83	342.00	451.83	284.18	167.65	63

Source: As furnished by DMA

The position of property tax demanded, collected and arrears outstanding for the five years ended 31 March 2013 in respect of 14 test-checked ULBs is shown in **Appendix 3.4**.

In the 14 test-checked ULBs, against the total demand of property tax of ₹244.12 crore raised during the five year period ended 31 March 2013, ₹219.45 crore was collected. Although the collection of property tax was 90 *per cent* of the demand raised during the years 2008-09 to 2012-13, it was observed that no action was taken by the test-checked ULBs to widen the tax

net by identifying all land and buildings situated in the municipal area and also issue appropriate demand notices as envisaged in the KMC Act and KM Act.

The DMA stated (March 2014) that GIS<sup>91</sup> had been introduced in ULBs to widen the tax net and ULBs had taken action to collect property tax by formation of teams. However, Audit was of the opinion that GIS was not being used effectively in the test-checked ULBs.

#### **3.3.5.4 Short realisation of water charges**

It shall be the duty of every Municipality to provide supply of wholesome water for the domestic use of inhabitants. The supply of water for domestic and non-domestic users was to be charged at the prescribed rates.

It was seen in 13 test-checked ULBs that a sum of ₹122.78 crore (67 per cent) was collected towards water charges against the total demand of ₹183.77 crore during the period 2008-09 to 2012-13. Details are given in **Appendix 3.5**. TMC, Harapanahalli had not furnished the year-wise details. The DMA stated (March 2014) that efforts were being made to recover the balance of arrears.

#### **3.3.5.5 Non-realisation of rent**

As of March 2013, 13 test-checked ULBs (except TP, Honnali) had raised demand of ₹28.98 crore towards rent from stalls, shops and market complexes for the period 2008-09 to 2012-13, against which a sum of ₹25.20 crore (87 per cent) was collected. The arrears in realisation of rent at the end of 31 March 2013 amounted to ₹3.78 crore as indicated in **Appendix 3.6**. The shortfall in realisation of rent reduced the revenues of these ULBs to that extent, thereby widening the resource gap. The TMC, Nelamangala had not furnished the details for the year 2008-09.

The DMA stated (March 2014) that steps were being taken by the ULBs to collect the arrears.

#### **3.3.5.6 Non-remittance of cess amount**

As of March 2013, 13 out of 14 test-checked ULBs had not remitted to State Government ₹57.43 crore collected towards Beggary, Health and Library cess as detailed in **Appendix 3.7**. TMC, Harapanahalli had not furnished the details.

The similar position in the test-checked ULBs indicated that the issue of non-remittance of cess amount was likely to be common across all ULBs in the State.

The DMA stated (March 2014) that action would be taken to remit the outstanding cess amount to Government.

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<sup>91</sup> Geographic Information System (GIS) based property tax involves proper mapping of properties using satellite images so that ULBs are able to have a full record of properties in the city and bring them under tax net.

### 3.3.5.7 *Short recovery of income tax*

There was a short deduction of income tax from work bills of contractors during 2007-08 to 2009-10 in TMC, Harapanahalli. In March 2012, the income tax authorities issued notices for payment of ₹0.18 crore towards short deduction of income tax and interest thereon for the assessment years 2008-09 to 2010-11. The same was paid by TMC, Harapanahalli in December 2012 out of State Finance Commission (SFC) Grant. This was irregular and avoidable as the TMC should have deducted the income tax amount from contractors' bills.

## 3.4 **State Finance Commission**

The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional amendments mandated the constitution of SFC every five years to determine sharing of revenue between the State Government and local bodies. So far, three SFCs were constituted and recommendations of the first and second SFCs were implemented.

The third SFC had recommended (December 2008) the devolutions to the ULBs at 10 *per cent* of State's Net Own Revenue Receipts to be implemented from 2010-11 onwards. However, the State Government decided only in October 2011 to allocate 8.5 *per cent* of Non-loan Net Own Revenue Receipts (NLNORR) during 2011-12 and increase it by 0.5 *per cent* every year. The State Government released ₹3,653.68 crore to ULBs during 2012-13 which was 6.33 *per cent* of NLNORR (₹57,720 crore).

## 3.5 **Devolution of Functions, Funds and Functionaries**

### 3.5.1 *Transfer of functions*

The 74<sup>th</sup> Constitutional amendment envisaged devolution of 18 functions listed in the XII Schedule of the Constitution to ULBs. As of March 2013, the State Government had transferred 14 functions to ULBs. Two<sup>92</sup> functions were being implemented by both ULBs and the State Government. The other two functions namely, Urban Planning and Fire Services had not been transferred to ULBs. The water supply for domestic and industrial purposes was implemented through separate agencies<sup>93</sup> of the State Government.

