

CHAPTER I

OVER VIEW OF THE ACCOUNTS AND FINANCES OF LOCAL BODIES

CHAPTER SUMMARY

- There was no system in place to consolidate the details relating to the revenue and expenditure of PRIs.
- The Andhra Pradesh Municipal Accounts Manual was yet to be adopted in all the ULBs in the State except Greater Hyderabad Municipal Corporation.
- The Budget and Accounts formats for PRIs are yet to be implemented in Mandal Praja Parishads and Gram Panchayats.
- District Planning Committees were not yet constituted in all the districts though Government issued orders for their constitution.
- TFC grants were mis-utilised/diverted.
- Data Base grants remained unutilised and parked in fixed deposits.

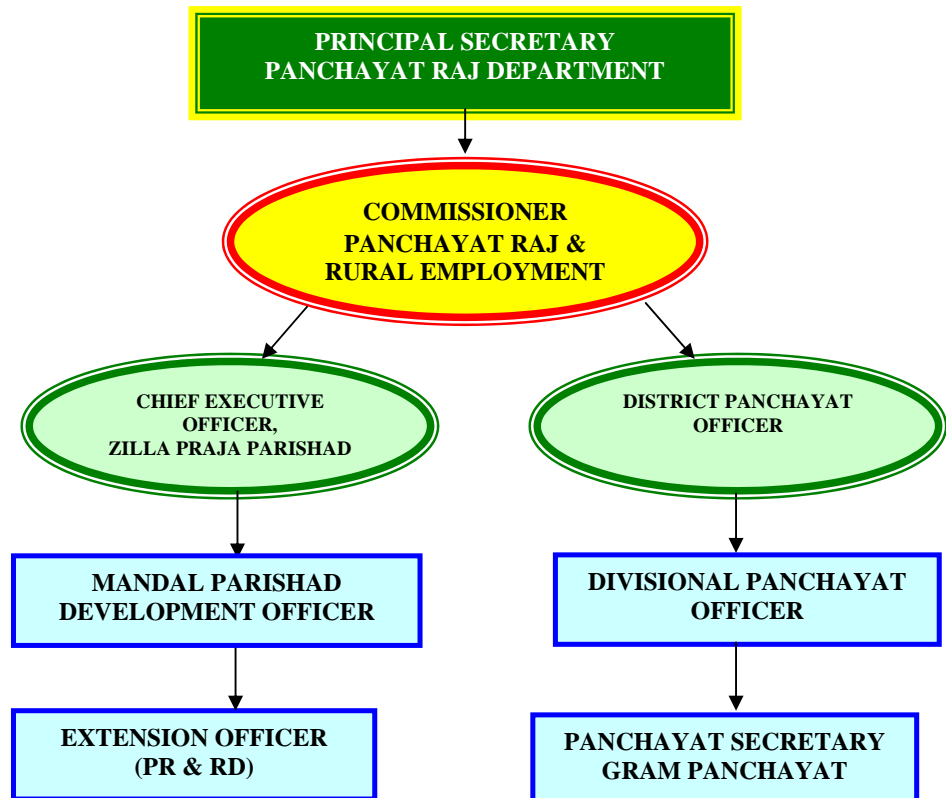
1.1 PANCHAYAT RAJ INSTITUTIONS

1.1.1 Introduction

In conformity with 73rd Constitutional Amendment Act, the Andhra Pradesh Panchayat Raj (APPR) Act was enacted in 1994 repealing all existing Acts, to establish a three-tier system at the Gram Panchayat, Mandal Praja Parishad and Zilla Praja Parishad level. As per the 2001 census, the total population of Andhra Pradesh State was 7.57 crore, of which 5.52 crore (72.92 per cent) lived in rural areas. As on 31 March 2007, there were 22927 Panchayat Raj Institutions (PRIs) in the State consisting of 22 Zilla Praja Parishads (ZPPs), 1098 Mandal Praja Parishads¹ (MPPs) and 21807 Gram Panchayats (GPs). Elections to the PRIs were conducted in the months of July and August 2006 and newly elected members took charge in October 2006.

