
Part - B
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 had (GoI) enacted (1992) 74th amendment to the Constitution to empower Urban Local Bodies (ULBs) as local self-governing institutions in the country to perform effectively. 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 had 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

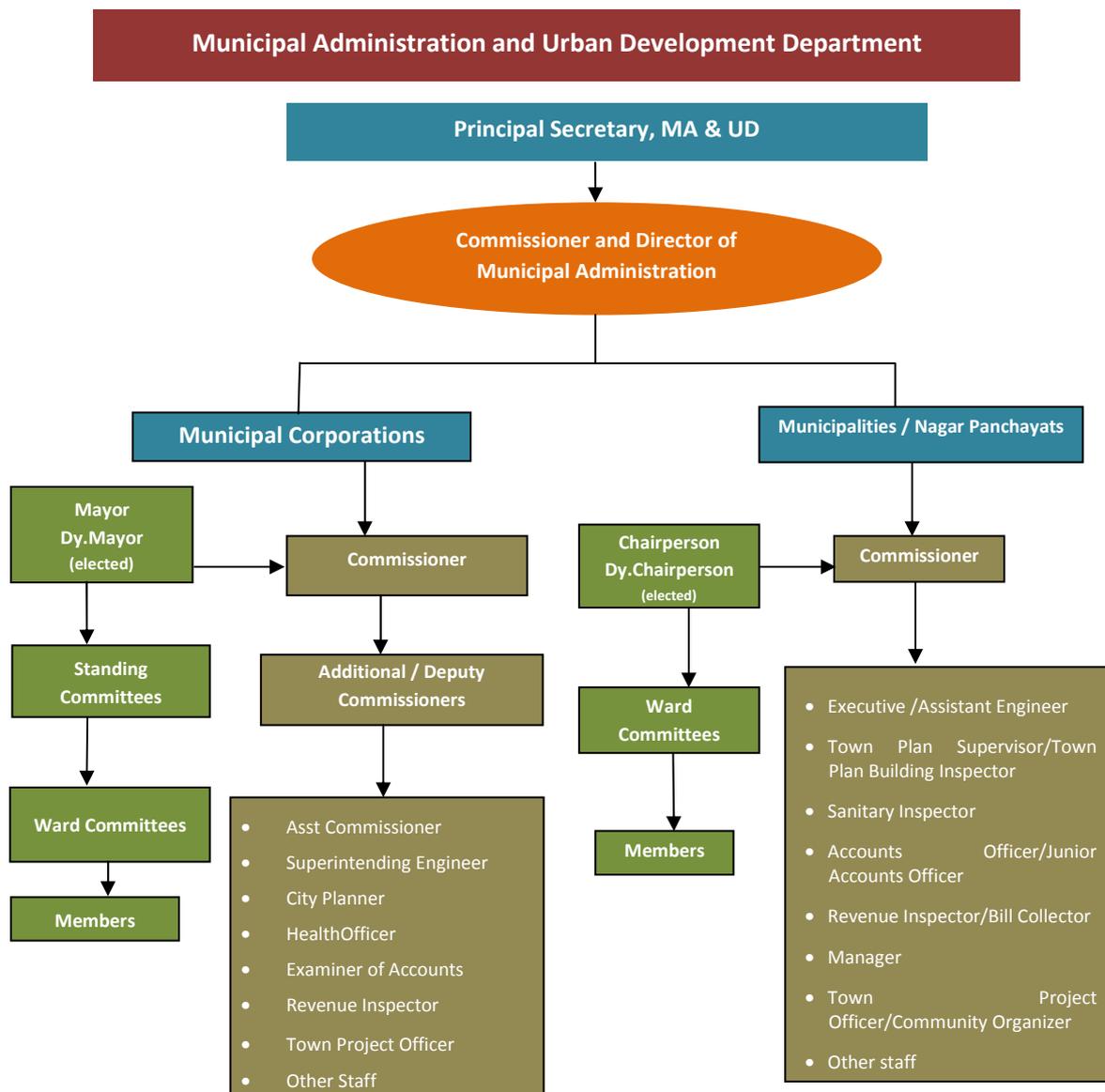
S.No.	Indicator	Unit	State
1	Urban population	Crore	1.36
2	Urban sex ratio	Females per 1000 Males	970
3	Urban literacy rate	Percentage	81.09
4	Municipal Corporations	Number	6
5	Municipalities	Number	39
6	Nagar Panchayats	Number	23
Total number of ULBs (4+5+6)			68

Source: Information furnished (November 2016) by Commissioner and Director Municipal Administration (CDMA) and 'Telangana at a glance' published (January 2016) 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 scrutinise 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. The Department stated (November 2016) that out of 68 ULBs, ward committees were constituted only in 20 ULBs.

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 for presentation 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 (November 2016) by DSA, audit of 41 ULBs' accounts were in arrears. DSA attributed (November 2016) this to non-production of records by Municipalities and Nagar Panchayats. As per the information furnished (November 2016) by DSA, no surcharge proceedings were issued during 2015-16.