### 3.5.2 *Transfer of funds*

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes. Audit test-checked the functions of civic amenities (water supply) including street lighting, public health (solid waste management, sewerage and other health programmes) to ascertain the extent of transfer of funds. The State Government had not

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<sup>92</sup> (1) Urban forestry, protection of environment and ecology (ULBs and Forest Department)

(2) Slum improvement and up-gradation (ULBs and Slum Development Board)

<sup>93</sup> Bangalore Water Supply and Sewerage Board for BBMP area and Karnataka Urban Water Supply and Drainage Board for other ULBs



separately earmarked funds for these functions. The funds were released as lump sum amount under SFC grants. It was seen that 14 test-checked ULBs had spent ₹236.90 crore on civic amenities (including street light) and ₹191.37 crore on public health functions during 2008-09 to 2011-12.

The DMA stated (March 2014) that funds under SFC grants were released as untied grants and ULBs would spend the amount for street light, public health, solid waste management, sewerage and other health programmes. The fact remains that since these activities have not been earmarked separately, it would not be possible to ascertain the actual allocation and expenditure for these activities.

### 3.5.3 *Transfer of functionaries*

The KMC and KM Acts stipulate that the State Government may, if it considers necessary, appoint personnel including officers from Karnataka Municipal Administrative Service to ULBs and also depute the staff as per the percentage fixed under Karnataka Municipalities (Recruitment of Officers and Employees) Rules, 2010.

As at the end of March 2013, the total sanctioned strength of the CMCs, TMCs and TPs were 25,134 whereas the working strength was 12,433 (49 *per cent*). The working strength in the 14 selected ULBs was only 42 *per cent*. The vacancy position of staff required for public health and civic amenities of 14 test-checked ULBs was 55 *per cent* and 69 *per cent* respectively. The vacancies in the posts of Office Manager, Revenue Officer, Health Inspector and Water Supply Operator were more than 50 *per cent* of the sanctioned strength, which hampered the functioning of ULBs.

The DMA stated (March 2014) that action would be taken to fill up the existing vacancies.

## 3.6 **Accountability framework**

### 3.6.1 *Powers of the State Government*

The Acts governing ULBs entrust the State Government with the following powers so as to enable it to monitor the proper functioning of the ULBs.

- frame rules to carry out the purposes of KMC and KM Acts;
- dissolve those ULBs which fail to perform or default in the performance of any of the duties imposed on them;
- cancel a resolution or decision taken by ULBs if Government is of the opinion that it is not legally passed or in excess of the powers conferred by provisions of the Acts;
- regulate the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the staff and officers of ULBs.

A detailed list of duties and powers of officers of ULBs is given in **Appendix 3.8.**

### **3.6.2 Vigilance mechanism**

The Lokayukta appointed by the State Government has power to investigate and report on allegations or grievances relating to the conduct of officers and employees of ULBs.

### **3.6.3 Audit mandate**

The Controller, State Accounts Department (SAD) is the primary auditor of ULBs in terms of KMC and KM Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs<sup>94</sup> to the Comptroller and Auditor General of India (CAG) under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09 and under Technical Guidance and Supervision from 2011-12 onwards by amending the statutes (October 2011).

### **3.6.4 Arrears in primary audit**

Out of 214 ULBs, audit of accounts of 180 ULBs for the period up to 2011-12 was conducted by SAD as of 31 March 2012. The audit of remaining 34 ULBs (16 per cent) was not conducted due to non-submission of accounts by ULBs and inadequate staff in SAD.

In the test-checked ULBs, the audit of accounts of CC, Davanagere was not done by SAD since its upgradation from CMC in January 2007 for want of appointment of Chief Auditor and deployment of requisite staff for conducting audit. The audit of CMC, Mandya and two<sup>95</sup> ULBs was conducted up to 2009-10 and 2010-11 respectively. The position was better in the remaining 10<sup>96</sup> ULBs as the audit had been conducted up to 2011-12.

### **3.6.5 Response to Audit observations**

The Commissioners/Chief Officers are required to rectify the defects and omissions contained in the Inspection Reports (IRs) and report their compliance to SAD within three months from the date of issue of IRs. As of March 2012, 1,75,223 audit paragraphs involving monetary value of ₹1,624.06 crore were brought out in IRs of ULBs issued up to 31 March 2012. Out of this, 4,791 paragraphs involving ₹901 crore related to the period earlier to 2008-09. The Controller, SAD stated (January 2014) that due to non-submission of replies by the audited institutions, the paragraphs were outstanding.

On a review of the Statutory Auditor's Report on the Accounts of BBMP for the year ended 31 March 2010, it was observed that audit paragraphs involving

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<sup>94</sup> except Notified Area Committees (NAC)

<sup>95</sup> TMC, Maddur and CC, Hubli-Dharwar

<sup>96</sup> Channagiri, Devanahalli, Doddaballapura, Harapanahalli, Harihara, Honnali, Nagamangala, Nelamangala, Pandavapura and Srirangapatna

financial irregularities amounting to ₹1,511.85 crore for the period from 1964-65 to 2008-09 were outstanding (November 2012). Out of this, an amount of ₹247.41 crore was proposed for recovery by Audit. During the course of last audit conducted for the year 2009-10, 226 audit paragraphs involving financial irregularities amounting to ₹350.31 crore were communicated to BBMP by the Statutory Auditor for taking corrective action.

