
Part - B
Urban Local Bodies

Chapter - III -
An Overview of the Functioning,
Accountability Mechanism and Financial
Reporting issues of Urban Local Bodies

Chapter III

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Urban Local Bodies

An Overview of the Functioning of the Urban Local Bodies (ULBs) in the State

3.1 Introduction

Government of India (GoI) enacted (1992) 74th amendment to the Constitution to empower Urban Local Bodies (ULBs) as local self-governing institution to ensure a more participative governing structure in the country. GoI further entrusted the ULBs with implementation of various socio-economic development schemes, including those enumerated in the Twelfth Schedule to the Constitution.

The States, in turn were required to entrust these local bodies with such powers, functions and responsibilities as to enable them to function as effective institutions of self-governance and implement schemes for economic development and social justice.

Accordingly, State Government enacted Andhra Pradesh Municipal Corporations Act, 1994 to set up Municipal Corporations in the State. Provisions of Hyderabad Municipal Corporation (HMC) Act, 1955 including the provisions relating to levy and collection of taxes or fees were extended to all other Municipal Corporations in the State of Andhra Pradesh. Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965¹.

3.1.1. State profile

As per the 2011 census, the total population of the 10 districts of Telangana State was 3.52 crore, of which 1.36 crore (39 *per cent*) lived in urban areas. A profile of urban Telangana is given below:

Table 3.1

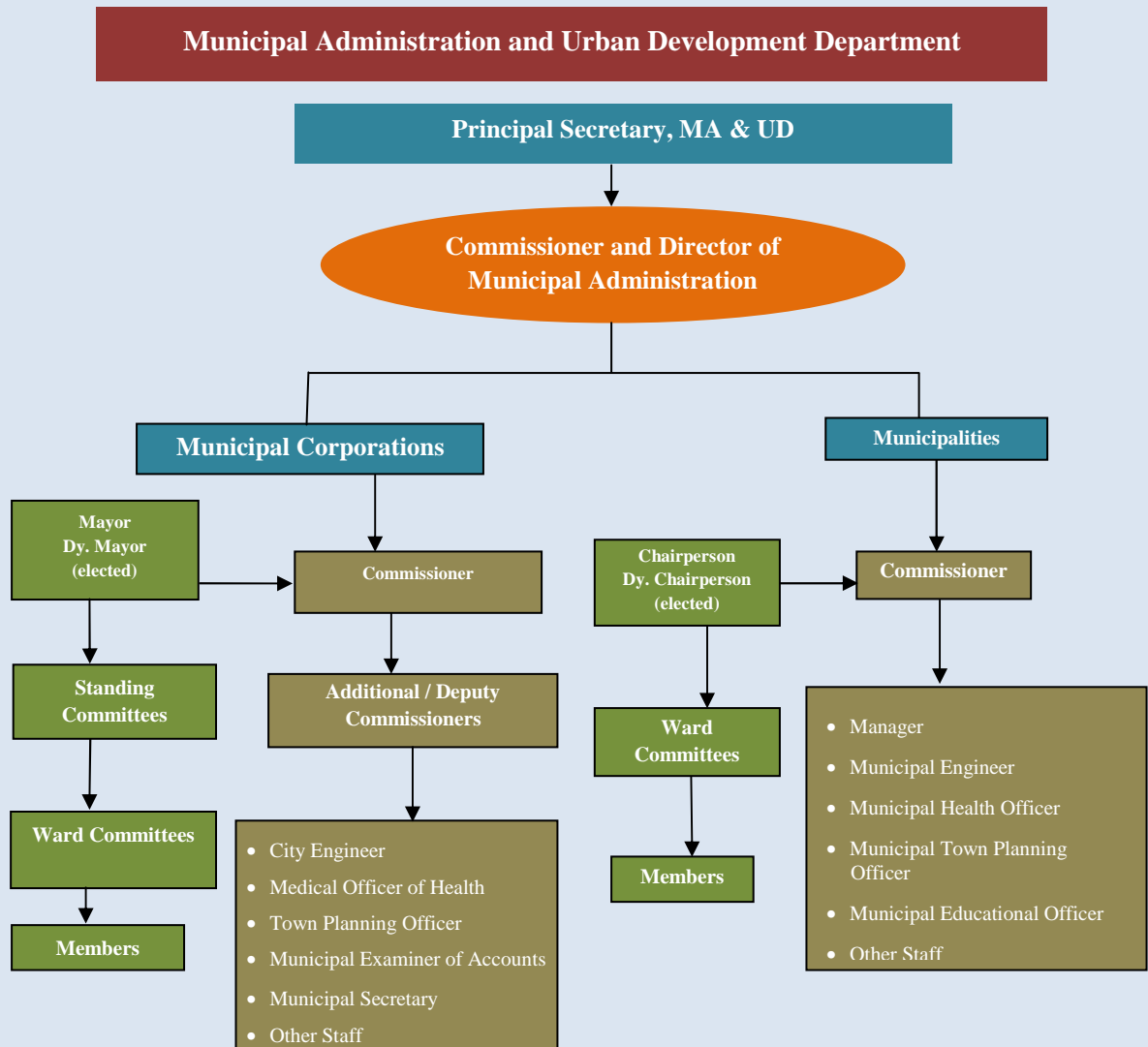
Sl. No.	Indicator	Unit	State
1.	Urban population	Crore	1.36
2.	Urban sex ratio	Females per 1000 Males	970
3.	Urban literacy rate	Percentage	81.09
4.	Municipal Corporations	Number	6
5.	Municipalities	Number	37
6.	Nagar Panchayats	Number	25
Total number of ULBs (4+5+6)			68