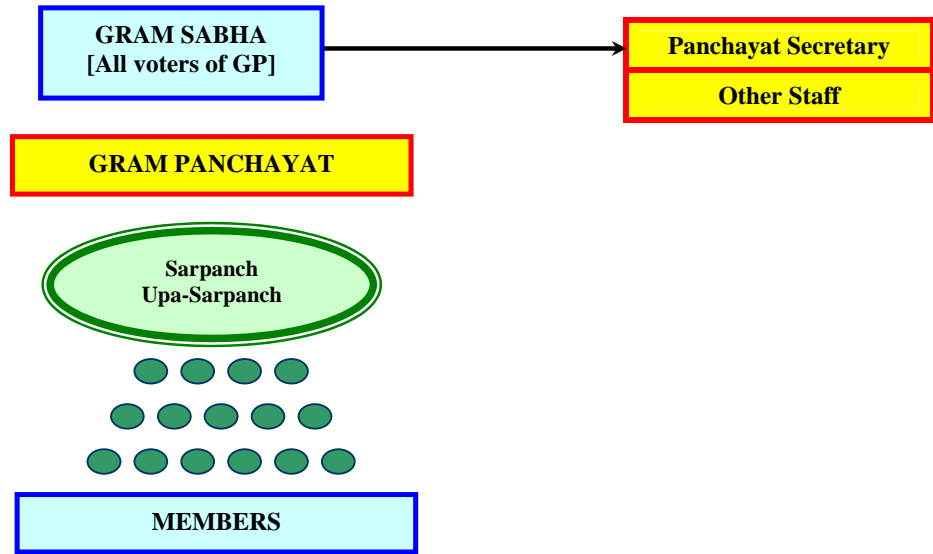
1.1.2 Organisational set-up

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

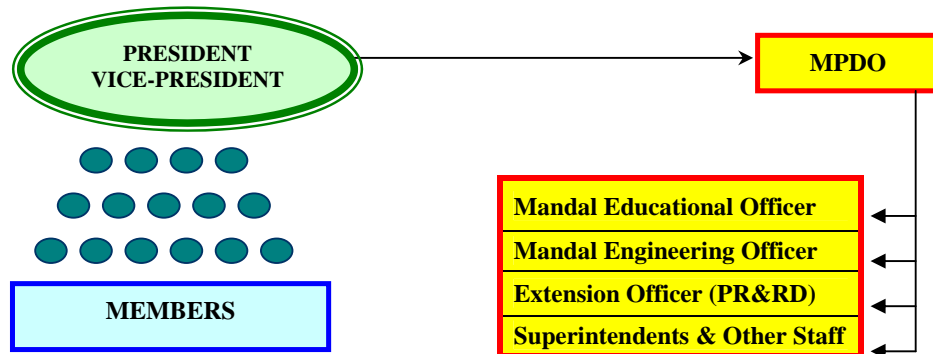


¹ The nomenclature of Zilla Parishad and Mandal Parishad was changed to Zilla Praja Parishad and Mandal Praja Parishad as per Amendment to the Act No. 41 of 2006 to A P Panchayat Raj Act, 1994

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

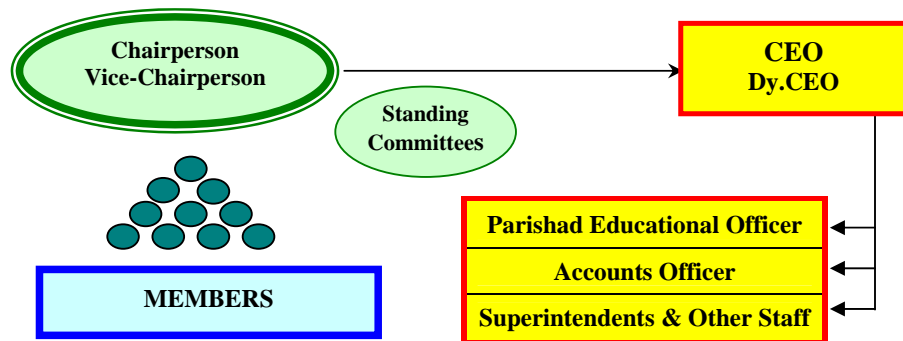


Mandal Praja Parishad: A district may be divided into Mandals² comprising of such contiguous villages as may be specified in the notification by the State Government and for every Mandal there is a MPP which is divided into many territorial constituencies having population between three and four thousand. One member shall be elected to the MPP from each territorial constituency. The structure of the MPP is depicted below:



² The Blocks as a unit of development is obliterated and in its place the Mandal has emerged. 332 Panchayat Samities constituted earlier were replaced by 1098 Mandal Praja Parishads.

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



1.1.3 Funding of Panchayat Raj Institutions

The State and Central Government funded the PRIs through Grants-in-aid for general administration and development activities. The Gram Panchayats generate revenue from property tax and water tax and non-tax revenue from various fees such as tap connection fees, rents from properties etc. The MPP and ZPP do not generate any tax revenue and depend mainly on Grants-in-aid. The funds are utilised by the PRIs for providing civic amenities and welfare measures. Though the accounts are prepared by the PRIs individually, there is no system in place to consolidate the revenue and expenditure figures under various heads of accounts of all the PRIs, due to which effective monitoring of the finances was not possible and an overall picture of finances of PRIs could not emerge.

Financial Position of the PRIs: As there was no system to consolidate the finances at Commissioner Level, the receipt and expenditure particulars of PRIs for the year 2005-06³ were obtained from State Audit Department and the details are tabled below along with figures of 2003-04 and 2004-05.

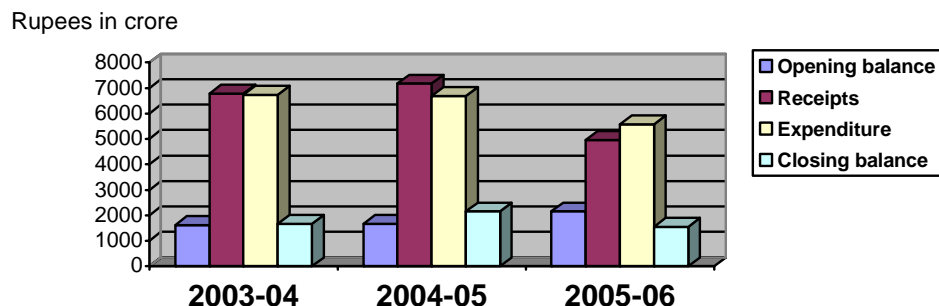
(Rupees in crore)

Zilla Praja Parishad					
Year	Opening balance	Receipts	Total	Expenditure	Closing balance
2003-04	1095.31	2771.16	3866.47	2842.19	1024.28
2004-05	1024.28	2326.97	3351.25	2396.54	954.71
2005-06	954.71	1805.19	2759.90	1758.75	1001.15
TOTAL		6903.32		6997.48	
Mandal Praja Parishad					
Year	Opening balance	Receipts	Total	Expenditure	Closing balance
2003-04	470.34	2608.80	3079.14	2616.20	462.94
2004-05	462.94	2317.48	2780.42	2261.97	518.45
2005-06	518.45	1259.09	1777.54	1263.70	513.84
TOTAL		6185.37		6141.87	
Gram Panchayat					
Year	Opening balance	Receipts	Total	Expenditure	Closing balance
2003-04	48.93	1406.16	1455.09	1277.53	177.56
2004-05	177.56	2527.99	2705.55	2028.63	676.92
2005-06	676.92	1895.69	2572.61	2546.56	26.05
TOTAL		5829.84		5852.72	

The receipts in all the three tiers have decreased in 2005-06 compared to 2004-05. The decline in respect of ZPPs is due to outflow of Engineering Fund to the Pay and Accounts officers of the respective districts from 2005-06 onwards instead of through ZPPs. The reasons for decline in respect of MPPs and GPs were not furnished by the Director, State Audit.