### 3.7 Resource utilisation

#### 3.7.1 Thirteenth Finance Commission grants

The Thirteenth Finance Commission (TFC) was constituted to recommend the measures needed to augment the consolidated funds of the States to supplement the resources of the Panchayat Raj Institutions (PRIs) and ULBs. The Commission recommended grant-in-aid to the local bodies as a percentage of the previous year's divisible pool of taxes, over and above the share of the States. The State Government allocated the grants to all ULBs based on the population and issued (August 2010) guidelines for execution.

The GOI released general basic grants of ₹264.10 crore and performance grants of ₹246.24 crore for the year 2012-13 to ULBs in two instalments.

##### 3.7.1.1 Delayed release of funds

The TFC guidelines stipulated that the funds should be transferred to the accounts of ULBs within five days from the date of receipt of grant from GOI, failing which the State Government would be liable to release the instalment with interest at the RBI rate for the delayed period. The GOI released the instalments during December 2012, March 2013 and August 2013. Audit observed that there were delays ranging from 10 to 47 days, in transfer of funds to ULBs. The interest of ₹2.70 crore for the delay in releasing of funds was not released to ULBs by State Government.

##### 3.7.1.2 Non-utilisation of TFC grants

It was observed in the test-checked ULBs that utilisation of TFC grants during 2010-13 ranged from 25 to 78 per cent and ₹48.91 crore remained unutilised at the end of 31 March 2013 as detailed in **Table 3.6**, thereby defeating the objective of providing timely service to the urban population as envisaged.

**Table 3.6: Details of unspent balance of TFC grant**

(₹ in crore)

Name of the ULB	Grant released during 2010-11	Grant released during 2011-12	Grant released during 2012-13	Total grant released	Amount utilised	Balance	Percentage of utilisation
CC, Davanagere	3.21	6.10	11.33	20.64	6.89	13.75	33
CC, Hubli-Dharwar	4.77	7.99	15.56	28.32	9.64	18.68	34
TP, Channagiri	0.40	0.76	0.57	1.73	0.91	0.82	53
TMC, Devanahalli	0.64	1.22	0.99	2.85	0.72	2.13	25
CMC, Doddaballapura	0.70	1.34	1.00	3.04	0.77	2.27	25

Name of the ULB	Grant released during 2010-11	Grant released during 2011-12	Grant released during 2012-13	Total grant released	Amount utilised	Balance	Percentage of utilisation
TMC, Harapanahalli	0.52	0.94	0.69	2.15	1.07	1.08	50
CMC, Harihara	0.73	1.38	1.03	3.14	0.98	2.16	31
TP, Honnali	0.36	0.68	0.87	1.91	0.62	1.29	32
TMC, Maddur	0.46	0.86	0.31	1.63	1.04	0.59	64
CMC, Mandya	1.52	2.89	2.16	6.57	2.84	3.73	43
TMC, Nagamangala	0.36	0.64	0.48	1.48	0.64	0.84	43
TMC, Nelamangala	0.37	0.67	0.53	1.57	1.23	0.34	78
TP, Pandavapura	0.39	0.73	0.52	1.64	0.87	0.77	53
TMC, Srirangapatna	0.49	0.88	0.67	2.04	1.58	0.46	77
<b>Total</b>	<b>14.92</b>	<b>27.08</b>	<b>36.71</b>	<b>78.71</b>	<b>29.80</b>	<b>48.91</b>	<b>38</b>

Source: As furnished by ULBs

None of the test-checked ULBs except CMC, Harihara had maintained a separate register for TFC grant transactions. Thus, Audit could not ensure the correctness of the amount utilised and balance available under TFC.

Out of ₹162.93 crore received during the period 2010-13, BBMP had utilised only ₹88 crore.

The DMA stated (March 2014) that instructions had been issued to all the ULBs to utilise the grants and submit the Utilisation Certificates (UCs) to enable them to obtain the remaining amount of TFC grants.

### 3.7.1.3 Non-preparation of Action Plan

As per guidelines issued (August 2010) by the State Government for utilisation of TFC grants, an Action Plan was required to be prepared and approved by Council and also by DMA before utilisation of grants. However, no such Action Plan was prepared by BBMP before utilisation of grants.

### 3.7.1.4 Loss of interest

BBMP operated the TFC funds through a current account opened in Syndicate Bank instead of savings bank account which yields interest on unspent amount. As a result, BBMP lost the opportunity of earning interest of ₹1.92 crore (approximately) on unspent funds during 2012-13 at the rate of 3.5 per cent of interest applicable on savings account. In spite of this being pointed out in the previous Audit Report, no action was taken by the BBMP.