Source: Information furnished (September 2015) by Commissioner and Director Municipal Administration (CDMA) and 'Telangana at a glance' published (January 2015) by State Government

¹ Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

3.2 Organisational set-up of ULBs

Organisational arrangements for the ULBs, inclusive of Government machinery and elected representatives in the State, are as follows.



Except Greater Hyderabad Municipal Corporation, where the Commissioner is directly under the control of Principal Secretary, MA&UD

The ULBs are under the administrative control of the Commissioner and Director of Municipal Administration (CDMA). The elected members of ULBs are headed by Chairperson. They convene and preside over the meetings of Standing committees and General body. The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. Day-to-day administration of all the ULBs rests with the Commissioner.

3.3 Functioning of ULBs

The 74th Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in Twelfth Schedule to the Constitution. All the functions mentioned in this Schedule were devolved to ULBs in the State except 'Fire Services'.

3.4 Formation of various committees

The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. In respect of the Corporations, Standing Committees, comprising the Chairpersons of all the Ward Committees under them, meet at intervals prescribed by the Act. Similarly, in respect of the Municipalities, the Municipal Ward Committees meet at prescribed intervals to transact business, make regulations and scrutinize municipal accounts. The main functions of the Ward Committees (both Municipalities as well as Corporations) include provision and maintenance of sanitation, water supply and drainage, street lighting, roads, market places, playgrounds, school buildings, review of revenue collections, preparation of annual budget etc. Department stated (September 2015) that out of 68 ULBs, ward committees were constituted only in Bodhan ULB.

3.5 Audit arrangement

3.5.1. Primary Auditor

Director, State Audit (DSA) functioning under the administrative control of Finance Department, is the statutory auditor for ULBs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare a Consolidated State Audit and Review Report and present it to the State Legislature. The DSA has two Regional Offices and nine District offices in Telangana State. As per Section 10 of the Act, DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of local authorities or other authorities and such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

As per the information furnished (May 2015) by DSA, audit of 100 accounts were in arrears. DSA attributed (May 2015) non-production of records by Municipal Corporations, Municipalities and Nagar Panchayats. As per the information furnished (May 2015) by DSA, no surcharge proceedings were issued.

DSA submitted Consolidated State Audit and Review Reports up to the year 2010-11 to the Finance department and the Government tabled (February 2014) the Report in the State Legislature. DSA stated (May 2015) that Consolidation of Report for 2011-12 was completed and printing work was not taken up due to lack of funds. Consolidation of Report for the years 2012-13 and 2013-14 is yet to be taken up. Audit of the accounts for the year 2014-15 is under progress. Some of the major findings noticed in 2010-11 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustments etc.

3.5.2. Audit by Comptroller and Auditor General of India

CAG conducts audit of ULBs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) the responsibility for providing Technical Guidance and

Supervision (TGS) in connection with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

Based on test check of ULBs a consolidated report (TGS Note) is prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2014-15 was issued in November 2015.

Planning and conduct of audit

Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2014-15, 15 ULBs (three Municipal Corporations and 12 Municipalities) falling under the department of Municipal Administration and Urban Development were subjected to performance and compliance audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2014 was tabled in the State Legislature in March 2015.

3.6 Response to audit observations

After completion of audit, Inspection Reports (IRs) containing audit findings are issued to head of the unit concerned. Heads of offices and next higher authorities are required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs are also discussed in meetings at district level by officers of the departments with officers of Principal Accountant General's office.