³ As the accounts for 2006-07 were not finalised, State Audit Department furnished the figures for only 2005-06

Overall Financial Position of PRIs



Sources of Funds: The receipts for PRIs from 2003-04 to 2005-06, as furnished by the State Audit department, is depicted below.

(Rupees in crore)

Source of Funds		2003-04	2004-05	2005-06
Gram Panchayats				
1. Own Revenue				
a.	Taxes (House tax, Water tax, etc.)	97.20	203.00	186.41
b.	Non-taxes (Market rents, rents of shops and other property, auctions, etc.)	90.84	302.61	215.43
	Total	188.04	505.61	401.84
2. Grants-in-aid				
a.	Salary Grant	95.59	151.26	128.59
b.	Sampoorna Grameena Rozgar Yojana (SGRY)	208.15	334.18	265.41
c.	Eleventh Finance Commission (EFC)	157.57	317.46	176.75
d.	State Finance Commission (SFC)	76.40	192.70	105.44
e.	Other grants (per capita grant, seignorage charges, profession tax, etc.)	537.72	740.86	605.76
	Total	1075.43	1736.46	1281.95
3. Deposits and Advances		9.49	11.24	18.67
4. Other Receipts		133.20	274.68	193.23
	TOTAL	1406.16	2527.99	1895.69
Mandal Praja Parishads				
Grants and other receipts including fund accounts				
a.	General Fund (per capita grant, seignorage charges, profession tax, stamp duty, own revenue from rents and leases, auction amounts, etc.)	102.48	104.17	248.94
b.	Social Welfare	19.44	16.84	50.29
c.	Minor Irrigation and Rural Water Supply	1.59	1.92	12.09
d.	Roads and Bridges maintenance	4.18	2.92	5.41
e.	Education	2381.49	2085.41	609.93
f.	SGRY	31.49	25.18	146.91
g.	EFC	0	1.72	5.79
h.	Others (Building grant, Natural Calamity grant, NABARD, MPLADS, Pension grants, etc)	35.66	62.64	160.30
I.	Deposits, Advances and Loans	32.47	16.68	19.43
	TOTAL	2608.80	2317.48	1259.09

Zilla Praja Parishads		2003-04	2004-05	2005-06
Grants and other receipts including fund accounts				
a.	General Fund (per capita grant, seignorage charges, profession tax, stamp duty, own revenue from rents and leases, auction amounts, etc.)	115.92	122.42	384.00
b.	Social Welfare	21.06	27.92	24.67
c.	Minor Irrigation and Rural Water Supply	133.15	148.53	136.91
d.	Roads and Bridges maintenance	236.47	131.57	68.34
e.	Education	1307.28	1099.14	234.44
f.	SGRY	380.45	318.26	373.46
g.	EFC	9.46	17.07	45.12
h.	Minimum Needs Programme (MNP)	4.66	3.07	6.95
I.	NABARD	31.36	6.50	26.71
j.	Others (Building grant, Natural Calamity grant, MPLADS, Pension grants, etc)	331.45	206.61	350.26
k.	Deposits, Advances and Loans	199.90	245.88	154.33
TOTAL		2771.16	2326.97	1805.19
GRAND TOTAL (GP, MPP & ZPP)		6786.12	7172.44	4959.97

There was three fold increase in respect of the ZPP general funds during 2005-06, which includes mostly assigned revenues. The receipts of PRIs decreased from Rs 7172.44 crore in 2004-05 to Rs 4959.97 crore in 2005-06 i.e. by 30.85 per cent over the previous year. This was mainly due to introduction of payment of salaries through Treasury to Teaching staff in Education sector directly by the Government of Andhra Pradesh (April 2005).

Application of funds:

The PRIs incur expenditure mainly on providing and maintaining civic amenities such as roads, sanitation, water supply, lighting, etc. It includes both recurring expenditure on maintenance and non-recurring expenditure on creation of capital assets. The information relating to sector-wise expenditure was not available with the Commissioner, PR&RE. However, as per the data made available by the Director, State Audit, the sector wise expenditure incurred by PRIs from 2003-04 to 2005-06, is detailed below:

(Rupees in crore)

Application of Funds		2003-04	2004-05	2005-06
Gram Panchayats				
Expenditure particulars				
a.	Salary	135.92	194.01	229.82
b.	Works expenditure from grants received under SGRY, EFC, SFC, etc.	866.09	1306.15	1772.70
c.	Maintenance Expenditure	133.90	266.04	275.18
d.	Deposits and Advances	13.29	17.85	47.78
e.	Other administrative expenditure	128.33	244.58	221.08
Total		1277.53	2028.63	2546.56

(Rupees in crore)

Mandal Praja Parishads		2003-04	2004-05	2005-06
Expenditure particulars				
a.	Education	2389.29	2046.66	646.10
b.	Social Welfare	15.22	16.12	54.10
c.	Minor Irrigation and Rural Water Supply	2.64	1.33	12.24
d.	Roads and bridges maintenance	3.83	4.35	23.83
e.	Scheme works such as SGRY, Janmaboomi, other grants and other programmes expenditure.	56.75	68.63	143.33
f.	Expenditure from General Fund account	108.97	105.34	216.09
g.	Deposits, Advances and Loans	30.74	14.31	12.01
h.	Other expenditure	8.76	5.23	156.00
Total		2616.20	2261.97	1263.70

(Rupees in crore)

Zilla Praja Parishads		2003-04	2004-05	2005-06
Expenditure particulars				
a.	Education	1290.06	1095.55	235.72
b.	Social Welfare	17.61	13.70	18.98
c.	Minor Irrigation and Rural Water Supply	132.90	131.06	134.00
d.	Roads and Bridges maintenance	243.57	95.99	85.30
e.	Scheme works such as SGRY, Janmaboomi, other grants and other programmes expenditure.	759.68	486.42	391.18
f.	Expenditure from General Fund account	134.11	132.23	288.55
g.	Deposits, Advances and Loans	193.32	154.16	310.73
h.	Other expenditure	70.94	287.43	294.29
Total		2842.19	2396.54	1758.75
GRAND TOTAL (GP, MPP & ZPP)		6735.92	6687.14	5569.01

The expenditure incurred on works by GPs in 2005-06 was 35.72 per cent more over previous year. The expenditure on Education sector declined due to direct payment by GOAP to Teaching Staff with effect from April 2005.