DSA stated (November 2016) that Consolidated Audit and Accounts Report for 2011-12 was submitted to Finance Department and the Government tabled the Report in State Legislature, on 31 March 2016. Consolidation of Reports for the years 2012-13 and 2013-14 were under progress. Some of the major findings observed in 2011-12 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustment 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 2015-16 was issued in July 2016.

Planning and conduct of audit

The 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 2015-16, 10 ULBs (Nizamabad Municipal Corporation, three Municipalities² and six Nagar Panchayats³) falling under the department of Municipal Administration and Urban Development were subjected to compliance audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2015 was tabled in the State Legislature on 30 March 2016.

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 September 2016, 67 IRs containing 1,655 paragraphs pertaining to the period up to 2015-16 were pending settlement as given below. Of these, first replies have not been received in respect of 21 IRs and 813 paragraphs.

² Armoor, Mahabubnagar, Sangareddy

³ Badangpet, Gajwel, Huzurnagar, Ibrahimpatnam, Peddapally, Vemulavada

Table 3.2

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2011-12	35	571	0	0
2012-13	10	289	8	256
2013-14	3	131	3	131
2014-15	9	266	1	53
2015-16	10	398	9	373
Total	67	1,655	21	813

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

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

3.7 Ombudsman

The Thirteenth Finance Commission had recommended establishment of an independent Local body ombudsman system. Though an independent ombudsman system was not adopted in the state, the State Government complied with this condition by making amendments to the existing AP Lokayukta Act, 1983.

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

The Thirteenth Finance Commission had 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 had 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 had sanctioned (October 2013) 28 posts under 11 categories for effective functioning of the board. The CDMA stated (November 2016) that a proposal was submitted (April 2014) to Government for division of posts sanctioned for Property Tax Board between AP and Telangana as per AP Reorganisation

Act 2014. Orders are awaited. CDMA is authorised to discharge the functions of Chairman. After the board is completely divided / created separately for Telangana State, the Chairperson and other staff will be appointed on regular basis.

3.10 Service Level Benchmark

The Thirteenth Finance Commission had stipulated that State Government must notify or cause the Urban Local Bodies to notify the service standards of four core sectors *i.e.*, 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. From 2015-16 onwards publication of SLBs under these sectors has to be prepared by the ULBs concerned.

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. CDMA did not furnish the status with respect to other Municipal Corporations during 2015-16.

Financial Reporting Issues

3.12 Sources of funds

Resource base of ULBs consists of their own revenue generated by collection of tax⁴ and non-tax⁵ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts⁶. 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 2011-16 are given in the table below. Receipts for the period 2011-14 pertain to the composite state of Andhra Pradesh whereas the receipts for the period 2014-16 pertain to the state of Telangana.

⁴ Property tax, advertisement fee etc.,

⁵ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

⁶ Donations, interest on deposits etc.,

Table 3.3

(₹ in crore)

S.No.	Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
1	Own Revenue	2,297.17	2,898.52	3,183.43	371.28	1,616.50
2	Assigned Revenue ⁷	795.70	819.28	695.66	65.97	418.36
3	State Government Grants	608.00	921.00	1,358.60 ⁸	NA**	NA**
4	Government of India Grants					
	Scheme funds	704.24	378.36	-	NA**	NA**
	12 th and 13 th Finance Commission	111.85	Nil	-		25.66
5	Other Receipts	Nil	Nil	275.60*	20.32	203.37#
	Total	4,516.96	5,017.16	5,513.29	457.57	2263.89

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

Data pertains to only GHMC

3.12.1 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 2011-14, pertaining to the composite state of Andhra Pradesh and for the period 2014-16 pertaining to the state of Telangana, are given below:

Table 3.4

(₹ in crore)

Details	2011-12	2012-13	2013-14	2014-15	2015-16*	Total
Budget	177.45	177.45	483.45	287.49	547.18	1,673.02
Actual Release	91.42	90.57	441.37	249.86	12.06	885.28

Source: Data furnished by Commissioner and Director of Municipal Administration

*Information furnished by GHMC alone

3.12.2 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 up to 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).</p> <p>The details of funds released and expenditure incurred on JNNURM projects as of March 2016 are given below.</p>

⁷ 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

⁸ This includes grants received from GoI

(₹ in crore)					
Component	No. of projects	Projects completed	Approved cost	Releases*	Expenditure
UIG	23	12	2,661.86	1,011.44	2,284.98
BSUP	17	5	1,642.45#	848.80	1,387.45
UIDSSMT	32	27	980.16	999.41	987.49
IHSDP	29	15	308.79#	225.60	274.21
Total	101	59	5,593.26	3,085.25	4,934.13

TUFIDC stated that the cost of BSUP & IHSDP projects was revised to ₹ 1,631.81 crore and ₹ 302.50 crore respectively.

*Releases in respect of UIDSSMT & IHSDP also include ULB share.