As of August 2015, 57 IRs containing 1,278 paragraphs pertaining to the period up to 2014-15 were pending settlement as given below. Of these, first replies have not been received in respect of 21 IRs and 663 paragraphs.

Table 3.2

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2010-11	35	580	3	79
2011-12	0	0	0	0
2012-13	10	301	8	256
2013-14	3	131	3	140
2014-15	9	266	7	188
Total	57	1278	21	663

Lack of action on IRs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports.

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

3.7 Ombudsman

Establishment of an independent Local body ombudsman system is one of the conditions to be complied with to have access to the performance grants recommended by the Thirteenth Finance Commission (2011-15). Though independent ombudsman system was not adopted in the state, the State Government complied with this condition by making amendments with the existing AP Lokayukta Act, 1983. Hence grants were released by GoI.

3.8 Social Audit

Social Audit setup is yet to be constituted for programmes/schemes implemented by Department of Municipal Administration and Urban Development (MA&UD).

3.9 Property Tax Board

Thirteenth Finance Commission stipulated that State Government must put in place a Property Tax Board to assist all Municipalities and Municipal Corporations to put in place an independent and transparent procedure for assessing property tax. Accordingly, State Government issued (March 2011) orders for constituting Property Tax Board and amended (2012) Andhra Pradesh Municipalities Act, 1965 to bring the Legislative framework for the functioning of Andhra Pradesh State Property Tax Board.

State Government sanctioned (October 2013) 28 posts under 11 categories for effective functioning of the board. CDMA is in charge of the post of Chairman of Property Tax Board. As chairman Property Tax Board, Commissioner offered his views on the monthly rental values proposed by newly constituted Municipalities/Nagar Panchayats for publication of draft notification for levy of property tax.

3.10 Service Level Benchmark

Thirteenth Finance Commission stipulated that State Government must notify or cause the Urban Local Bodies to notify the service standards of four core sectors viz., water supply, sewerage, storm water drainage and solid waste management to be achieved by them by the end of fiscal year. State Government issued (March 2014) gazette notification fixing targets to be met by ULBs during 2014-15 under these sectors.

3.11 Fire hazard response

Guidelines of the Thirteenth Finance Commission stipulates that all Municipal Corporations with a population of more than one million must put in place a fire hazard response and mitigation plan and to notify in the State Gazette for demonstrating compliance by end of March 2014. Accordingly, State Government

notified (September 2014) the fire hazard response and mitigation plans to be implemented during the year 2014-15 by Greater Hyderabad Municipal Corporation with a population of more than one million.

3.12 Submission of Utilisation Certificates (UCs)

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI. Scrutiny of records of nine ULBs during 2014-15 revealed that in respect of two² ULBs, UCs amounting to ₹1.15 crore were yet to be furnished as of March 2015.

Financial Reporting Issues

3.13 Sources of funds

Resource base of ULBs consists of their own revenue generated by collection of tax³ and non-tax⁴ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts⁵. The Commissioner concerned is responsible for reporting the utilisation of funds in respect of Corporations and Municipalities.

Summary of receipts of ULBs for the years 2010-15 are given below. Receipts for the period 2010-14 pertain to the composite state of Andhra Pradesh whereas the receipts for 2014-15 pertain to the state of Telangana.

Table 3.3

(₹ in crore)

Sl. No.	Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
1	Own Revenue	2,013.74	2,297.17	2,898.52	3,183.43	371.28
2	Assigned Revenue ⁶	684.00	795.70	819.28	695.66	65.97
3	State Government Grants	430.00	608.00	921.00	1,358.60 ⁷	NA**
4	GoI Grants					
	Scheme funds	734.27	704.24	378.36	-	NA**
	12 th and 13 th Finance Commission	177.78	111.85	Nil	-	
5	Other Receipts	Nil	Nil	Nil	275.60*	20.32
	Total	4,039.79	4,516.96	5,017.16	5,513.29	457.57

Source: Data furnished by Commissioner and Director of Municipal Administration

* Other receipts include loans, accrued interest, penalties received, forfeited security deposits etc.