1.1.4 Accounting arrangements

The PRIs maintain accounts on cash basis. The Budget and Accounting formats prescribed by the C&AG were adopted by the State Government (May 2005). The GPs and MPPs have started implementing these formats from 2006-07 onwards, while ZPPs implemented the same from the year 2005-06.

1.1.5 Creation of Data base of PRIs

Scrutiny of records relating to utilisation of EFC grants allocated for the purpose of creation of database revealed that during 2002-04, GOAP has released Rs 22.96 crore to the Commissioner, Panchayat Raj and Rural Employment for creation of database. The Commissioner kept the above funds with the Chief Executive Officer, Zilla Praja Parishad, Ranga Reddy District. The National Informatics Centre (NIC) Hyderabad has designed and developed a

comprehensive Web Based Software ‘e’ panchayats. The project initially implemented in 475 GPs. The following amounts were released for implementation of ‘e-panchayat’ projects.

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

The progress made in the work was not intimated to audit. Further, audit also noticed that Rs 41 lakh was utilised for purchase of computer hardware in Commissionerate. The balance amount of Rs 16.38 crore was kept in fixed deposits in various Banks.

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

1.1.6 Audit arrangements

C&AG conducts audit of PRIs under Section 14 of C&AG’s (DPC) Act, 1971. Based on the recommendations of EFC, GOAP entrusted (August 2005) the responsibility of providing Technical Guidance and Support (TGS), over the accounts and audit of Local Bodies under Section 20(1) of C&AG’s (DPC) Act.

Director, State Audit is the statutory auditor for PRIs under the A.P. State Audit Act 1989. There were no arrears in audit conducted by the Director, State Audit in respect of ZPPs and marginal arrears in respect of MPPs. However, there were huge arrears in case of GPs. To the end of March 2007, audit of 7671 GPs was in arrears, of which only 115 GPs has been completed to the end of December 2007. Director attributed (October 2008) the reasons of arrears in audit of GPs to non-production of arrear records, records lost in theft, floods, non-maintenance of records by Sarpanchas/Executive Authorities etc., of respective GPs.

As per Section 11(2) of the State Audit Act, the Director, State Audit is to prepare Consolidated State Audit Review Reports and present the same to the State Legislature. The Director, State Audit has so far prepared Consolidated State Audit and Review Reports for the years 1989-90 to 2005-06 and submitted to the Finance department. The Government tabled the Consolidated Audit and Review Reports for the period from 1989-90 to 1997-98 in the A P Legislative Assembly in March 2008. Reports from 1998-99 to 2005-06 are yet to be placed. Some of the major findings by the Director, State Audit related to excess utilisation/non-

utilisation/diversion/ misutilisation of grants, non-collection of dues, advances pending adjustments/violation of rules, wasteful expenditure etc.

1.1.7 District Planning Committees

In terms of Article 243-ZD of the Constitution of India, District Planning Committees (DPCs) are to be constituted by the State Government so as to consolidate the development plans formulated by the Local Bodies based on planning at the grass root level. Accordingly, GOAP enacted A.P. District Planning Committee Act, 2005 (Act 40 of 2005) for constitution of DPCs. Though enactment was made in the year 2005 for constitution of DPCs, it was only in January 2007, after a lapse of two years Government issued orders framing the rules for functioning of DPCs. Further, Government also issued orders in October 2007 wherein certain guidelines were issued with regard to i) Functions and meeting procedures ii) Preparation of District Plan by DPC and iii) Collection and maintenance of data base on Socio Economic and General Statistics and Development of Indicators.

However, the information regarding actual formation as well as functioning of DPCs is yet to be received from the State Government (October 2008).

1.1.8 Finance Commissions

Twelfth Finance Commission:

As per para 7 of the TFC guidelines, CAG is empowered to audit the release and utilisation of TFC grants. The audit of release and utilisation of TFC grants for the year 2005-06 was undertaken during December 2007-January 2008.

During the year 2005-06, the following were the releases of TFC grants made by the State Government to PRIs.

(Rupees in crore)

Details of release	Amount	Date of Release by GOI	Date of release by the State Govt. to PRIs	No. of days delayed	Details of interest released.
1 st Installment	158.70	9.12.2005	8.2.2006	45 days	1.85 (24.3.06)
2 nd Installment	158.70	23.3.2006	24.4.2006	16 days	0.55 (23.8.06)

The following observations were made on scrutiny of records: -

- In four⁴ districts of PRIs test checked, a sum of Rs 21.87 lakh out of the total grant of Rs 40.75 crore relating to first year grant (2005-06) did not reach the intended PRIs even after a lapse of 18 months of its receipt by the State Government. No reasons were furnished for the delay.