### 3.7.2 Urban Infrastructure Development Scheme for small and medium towns

Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) launched during December 2005 is a Centrally Sponsored Scheme for improvement of urban infrastructure in towns and cities in a planned and integrated manner. The DMA is the nodal agency for implementation of the scheme in the State. The funding pattern between Centre, State and ULB is 80:10:10. State Level Sanctioning Committee (SLSC) approved 38 projects at an estimated cost of ₹682.49 crore during 2006-08. Though all the projects ought to be completed by March 2012, only

nine projects were completed and one<sup>97</sup> project was not started as at the end of March 2013. Out of nine projects completed, eight projects exceeded the approved project cost by ₹9.26 crore which was not approved by the SLSC.

The DMA furnished (March 2014) the latest position of projects, wherein 14 projects had been completed and six were scheduled to be completed by March 2014 and remaining 18 projects would be completed by December 2014.

### **3.8 Conclusion**

Out of 18 functions to be devolved to ULBs, the State Government had not devolved two functions. There was more than 50 *per cent* shortage of staff in all the ULBs. The ULBs had not adopted GIS effectively to identify the properties to levy property tax. The ULBs did not utilise the entire TFC grants during the period 2010-13. The test-checked ULBs had not maintained records for proper accounting of TFC grants. There was poor response to Audit observations.

### **3.9 Recommendations**

- The ULBs may be encouraged to use GIS effectively to widen the property tax network.
- The working strength of the ULBs should be increased, particularly in posts relating to public health and civic amenities where vacancies are high.
- Adequate staff to be provided for timely audit of ULBs by SAD.
- Timely release of TFC grants followed by effective utilisation of the same by the ULBs.
- ULBs should ensure that income tax is deducted from work bills of contractors so as to avoid payment of tax and penalty from their grants.

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<sup>97</sup> Water supply project for Mulabagilu

## SECTION 'B' - FINANCIAL REPORTING

### 3.10 Framework

**3.10.1** Financial reporting in the public sector is a key element of accountability. According to Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), the ULBs shall prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet, Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit them to the auditor appointed by the State Government, within two months from the end of the financial year.

### 3.10.2 *Municipal reforms*

The initiative of municipal reforms was started during 2006 through the Nirmala Nagara programme whose components, among others, included accounting reforms, computerisation of municipal functions, setting up public grievance system, *etc.* This programme was initially funded by Karnataka Urban Development Coastal Environmental Project. Only 57 ULBs, including eight<sup>98</sup> CMCs which merged with BBMP were covered under this programme. These reforms are now adopted by the remaining ULBs of the State under Karnataka Municipal Reforms Project (KMRP).

The Municipal Reforms Cell (MRC) working under DMA is responsible for computerisation and maintaining accounts under FBAS in ULBs (except BBMP). To bring in better governance and more efficient service delivery through the use of technology and process re-engineering, the State Government initiated (2005) the process of computerisation of municipal functions in all the ULBs of the State in a phased manner.

### 3.10.3 *Accounting reforms*

On the recommendations of XI Finance Commission, GOI entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the CAG of India.

The Ministry of Urban Development, GOI developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The State Government brought out the KMABR based on the NMAM with effect from 1 April 2006. KMABR was introduced in a phased manner in all the ULBs except BBMP. As of 31 March 2013, all the ULBs were preparing the fund-based accounts in double entry system. BBMP was maintaining FBAS based on the Bangalore Mahanagara Palike (Accounts) Regulations, 2001.

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<sup>98</sup> Bommanahalli, Bommasandra, Byatarayanapura, Dasarahalli, KR Puram, Kengeri, Rajarajeshwarinagara and Yelahanka

### 3.10.4 Budget formulation

According to the provisions of KMC Act, KM Act and Rule 132 of KMABR, the ULBs were to prepare the budget estimates before 15 January each year for the ensuing financial year and submit to the Municipal Council for approval. Further, as per Rule 133 of KMABR, the ULBs should have two rounds of public consultations during November and December before finalisation of budget. The approved budget should be notified in two local newspapers having maximum circulation. The Commissioner/Chief Officer was to seek additional funds, if any, through re-appropriation/additional grants after getting the approval of the Municipal Council.

Out of 14 test-checked ULBs, two<sup>99</sup> ULBs had conducted public meetings before finalisation of budget estimates for the years 2009-13 and three<sup>100</sup> ULBs held public meetings for the year 2012-13. One ULB, *i.e.*, CMC, Doddaballapura conducted a public meeting for the year 2010-11. Only CMC, Doddaballapura notified the abridged copy of approved budget in two local newspapers for the year 2009-10. The remaining 13 ULBs had no records to show that the budget approved by the Council was notified in the newspapers.

It was also seen that 13<sup>101</sup> out of 14 test-checked ULBs had incurred expenditure though there were delays ranging from 5 to 298 days in passing the budget during the period 2009-13. Thus, the expenditure incurred by the ULBs till the budget had been finally passed, was unauthorised.