<p>Andhra Pradesh Municipal Development Project now Telangana Municipal Development Project</p>	<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 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 had released ₹ 254.53 crore to the implementing agencies. Details of expenditure incurred were not made available to Audit. However, it was stated that as of March 2016, an amount of ₹ 1.26 crore was available in Public Deposit Account / bank account.</p>
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3.12.3 Application of funds

Details of expenditure incurred by ULBs for the years 2011-14, pertaining to composite state of Andhra Pradesh and for the period 2014-16, pertaining to state of Telangana are given below:

Table 3.5

(₹ in crore)

S.No.	Type of expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue expenditure	2,941.85	3,153.33	3,418.10	253.82	1,819.62
2	Capital expenditure	1,253.08	1,166.59	1,573.30	148.51	1,233.82
Total		4,194.93	4,319.92	4,991.40	402.33	3,053.44

Source: Data furnished by Commissioner and Director of Municipal Administration

3.13 Recommendations of the State Finance Commission

As per Article 243Y of the Constitution, State Government has to constitute State Finance Commission (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 had issued orders for implementation of the recommendations of the SFC only in December 2013. Against ₹ 489.38 crore

recommended by the SFC for devolution of funds to ULBs every year, Government agreed to release only ₹123.12 crore per annum. While ₹319.52 crore was not accepted by the Government, ₹46.74 crore per annum recommended towards per capita grant, increase in half yearly Dearness Allowance, Pension grant, salaries of medical officers and staff and for medicines was not accepted on the grounds that the payment of salaries and pensions to municipal employees were being borne by Government from 1 April 2009.

As no State Finance Commission was appointed after December 2013, by the Government, the committee of Ministers and Secretaries had felt that recommendations of Third Finance Commission could be applied for the period 2011-2016 also. Details of releases during 2015-16 were not furnished despite specific request.

3.14 Recommendations of Central Finance Commissions

3.14.1 Thirteenth Finance Commission

Based on the recommendations of the 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). During 2010-15, ₹684.27 crore was released to ULBs of Telangana state, of which ₹447.43 crore (65 per cent) was incurred. There were no releases during 2015-16.

3.14.2 Fourteenth Finance Commission

The Fourteenth Finance Commission (FFC) has recommended assured transfers to the local bodies for planning and delivering basic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting, burial and cremation grounds and any other services smoothly and effectively within the functions assigned to them under relevant legislation. Grants are released under two components *i.e.*, Basic grant and Performance grant. The division of grants between Basic and Performance Grant is in the ratio of 80:20.

An amount of ₹291.95 crore was released by GoI in the year 2015-16. The amount was expended for which UCs were furnished.

3.15 Maintenance of Records

3.15.1 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. On scrutiny of records of 10 ULBs during 2015-16, it was seen that in respect of Ibrahimpatnam Nagar Panchayat, an amount of ₹1.95 crore remained unspent in the accounts of closed schemes.

3.15.2 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. On scrutiny of records of 10 ULBs during 2015-16, it was seen that in respect of Gajwel Nagar Panchayat of Medak district funds amounting to ₹ 7.52 lakh advanced to staff for various purposes during 2013-14 to 2015-16 remained unadjusted as of March 2016.

3.15.3 Non-reconciliation of departmental figures with treasury

As per Andhra Pradesh Budget Manual (Para 19.6), DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent drawals. On scrutiny of records of 10 ULBs during 2015-16, it was seen that in respect of three⁹ ULBs, reconciliation was pending from 2012-13 onwards.

3.15.4 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 had 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 up to 2015-16, yet to be disposed of as of October 2016, are detailed below:

Table 3.6

(₹ in crore)

Unit	As of 31 March 2016	
	No. of cases	Amount
Municipal Corporations	87	23.89
Municipalities	5,561	11.45
Nagar Panchayats	28	1.82
Total	5,676	37.16

Source: Information furnished by Director, State Audit

DSA stated (October 2016) that no misappropriation cases were noticed in 2015-16.

⁹ Sangareddy and Mahbubnagar, Armoor ULBs

3.16 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 had issued orders in August 2007 for adoption of APMAM in all the ULBs in the State. Similarly, other manuals such as Andhra Pradesh Municipal Budget Manual and Andhra Pradesh Municipal Asset Manual, were also accepted by State for implementation (August 2007) by ULBs. It was seen that in respect of Badangpet NP, Ranga Reddy district, annual accounts for the year 2013-14 were not prepared completely¹⁰ and the accounts for 2014-15 were not prepared.

3.17 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. CDMA stated that maintenance of database format of the finances of ULBs was adopted in all 68 ULBs. On scrutiny of records of ten ULBs audit noticed that three¹¹ ULBs were not maintaining accounts in Double Entry Accrual Based Accounting System (DEABAS).

3.18 Conclusion

There were delays in compilation of accounts by ULBs with consequent delays in their audit by the Director, State Audit. Double Entry Accrual Based Accounting System (DEABAS) was yet to be adopted by ULBs. 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.

¹⁰ Out of three sets (Receipts and Payments account, Income and Expenditure account and Balance sheet), only Receipts and Payments account was prepared

¹¹ NP Peddapally (Karimnagar), NP Badangpet, Ibrahimpatnam (Ranga Reddy)