⁴ Adilabad, Kadapa, Visakhapatnam and Warangal

- In violation of scheme guidelines, an amount of Rs 96.29 lakh was released to Engineering Divisions and District Panchayat Offices instead of MPDOs and GPs by CEOs of Adilabad and Kadapa Districts.
- A sum of Rs 8.85 crore remained unutilised by the 155 PRIs⁵ out of the total grant of Rs 40.75 crore (2005-06) in the test checked districts of Warangal, Adilabad, Visakhapatnam, Krishna and Kurnool. The main objective of the grant i.e., augmentation of the resources of PRIs to undertake maintenance of water supply and sanitation was not fully achieved.
- A sum of Rs 4.04 crore was diverted from TFC grant for other purposes viz, conduct of GP elections, construction of roads, work bills of General Fund accounts etc., in the five test checked districts⁶ as detailed in *Appendix 1*.
- Improper maintenance of Records and Registers resulting in lack of assurance that the funds were properly utilised.

State Finance Commission

According to Article 243-I of the Constitution and Section 235 (1) & (2) of A.P. Panchayat Raj Act, 1994, constitution of State Finance Commission (SFC) once in five years to recommend devolution of funds from the State Government to Local Bodies is mandatory. The First SFC was constituted during 1994. The Second SFC started functioning from December 1998 and its Report was placed in the Legislative Assembly in August 2002. The Third SFC was constituted in January 2003 with a term of eighteen months upto July 2004 and the term was further extended upto January 2008. The Third SFC submitted its Report in January 2008. The Government constituted (March 2008) a committee of Ministers/Secretaries to examine the recommendations of the Third SFC and to table the Action Taken Report in the A P Legislative Assembly/Council.

During the test check of Second SFC grants in 2006-07, it was noticed that an amount of Rs 65.32 lakh was excess released to the CEO/ZPP, Nizamabad during 2003-04 and the amount was parked in Fixed Deposits by the CEO without remitting to the Government. Commissioner replied (October 2008) that CEO spent Rs 17.97 lakh on general works and Rs 47.35 lakh is still in Fixed Deposits.

1.1.9 Devolution of Funds, Functions and Functionaries to PRIs

The 11th Schedule of the 73rd Constitutional Amendment Act, 1992 enlisted 29 subjects for devolution to strengthen the PRIs. The Ministry of Panchayat Raj, Government of India held seven Round Table Conferences in various places in the country with State Governments

⁵ 5 ZPs, 25 MPDOs and 125 GPs

⁶ Adilabad, Kadapa, Krishna, Visakhapatnam and Warangal

to arrive at a blue print for effective devolution of powers to Panchayat Raj Institutions.

Accordingly, GOAP constituted Group of Ministers in June 2004 to deliberate and make recommendations to the Government for devolution of powers to PRIs. Government also constituted a Task Force Committee under the Chairmanship of Special Chief Secretary to the Government along with other three Secretaries in September 2004 for discussion with all the concerned departments to work out and make suggestive measures on devolution of powers to PRIs.

A Memorandum of Understanding was signed by the Chief Minister of Andhra Pradesh and Union Minister for Panchayat Raj, GOI in April 2006, *interalia*, to devolve ten core subjects to PRIs within one year from the date of agreement.

Ten functions identified by GOAP and transferred to PRIs are as detailed below.

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

The draft GOs prepared by the line departments were placed before the Cabinet in December 2007 and the Cabinet in its Resolution agreed the proposal for devolution of powers to PRIs.

As stated in earlier AR (Para 1.1.9) for the year ended 31 March 2006, due to non-transfer of three 'Fs' to PRIs, certain funds relating to provision of Protected Water Supply (PWS), termed as one of the major function to be devolved to PRIs, were routed through Engineering divisions functioning under the administrative control of Engineer-in-Chief (ENC)/PR Department but not through PRIs denying them an effective control over the execution of water supply works.

Similarly, the function relating to "Public Distribution System" was also not prioritised by the State Government for devolution to PRIs. As a result, the scope of identification of real beneficiaries in rural areas and the effective distribution was reduced.

1.1.10 Status of CAG's Audit observations

Test audit of accounts of 6 ZPPs (including Engineering divisions), 70 MPPs and 761 GPs was conducted under Section 20(1) of CAG's (DPC) Act, 1971 during the year 2006-07. As of September 2008, there were 1151 Inspection Reports comprising 6887 objections pending settlement with PRIs up to the

year 2006-07. These Reports included the items relating to audit conducted under Section 14 prior to entrustment of Local Bodies Audit under TGS in 2005-06.

1.1.11 Internal Control

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

Test check of accounts of 761 GPs revealed that there was poor financial management and financial irregularities such as non-utilisation of grants, irregular expenditure, non-maintenance of vital records etc., as detailed in para 3.1 of the Report indicating an inadequate internal control system in GPs. Similarly, the compliance to the pending inspection reports of PRIs was also poor.

1.1.12 Conclusions

The Commissioner, Panchayat Raj is not consolidating the receipts and expenditure particulars of PRIs reflecting poor monitoring of finances. The recovery of Tax and Non-Tax revenues by GPs during 2005-06 was poor as compared to 2004-05. The Budget and Accounts formats for PRIs are yet to be adopted by GPs and some MPPs. Deviations to the guidelines were noticed in utilisation of Twelfth Finance Commission grants. DPCs were not yet constituted in all the districts though orders were issued by the State Government. Reports of the Director, State Audit for the years from 1998-99 to 2005-06 were not yet placed in the Assembly.

1.1.13 Recommendations

- Diversion of TFC grants should be avoided.
- GOAP should ensure timely release of TFC grants to PRIs.
- The State Government may expedite the devolution of three 'Fs' i.e. Functions, Functionaries and Funds as per functions listed in the Eleventh Schedule/Schedule 1 of APPR Act, 1994, for achieving the objective of decentralisation and grass-root democracy in rural areas, as laid down in the Constitution.
- State Audit Reports for the years 1998 to 2006 should be placed in the State Legislature on priority.
- Constitution of DPCs in all the districts be expedited.
- Replies to the Inspection Reports are to be expedited.