In BBMP, there were delays ranging from 3 to 24 weeks in approving the budget during the period 2008-09 to 2012-13. The Commissioner, BBMP stated (December 2013) that vote on account was obtained during that period but the reason for delayed approval was not furnished.

## 3.11 Financial Reporting Issues

### 3.11.1 Preparation of unrealistic budget in BBMP

The details of budget estimates *vis-à-vis* actuals in BBMP during the years 2008-12 are detailed in **Table 3.7** below.

**Table 3.7: Details of budget and actuals in BBMP during the years 2008-12**

Year	Receipt		Variation (Percentage)	Payments		Variation (Percentage)
	Budget	Actuals	Amount	Budget	Actuals	Amount
2008-09	2,842.48	2,478.99	363.49 (13)	2,918.71	2,356.68	562.03 (19)
2009-10	3,959.29	3,639.30	319.99 (8)	4,238.42	3,403.62	834.80 (20)
2010-11	8,446.75	3,319.77	5,126.98 (61)	8,488.54	3,626.18	4,862.36 (57)
2011-12	9,401.05	4,003.08	5,397.97 (57)	9,398.55	3,838.99	5,559.56 (59)

Source: Approved Budget Copy

<sup>99</sup> CC, Davanagere and TMC, Maddur

<sup>100</sup> CMC, Harihara, CMC, Mandya and TP, Pandavapura

<sup>101</sup> Channagiri, Davanagere, Devanahalli, Doddaballapura, Harapanahalli, Harihara, Honnali, Maddur, Mandya, Nagamangala, Nelamangala, Pandavapura and Srirangapatna

### 3.11.1.1 Budget estimates for receipt

It could be observed from **Table 3.7** that as compared to budget estimates, short realisation of receipts ranged from 8 to 61 *per cent* during the period 2008-12. Further, it was seen from the details of receipt provided to Audit that there was 'nil' receipt under three heads against estimated receipts projected in the budget and short realisation ranged from 1 to 99 *per cent* in other 25 heads during the period 2010-12.

### 3.11.1.2 Budget estimates for expenditure

The payments made during the years 2008-09 to 2011-12 when compared to the budgeted provisions were short by 19 to 59 *per cent*. Further, during 2010-11 and 2011-12, the expenditure under the head of account "Engineering-Capital Investment-Plan," was 'nil' against the budget provision of ₹1,000 crore and ₹306 crore respectively. In other 18 heads of account, savings was more than 50 *per cent* during the period 2010-12 and there was excess over budget in four heads of account during the same period.

### 3.11.2 Budget estimates in other test-checked ULBs

The details of budget estimates *vis-à-vis* actuals of 14 test-checked ULBs for the years 2008-09 to 2011-12 are detailed in **Table 3.8** below.

**Table 3.8: Statement showing details of budget estimates and actual during 2008-12**

Year	Receipt		Variation (Percentage)	Payments		Variation (Percentage)
	Budget	Actuals		Budget	Actuals	
2008-09	748.45	358.80	389.65 (52)	800.44	366.59	433.85 (54)
2009-10	1,101.71	511.58	590.13 (54)	1,182.36	510.07	672.29 (57)
2010-11	962.69	574.73	387.96 (40)	1,049.45	574.57	474.88 (45)
2011-12*	789.85	418.59	371.26 (47)	835.82	383.08	452.74 (54)

Source: Budget estimates of ULBs \*For 11 ULBs only.

The variation between the budget estimates and actuals for receipts ranged between 40 and 54 *per cent* and for payments ranged between 45 and 57 *per cent* during the period 2008-12. This indicated that the budgets approved by the test-checked ULBs were not realistic.

### 3.11.3 Budget estimates of selected functional heads

The total amount of provision made in the budget of 14 test-checked ULBs for the period 2008-09 to 2011-12 and actual amount spent in respect of following functional heads (Water Supply including Street Lighting (Civic Amenities)) and Solid Waste Management, Sewerage and Public Health and others (Public Health) are detailed in **Table 3.9**.



**Table 3.9: Details of budget and actuals of selected functional head during 2008-12**

Particulars	₹ in crore)		
	Budget	Actuals	Difference
Street light	101.06	74.94	26.12
Water supply	162.56	161.96	0.60
Solid waste management	128.96	107.51	21.45
Sewerage	10.50	5.38	5.12
Public health and others	78.60	78.48	0.12

Source: As furnished by the ULBs

A comparison of budget provision and expenditure incurred on four functions by the 14 test-checked ULBs during the period 2008-12 showed that ULBs irregularly spent more than the budget provision as detailed below.