** Data not made available

² Bhongir and Jagityal ULBs

³ Property tax, advertisement fee etc.,

⁴ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

⁵ Donations, interest on deposits etc.,

⁶ Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue

⁷ This includes grants received from GoI

3.13.1. Financial Assistance to ULBs

Financial assistance is provided by State Government to ULBs by way of grants and loans. Details of the financial assistance provided by the Government to ULBs, for the years 2010-14 pertaining to the composite state of Andhra Pradesh and for 2014-15 pertaining to the state of Telangana, are given below:

Table 3.4

(₹ in crore)

Sl. No.	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Budget	180.80	177.45	177.45	483.45	287.49	1,306.64
Actual Release	123.95	91.42	90.57	441.37	249.86	997.17

Source: Information furnished by CDMA

3.13.2. Fund flow arrangement in flagship programmes

Details of fund flow with regard to the flagship programmes of GoI, released to ULBs are given below:

Scheme	Fund flow																																				
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	<p>This flagship programme was launched in December 2005 to encourage reforms and fast track planned development of identified cities, with focus on efficiency in urban infrastructure and service delivery mechanisms etc. Initially the mission period was for seven years (2005-12), which was extended upto March 2017. The four components under JNNURM are Urban Infrastructure and Governance (UIG), Basic Services to the Urban Poor (BSUP), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and Integrated Housing and Slum Development Programme (IHSDP). The details of funds released and expenditure incurred on JNNURM projects as of March 2015 are given below:</p> <p style="text-align: right;">(₹ in crore)</p> <table border="1"> <thead> <tr> <th>Component</th> <th>No. of projects</th> <th>Projects completed</th> <th>Approved cost</th> <th>Releases</th> <th>Expenditure</th> </tr> </thead> <tbody> <tr> <td>UIG</td> <td>23</td> <td>12</td> <td>2,661.86</td> <td>1,011.44</td> <td>2,245.65</td> </tr> <tr> <td>BSUP</td> <td>17</td> <td>5</td> <td>1,642.45</td> <td>848.80</td> <td>1,342.32</td> </tr> <tr> <td>UIDSSMT</td> <td>32</td> <td>27</td> <td>980.16</td> <td>989.61</td> <td>982.66</td> </tr> <tr> <td>IHSDP</td> <td>29</td> <td>15</td> <td>308.79</td> <td>223.78</td> <td>270.71</td> </tr> <tr> <td>Total</td> <td>101</td> <td>59</td> <td>5,593.26</td> <td>3,073.63</td> <td>4,841.34</td> </tr> </tbody> </table>	Component	No. of projects	Projects completed	Approved cost	Releases	Expenditure	UIG	23	12	2,661.86	1,011.44	2,245.65	BSUP	17	5	1,642.45	848.80	1,342.32	UIDSSMT	32	27	980.16	989.61	982.66	IHSDP	29	15	308.79	223.78	270.71	Total	101	59	5,593.26	3,073.63	4,841.34
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Andhra Pradesh Municipal Development Project (APMDP)	<p>Andhra Pradesh Municipal Development Project (APMDP) is implemented (March 2010) with the assistance of World Bank for providing basic amenities to the urban population. The project comprises of four components viz., (i) State level policy and institutional development, (ii) Capacity enhancement, (iii) Urban infrastructure and (iv) Project management and technical assistance. Initially, State Government releases funds and actual expenditure reported in quarterly 'Interim unaudited financial reports' by Chartered Accountants would be reimbursed by World Bank.</p> <p>Against approved cost of ₹882.12 crore for Telangana State, State Government released ₹129.53 crore to the implementing agencies and of which ₹110.03 crore was incurred by them as of March 2015.</p>																																				

3.13.3. Application of funds

Details of expenditure incurred by ULBs for the years 2010-14 pertain to composite state of Andhra Pradesh and 2014-15 pertain to state of Telangana.

Table 3.5

(₹ in crore)

Sl. No.	Type of expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
1	Revenue expenditure	2,621.40	2,941.85	3,153.33	3,418.10	253.82
2	Capital expenditure	1,399.83	1,253.08	1,166.59	1,573.30	148.51
	Total	4,021.23	4,194.93	4,319.92	4,991.40	402.33

Source: Data furnished by Commissioner and Director of Municipal Administration

3.14 Recommendations of the State Finance Commission (SFC)

As per Article 243Y of the Constitution, State Government has to constitute SFC once in five years to recommend devolution of funds from the State Government to Local bodies. Third SFC was constituted in January 2003 and submitted its report in 2008.

However, State Government issued orders for implementation of the recommendations of SFC only in December 2013. Against ₹489.38 crore recommended by SFC for devolution of funds to ULBs every year, Government agreed to release only ₹123.12 crore per annum. While ₹319.52 crore per annum was not accepted by the Government, ₹46.74 crore per annum was treated as fulfilled on the grounds of budget & allocation during earlier years in respect of salaries paid by Government. As parallel State Finance Commission was not appointed by December 2013, the committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period 2010-2015 also. Details of releases during 2010-15 were not furnished despite specific request.