1.2 URBAN LOCAL BODIES

1.2.1 Introduction

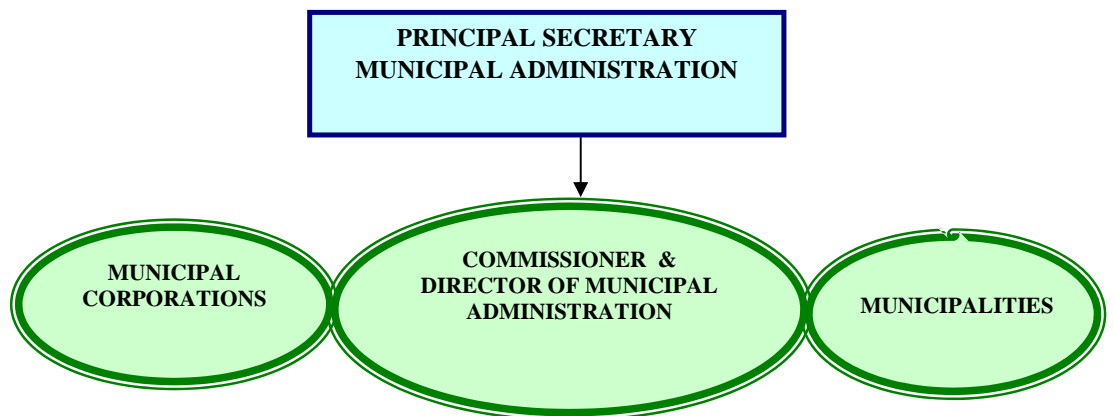
The 74th Constitutional Amendment Act identified 18 functions for Urban Local Bodies (ULBs) as incorporated in Twelfth Schedule of the Constitution. The Andhra Pradesh Municipal Corporations Act 1994 was enacted (Act 25 of 1994) to provide for the establishment of Municipal Corporations in the State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

As per 2001 census, the total population of the State of Andhra Pradesh was 7.57 crore of which 2.05 crore reside in urban areas (27.08 *per cent*). As on 31 March 2007, there were 124⁷ Urban Local Bodies (ULBs) in the State. Of these, 109 were Municipalities and 15 were Municipal Corporations. The State Election Commission conducted elections to the ULBs in the month of September 2005.

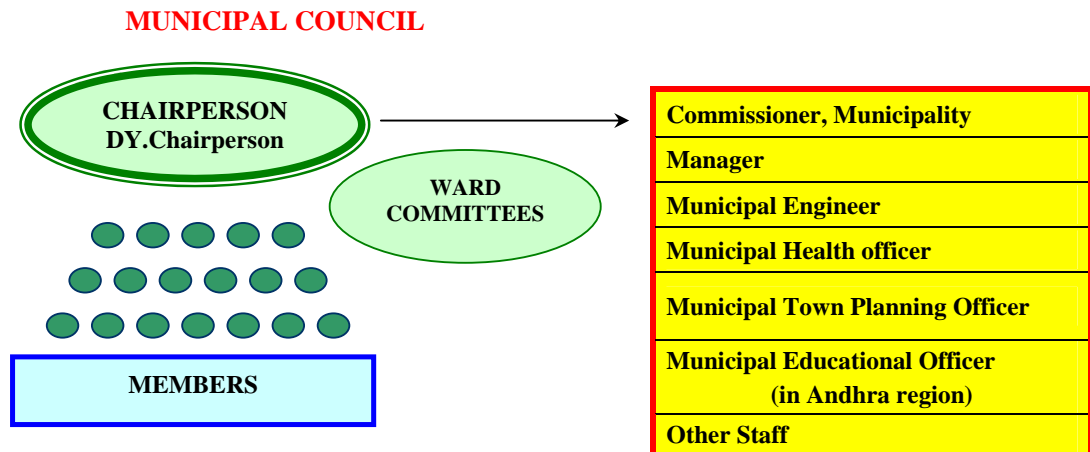
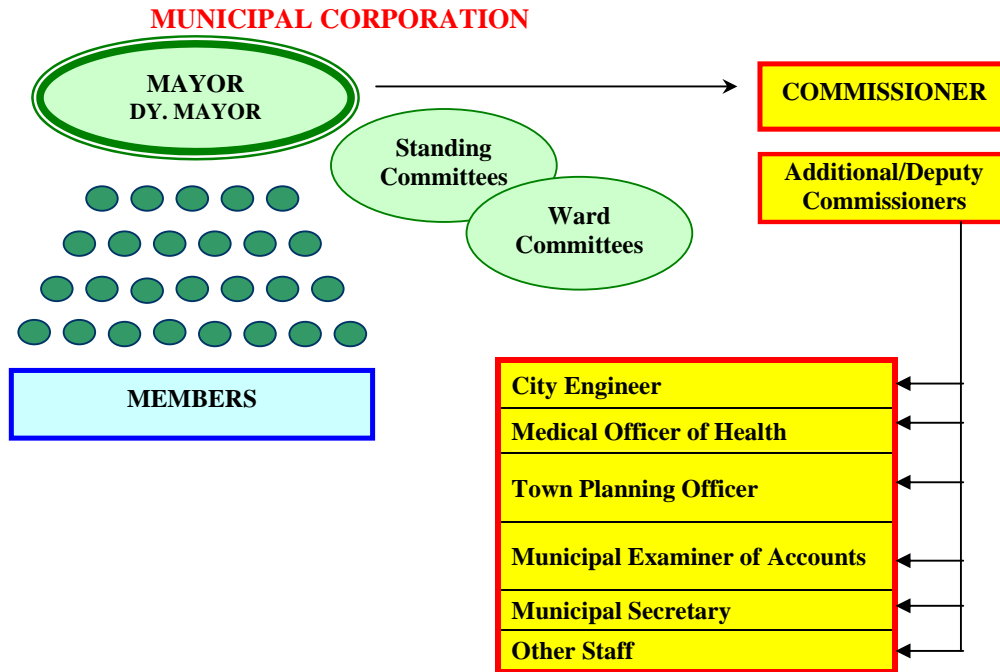
1.2.2 Organisational Set-Up

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

The organisational set up of ULBs in the state is depicted below:



⁷ These figures vary from that mentioned in the earlier Audit Report 2005-06 due to merger of municipalities into GHMC, up gradation of some GPs into municipalities.