- **Street light:** Six<sup>102</sup> out of 14 test-checked ULBs incurred expenditure on street lighting in excess of budget provision during the period 2008-09 to 2011-12 to the extent of ₹1.80 crore.
- **Water supply:** In 10<sup>103</sup> ULBs, the expenditure on water supply had exceeded the budget provision during the period 2008-09 to 2011-12 to the extent of ₹30.44 crore.
- **Solid waste management:** In five<sup>104</sup> ULBs, the expenditure incurred on solid waste management during 2008-09 to 2011-12 had exceeded the budget provision to the tune of ₹3.28 crore.
- **Public health and others:** The expenditure on public health and others incurred by eight<sup>105</sup> ULBs during the period 2008-09 to 2011-12 had exceeded the budget provision to the extent of ₹5.26 crore.

The DMA stated (March 2014) that excess expenditure over the budget provision was due to taking up of emergency works and increase in prices.

### 3.11.4 Preparation and certification of accounts

#### 3.11.4.1 Audit of Annual Accounts of ULBs

According to KMABR, the financial statements of ULBs should be audited by the Chartered Accountants (CAs) appointed by the DMA. The CA, after completion of audit, should submit a report along with the audited accounts to the Municipal Council and the State Government. **Table 3.10** shows the position of accounts prepared by ULBs and certified by the CAs during the period 2008-09 to 2011-12 (February 2014).

<sup>102</sup> Channagiri, Doddaballapura, Harapanahalli, Honnali, Nagamangala and Nelamangala

<sup>103</sup> Davanagere, Devanahalli, Doddaballapura, Harapanahalli, Honnali, Hubli-Dharwar, Maddur, Nelamangala, Pandavapura and Srirangapatna

<sup>104</sup> Channagiri, Davanagere, Doddaballapura, Harapanahalli and Hubli-Dharwar

<sup>105</sup> Davanagere, Doddaballapura, Harihara, Honnali, Hubli-Dharwar, Nelamangala, Pandavapura and Srirangapatna

**Table 3.10: Position of preparation and certification of accounts as on February 2014**

Year	Total Number of ULBs required to prepare accounts	Number of ULBs which prepared the accounts	Number of ULBs accounts certified by CAs	Balance of accounts to be certified
2008-09	128	128	126	2
2009-10	213	213	208	5
2010-11	213	213	205	8
2011-12	213	213	132	81
2012-13	213 <sup>106</sup>	183	NF	NF
<b>Total</b>		<b>950</b>	<b>671</b>	<b>96</b>

Source: As furnished in reply of DMA (March 2014) NF: Not furnished

Despite preparation of 950 accounts by the ULBs, the CAs had not certified 96 accounts and details of certification of 183 accounts for the year 2012-13 had not been furnished (March 2014).

The status of audit of annual accounts of 14 test-checked ULBs is given in Table 3.11 below.

**Table 3.11: Status of preparation and certification of financial statements in test-checked ULBs**

Year	Number of test-checked ULBs which prepared accounts					Number of accounts certified by CAs					
	CC (2)	CMC (3)	TMC (5)	TP (4)	Total (14)	CC (2)	CMC (3)	TMC (5)	TP (4)	Total (14)	Balance
2008-09	2	3	3	2	10*	1	3	3	2	9	1
2009-10	2	3	5	4	14	1	3	4	4	12	2
2010-11	2	3	5	4	14	0	3	3	3	9	5
2011-12	2	3	5	3	13	0	1	1	1	3	10
2012-13	2	3	2	0	7	0	0	0	0	0	7
<b>Total</b>					<b>58</b>	<b>2</b>	<b>10</b>	<b>11</b>	<b>10</b>	<b>33</b>	<b>25</b>

Source: Information furnished by ULBs

\*Note: In four ULBs the FBAS was introduced with effect from 2009-10.

It could be observed that the annual financial statements in respect of one ULB for the year 2011-12 and seven ULBs for the year 2012-13 were not finalised as of September 2013. Despite preparation of 58 accounts in selected ULBs, the CAs had not certified 25 accounts for the years 2008-09 to 2012-13. The delay in certification of annual accounts of selected ULBs ranged from 8 to 42 months. The percentage of financial statements for the year ended 31 March 2012 not certified by the CAs to total number of financial statement prepared in respect of test-checked ULBs ranged from 10 to 77 per cent. Further, none of the ULBs (except CC, Davanagere for the year 2008-09) adopted the certified accounts through body of Councillors.

<sup>106</sup> except BBMP

#### **3.11.4.2 Audit of Annual Accounts of BBMP**

As per Rule 9(1) of Part-II of KMC Act, the Commissioner, BBMP is responsible for preparation of Annual Accounts by 1 October each year for scrutiny by the Chief Auditor appointed by the Government. The Controller, SAD has been designated as Chief Auditor.

However, audited accounts were furnished only up to 2009-10. Accounts for the 2010-11 and 2011-12 had been submitted to the Chief Auditor and audit comments were awaited. Annual Financial Statement for 2012-13 was yet to be finalised (December 2013).