3.15 Recommendations of the Thirteenth Finance Commission

Based on the recommendations of Thirteenth Finance Commission, GoI releases funds to State Government for distributing among the Municipal Corporations and Municipalities in the State. The grant is released under two components (basic component and performance based component). A portion of basic as well as performance grant is allocated to special areas⁸. GoI allocated (2010-15) ₹894.80 crore to ULBs of Telangana state. During 2010-15, ₹684.27 crore was released to ULBs of Telangana state, of which ₹447.43 crore (65 per cent) was expended.

⁸ Schedule areas listed under Schedule-VI of Constitution

3.16 Maintenance of Records

3.16.1. Unspent balances in bank accounts of closed schemes

Scheme guidelines stipulate surrender of unspent amount into Government account in respect of closed schemes. State level authorities of the schemes concerned and CDMA should watch the balances of closed schemes lying in the accounts of different ULBs. Scrutiny of records of nine ULBs during 2014-15 revealed that in respect of four⁹ ULBs, an amount of ₹5.28 crore remained unspent in the accounts of closed schemes.

3.16.2. Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. Scrutiny of records of nine ULBs during 2014-15 revealed that in respect of six¹⁰ ULBs, funds amounting to ₹2.91 crore advanced to staff for various purposes during 2006 to 2015 remained unadjusted as of March 2015.

3.16.3. Non-reconciliation of departmental figures with treasury

As per Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent drawals. Scrutiny of records of nine ULBs during 2014-15 revealed that in respect of two¹¹ ULBs, reconciliation was pending from 2011 onwards.

3.16.4. Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, procedure for fixing responsibility for any loss sustained by Government and action to be initiated for recovery. State Government ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis and the Chief Secretary to Government to review these cases once in six months with all the Secretaries concerned.

Misappropriation cases noticed by Director, State Audit during 2013-14 yet to be disposed off as of May 2015 are given below:

Table 3.6

(₹ in lakh)

Unit	2013-14	
	No. of cases	Amount
Municipal Corporations	83	53.65
Municipalities	14	6.72
Nagar Panchayats	0	0
Total	97	60.37

Source: Information furnished by Director, State Audit

⁹ Bhongir, Jagityal, Ramagundam and Warangal ULBs

¹⁰ Bhongir, Jagityal, Nizamabad, Ramagundam, Siddipet and Warangal ULBs

¹¹ Nizamabad and Warangal ULBs

DSA stated (May 2015) that no misappropriation cases were noticed in six¹² districts and audit of remaining districts was pending.

3.17 Maintenance of Accounts by ULBs

GoI in consultation with the Comptroller and Auditor General of India, 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 it with appropriate modifications to meet their specific requirements. Accordingly, a Steering Committee was constituted (May 2005) by State Government and Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. State Government issued orders in August 2007 for adoption of APMAM in all the ULBs in the State. Similarly, other manuals viz., Andhra Pradesh Municipal Budget Manual and Andhra Pradesh Municipal Asset Manual, were also accepted by State for implementation (August 2007) by ULBs. Finalisation of 72 accounts by 31 ULBs was in arrears as of May 2015.

3.18 Maintenance of database and the formats therein on the finances of ULBs

The ULBs have adopted the software developed by the Centre for Good Governance of Model Accounting System for maintenance of Accounts. Double Entry Accrual Based Accounting System (DEABAS) is being adopted in 40 out of 67 ULBs (excluding Greater Hyderabad Municipal Corporation (GHMC)). The Department stated (October 2015) that remaining 27 ULBs had been constituted recently and action was being initiated for implementing DEABAS.

3.19 Conclusion

There were delays in compilation of accounts by ULBs, as 56 *per cent* posts were vacant with consequent delays in their audit by the Director, State Audit. Double Entry Accrual Based Accounting System (DEABAS) was yet to be adopted by 27 out of 67 ULBs. Maintenance of database formats was not implemented as planned due to the shortage of staff. Accountability framework and financial reporting in ULBs was inadequate as evidenced by non-furnishing of utilisation certificates, non-remittance of unspent balances of closed schemes and advances pending adjustment, non-reconciliation of departmental figures with treasury and non-disposal of misappropriation cases.

¹² Karimnagar, Mahbubnagar, Nalgonda, Nizamabad, Rangareddy and Warangal ULBs