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

1.2.3 Funding of Urban Local Bodies:

The resources of ULBs consist of grants and assistance from the Government of India (GOI) and the State Government under various schemes, loans from Financial Institutions (HUDCO etc.) and own revenue generated through various tax and non-tax collections. The tax revenue mainly accrues from property tax and taxes on advertisement, while non-tax revenue comes from water charges, encroachment fee, developmental charges, building fee, etc. Figures given in the following table were furnished by the Commissioner and Director of Municipal Administration (CDMA). These figures were, however, not certified as the audit of ULBs was in arrears ranging from 2 to 35⁸ years in most of the ULBs as detailed in para 1.2.5.

Position of overall receipts during 2004-05 to 2006-07 is detailed below:

(Rupees in crore)

Source of Funds		2004-05	2005-06	2006-07	
Own Revenues					
a.	Taxes				
	i)	Property tax	584.24	520.41	495.76
	ii)	Other Tax revenue (Advertisement tax, taxes on animals and taxes on carriages and carts)	18.07	20.03	134.04 ⁹
	Total Tax revenue		602.31	540.44	629.80
b.	Non-Taxes				
	i)	Water charges	104.69	119.91	130.06
	ii)	Encroachment fee	1.65	84.90	2.18
	iii)	Betterment/Development charges	50.46	59.83	66.91
	iv)	Building license fee	37.04	42.73	66.36
	v)	Others (Water supply donations, market fee, slaughter house fee, shops rent, trade license fee, etc.)	92.35	107.78	258.19
	Total Non-Tax revenue		286.19	415.15	523.70
Assigned Revenue					
	i)	Entertainment tax	61.72	46.52	26.44
	ii)	Surcharge on stamp duty	292.30	282.83	312.96*
	iii)	Profession tax	91.07	111.65	36.58
	Total Assigned revenue		445.09	441.00	375.98
Non-Plan Grants			201.95	198.99	220.45**
Plan Grants			138.03	120.28	185.95**
Loans			54.14	10.99	9.67**
Other Income			293.02	290.65	344.93#
Grand Total			2020.73	2017.50	2290.48

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

** excluding the figures of MCH

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

⁸ Ananthapur 35 years

⁹ Other ULBs – Rs 15.01 crore, MCH – Rs 119.03 crore

It could be seen that there was only marginal variation in the total receipt of ULBs.

Application of funds:

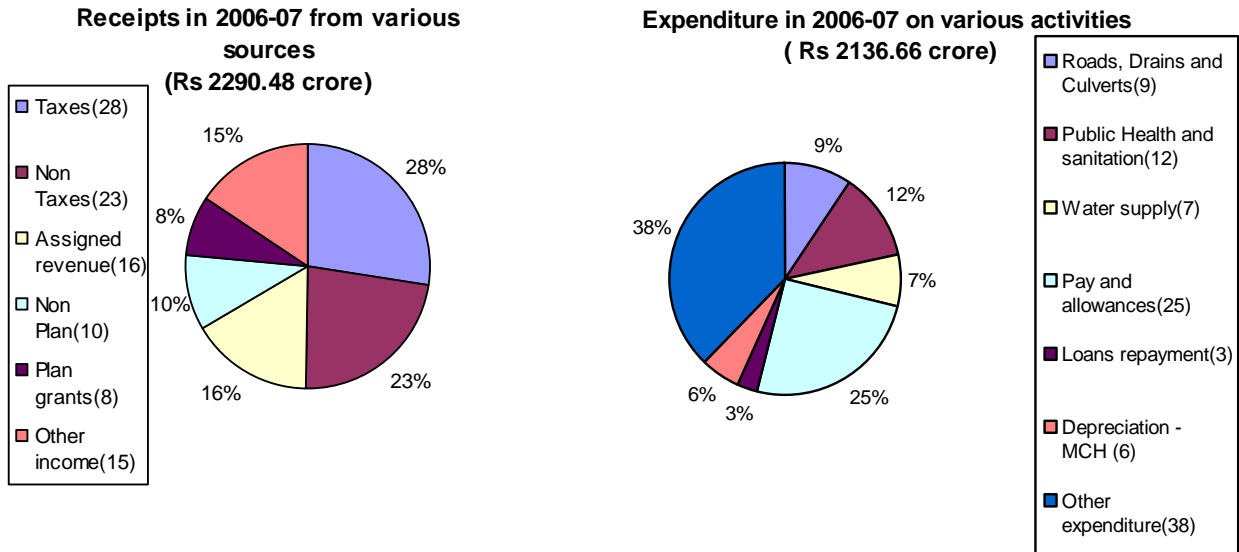
The expenditure of ULBs comprises recurring expenditure on pay and allowances, maintenance of capital assets etc., and non-recurring expenditure on creation of capital assets. The total expenditure during 2006-07 (Rs 2136.66 crore) increased by 4.62 *per cent* over previous year (Rs 2037.91 crore). The expenditure for ULBs in the past three years as furnished by CDMA is detailed below:

(Rupees in crore)