#### **3.11.5 Non-submission of statement of expenditure**

As per Rule 73 of KMABR, the amount paid to Public Works Department and other implementing agencies should be treated as advance and a statement showing the outlay incurred during each month with up-to-date figures should be obtained and adjusted against the advances paid. The unspent balance of advance released for the work, if any, should be claimed immediately after the completion of work from the agency. In eight<sup>107</sup> of the 14 test-checked ULBs, it was observed that a sum of ₹7.60 crore was released to implementing agencies, during the period prior to 2012-13, to incur expenditure on behalf of ULBs. However, the statement of expenditure was not received and adjusted against the advances given by these ULBs. No action was taken by the ULBs to obtain the unspent amount also. This had resulted in incorrect exhibition of figures in accounts.

The DMA stated (March 2014) that three<sup>108</sup> ULBs had obtained UCs to the extent of ₹2.14 crore and other ULBs would obtain UCs after completion of works.

#### **3.11.6 Non-maintenance of cash book, bank book and registers**

##### **3.11.6.1 Cash books**

The TMC, Harapanahalli had not maintained cash books for the years 2008-09 to 2010-11 and partially maintained for the period during 2011-12 and 2012-13. Further, entries recorded were not attested by the officer designated for the purpose. The TP, Pandavapura had not maintained cash book to record Enterprise Fund related cash transactions during the period 2009-11.

The DMA stated (March 2014) that TP, Pandavapura had maintained the cash book and no reply was given in respect of TMC, Harapanahalli. The reply was not acceptable as the cash book was not produced during audit.

<sup>107</sup> Davanagere – ₹160.95 lakh, Devanahalli – ₹100.00 lakh, Harapanahalli – ₹114.64 lakh, Maddur – ₹136.82 lakh, Nagamangala – ₹20.00 lakh, Nelamangala – ₹80.00 lakh, Pandavapura – ₹139.76 lakh and Srirangapatna – ₹7.80 lakh

<sup>108</sup> Davanagere, Nelamangala and Srirangapatna

### **3.11.6.2 Bank books**

Para 12 of KMABR stipulates maintenance of bank book for each bank account operated to record the bank transactions. However, Harapanahalli and Nelamangala ULBs had not maintained bank books in respect of 23 and 21 bank accounts respectively and TMC, Devanahalli had not updated the bank books during 2012-13 (September 2013) for eight bank accounts operated by it.

The DMA accepted (March 2014) the objection relating to TMC, Harapanahalli but stated that TMC, Nelamangala maintained bank books relating to 16 out of 21 bank accounts. The reply was not acceptable as the bank books were not produced during audit.

### **3.11.6.3 Registers**

There were 12 test-checked ULBs which had not maintained the registers prescribed under KMABR as detailed in **Appendix 3.9**. In the absence of these records, Audit could not ensure the correctness of the figures exhibited under Assets and Liabilities in the accounts.

The DMA stated (March 2014) that nine ULBs were maintaining the registers and others would maintain them. The reply was not acceptable as the registers were not produced during audit.

## **3.12 Internal control**

The State Government did not have Internal Audit Wing to oversee the functions of ULBs. Further, it was observed that ULBs were not adhering to financial rules as the statement of expenditure was not obtained and annual accounts were not prepared and certified within the stipulated dates. Non-maintenance of cash books, bank books and mandatory registers indicated inadequate internal control system in ULBs.

The DMA stated (March 2014) that proposal for establishment of Internal Audit Wing to oversee the functions of ULBs had been submitted to the Government in September 2009.

## **3.13 Theft, loss, misappropriation, etc.**

During 2011-12, the Controller, SAD had reported misappropriation/defalcation cases involving ₹0.34 crore in ULBs of 13 districts of the State in his Administrative Report. However, the report also stated that no action was taken to recover the loss due to misappropriation/defalcation in ULBs reported to DMA.

The DMA stated (March 2014) that the action was being initiated on the reports of Controller, SAD in case of theft, loss, misappropriation, etc.

### 3.14 Comments on Accounts

#### 3.14.1 Discrepancies and omissions in test-checked ULBs

A review of the annual accounts of 14 test-checked ULBs showed the following deficiencies.

- Adverse balances under Reserves, Provisions and Earmarked fund,
- Non-creation of Revolving fund under Integrated Development of Small and Medium Towns Scheme (IDSMT),
- Non-provision for service tax and bad debts,
- Incorporation of loan amount drawn by other autonomous bodies on behalf of ULBs without details.

The details are given in **Appendix 3.10**.

The DMA stated (March 2014) that action would be taken to rectify the omissions.

##### 3.14.1.1 Non-reconciliation of Treasury Accounts

As per Rule 12 of KMABR, the ULBs are required to reconcile the balances with Treasury. However, CMC, Doddaballapura and CC, Hubli-Dharwar had not reconciled the differences of ₹8.56 crore and ₹3.59 crore, respectively, as at the end of March 2013. The remaining 12 test-checked ULBs had generally prepared the reconciliation statement of banks/treasury accounts during the period 2008-13 and the differences noticed were minor.

##### 3.14.1.2 Cash based system of Accounting

The CC, Hubli-Dharwar had followed the cash based system of accounting for recognition of income other than property tax like, rent, interest, etc., in contravention of Rule 19 of KMABR.

The DMA stated (March 2014) that action would be taken as per the KMABR.

##### 3.14.1.3 Depreciation

None of the test-checked ULBs had maintained fixed asset register to record full particulars including quantitative details and status of fixed assets during the five years ended 31 March 2013. In the absence of this, the correctness of depreciation of ₹161.65 crore charged off in the accounts during the period 2009-12 could not be ensured in audit.

The DMA stated (March 2014) that ULBs were being advised to maintain the Asset Register.

### **3.14.2 Discrepancies in FBAS of BBMP**

The Bommanhalli Zone had 62 bank accounts during 2012-13, out of which the following bank accounts relating to Assistant Controller of Finance, Executive Engineer (EE) and Assistant Revenue Officer, HSR Layout were test-checked for correctness of the figures adopted in the FBAS of BBMP. The discrepancies noticed are as under.

#### **(a) Account No. 03207 (Assistant Controller of Finance, Bommanahalli)**

- BBMP had not posted the balances in the FBAS General Ledger.
- Interest amount of ₹20.26 lakh had not been recorded in the FBAS Ledger accounts.
- An amount of ₹1.57 lakh paid on 20 May 2011 had not been recorded in the FBAS General Ledger.

#### **(b) Account No. 00038 (EE, Bommanahalli)**

- Cash book had not been written from 1 April 2009 to 23 October 2009.
- The EE had not reconciled the cash book figures with FBAS books. The differences were observed in the months of November 2009, January, February and March 2010, June, July and November 2012 and March 2013.
- Earnest Money Deposit amount received from online applicants were not taken to cash book by the EE and also to FBAS Ledger. The entire amount was kept outside the BBMP accounts.
- Interest earned on the Flexi Accounts of ₹1.29 crore during 2012-13 was not accounted as receipt by the EE and also in FBAS accounts.
- The cash book balance was not reconciled with bank account since January 2011.

#### **(c) Account No. 1434 (EE, Bommanahalli)**

- FBAS accounted for ₹87,22,604 towards payment made instead of ₹86,90,237 shown in cash book on 22 May 2009.
- There was no system to cross check/reconcile discrepancies between FBAS and Divisional Office figures.

#### **(d) Account No. 93290 (Assistant Revenue Officer, HSR Layout )**

The FBAS section had made available only General Ledger for two months *i.e.* February 2010 and March 2010. However, no records such as Cash Book, Daily Collection Book with details of receipt from

agencies like Bangalore One and amounts received online were made available to Audit by the Assistant Revenue Officer, HSR Layout.

The above deficiencies indicate that the figures adopted in FBAS cannot be fully relied upon.

### 3.15 Others

#### 3.15.1 Time-barred cheques

Rule 51 of KMABR stipulates that the entry for the time-barred (stale) cheque should be reversed by crediting the amount which was originally debited. However, as seen from the respective bank reconciliation statements prepared by three<sup>109</sup> ULBs as on 31 March 2013, there were time-barred cheques amounting to ₹5.42 crore without reversal.

#### 3.15.2 Physical verification of stores

Audit observed that there was no system of conducting physical verification of stores in 13 out of 14 test-checked ULBs. In CC, Hubli-Dharwar, physical verification of stores was being carried out. The CMC, Doddaballapura stated (November 2013) that they had carried out the physical verification. However, as verified from the Stock Verification Report enclosed to the reply, the physical verification of stores was done only during 2013-14.

The DMA stated (March 2014) that physical verification of stores would be conducted in future.

### 3.16 Conclusion

In spite of preparation of accounts by ULBs, there was shortfall in certification of accounts by CAs during the years 2008-09 to 2012-13. Budgets prepared by ULBs were not realistic as evidenced by overall savings in both receipts and payments *vis-à-vis* budget provisions. Internal control mechanism was inadequate as there was no Internal Audit Wing and there were instances of non-maintenance of cash books, bank books and control registers, non-submission of statement of expenditure by the external agencies and excess of payments over budget sanctions.

There were deficiencies and omissions in the annual accounts of BBMP and other ULBs.

### 3.17 Recommendations

- Expenditure should not be incurred in excess of provision.
- Accounts should be prepared and certified timely.
- Figures in FBAS should be correctly adopted from the source records.

<sup>109</sup> CC, Davanagere - ₹5.30 crore, CMC, Doddaballapura - ₹0.02 crore and TMC, Harapanahalli - ₹0.10 crore

- All prescribed Registers should be maintained by the ULBs.
- An Internal Audit Wing should be established for ULBs.
- Details of fixed assets need to be maintained.