Application of Funds		2004-05			2005-06			2006-07		
		Non-Recurring	Recurring	Total	Non-Recurring	Recurring	Total	Non-Recurring	Recurring	Total
a.	Roads *	257.51	63.80	321.31	208.08	70.15	278.23	112.36	33.51	145.87
b.	Drains and Culverts*	76.50	12.36	88.86	71.75	12.89	84.64	46.66	6.46	53.12
c.	Buildings*	26.16	7.67	33.83	26.97	6.74	33.71	27.88	4.82	32.70
d.	Public Health and sanitation	21.70	114.40	136.10	17.17	195.89	213.06	17.86	245.90	263.76
e.	Water supply*	153.46	89.71	243.17	94.48	81.32	175.80	86.21	66.51	152.72
f.	Lighting*	27.29	89.74	117.03	27.51	68.60	96.11	13.85	50.48	64.33
g.	Remunerative enterprises*	13.63	7.36	20.99	17.70	7.74	25.44	22.44	5.05	27.49
Total		576.25	385.04	961.29	463.66	443.33	906.99	327.26	412.73	739.99
h.	Pay and allowances		370.47	370.47		370.42	370.42		533.66	533.66
i.	Loans Repayment*		65.89	65.89		38.83	38.83		60.98	60.98
j.	Depreciation (MCH)								119.66	119.66
k.	Other expenditure (town planning, land acquisition management expenses, etc.)		861.06	861.06		721.67	721.67		682.37*	682.37
Total			1297.42	1297.42		1130.92	1130.92		1396.67	1396.67
GRAND TOTAL		576.25	1682.46	2258.71	463.66	1574.25	2037.91	327.25	1809.39	2136.66

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

The expenditure on pay and allowances during 2006-07 was 23.30 *per cent* of total receipts and 24.98 *per cent* of total expenditure. The figures of receipts and expenditure for 2006-07 are depicted through pie chart as shown below.



1.2.4 Accounting arrangements

Accounts of ULBs are being maintained on cash basis. The Municipal Corporation of Hyderabad has adopted accrual based double entry system for maintaining its accounts since 2002-03. Ministry of Urban Development and Poverty Alleviation, GOI and C&AG had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system, for greater transparency and control over finances and requested (May 2005) the States to adopt the same with appropriate modifications to meet States specific requirements. Accordingly, a Steering Committee was constituted by GOAP (May 2005) and the A.P. Municipal Accounts Manual (APMAM) was developed during 2006-07. The State Government issued orders during August 2007 for adoption of AP Municipal Accounts Manual in all the ULBs in the State. Except Greater Hyderabad Municipal Corporation, all the remaining ULBs are yet to adopt the new Accounting system. Compilation of accounts by ULBs is in arrears since 1986 in most of the units.

1.2.5 Audit arrangements

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

According to Rule 4 of A.P. Municipalities (Preparation and Submission of Accounts and Abstracts) Act, 1970, ULBs are to compile their Accounts annually and forward a copy to Auditor not later than 15th June. Certification of accounts gives an assurance that

the funds have been utilized as per codal provisions. However, the audit of accounts of ULBs by the Director of State Audit was pending for the past several years, as the accounts were yet to be compiled by the ULBs. The District wise arrears position in respect of Municipalities furnished by Director, State Audit ranged between 2 to 35 years as of December 2007. The Director, State Audit, has so far, prepared Consolidated State Audit and Review Reports for the years 1989-90 to 2005-06 and submitted to Finance department. The Government tabled the Consolidated Audit and Review Reports for the period from 1989-90 to 1997-98 in the A P Legislative Assembly in March 2008. Reports from 1998-99 to 2005-06 are yet to be placed. Some of the major findings by the Director, State Audit related to excess utilisation/non-utilisation/ diversion/ misutilisation of grants, non-collection of dues, advances pending adjustments/violation of rules, wasteful expenditure etc. Delay in audit results in delay in remedial action on deficiencies noticed in audit.

1.2.6 Finance Commissions

Twelfth Finance Commission:

During the year 2005-06, following were the releases of TFC grants made by the State Government to ULBs.

(Rupees in crore)

Details of release	Amount	Date of Release by GOI	Date of release by State Govt. to ULBs	No. of days delayed	Interest payable	Interest paid by GOAP
1 st Installment	37.40	28.12.05	17.4.06	94	0.58	0.58
2 nd Installment	37.40	14.11.06	9.1.07	41	0.25	Nil

Test check of records (January 2007 to March 2007-Releases and December 2007 to January 2008-Utilisation) relating to TFC grants for the year 2005-06 revealed the following-

- According to TFC guidelines, the grant should be credited to the accounts of the ULBs within 15 days from the date of receipt of grants of GOI. However, it was noticed that the State government released the grants amounting to Rs 37.40 crore being the first installment of 2005-06 only during April 2006. As such the grant could not be utilised during the financial year. The Annual Action plans were prepared only after receipt of grants and implementation commenced from August 2006.
- The State Government was liable to pay interest at bank rate for the period of delay. It was, however, noticed that though the State Government had released interest of Rs 58 lakh for delayed release of 1st installment, the CDMA had not released interest of Rs 58 lakh to ULBs as of March 2007.

- Similarly, an interest of Rs 25 lakh for delayed release of 2nd instalment for 41 days was not released by the State Government to the ULBs.
- As per the TFC guidelines, 50 *per cent* of the grants should be utilized for Solid Waste Management (SWM) and ULBs (with population of more than one lakh) should prepare and submit Comprehensive Action Plan (CAP) for implementation of SWM. It was, however, noticed in audit that CAPs for the entire five year period was not prepared in any of the ULBs. Although segregation of solid waste is one of the important items of work in SWM, importance was given to collection and transportation of waste only and no plan for fruitful utilisation of solid waste which would have generated income to the ULBs by way of producing compost and recyclable dry waste.
- Though as per TFC guidelines, funds are to be earmarked for creation of database and maintenance of accounts, no funds were earmarked.

State Finance Commission: The second SFC made 39 recommendations pertaining to financial devolution and structural reforms covering nine major sectors in ULBs. Out of these, 14 recommendations such as providing additional amounts to municipalities for civic amenities, grants linked to the performance of local bodies and transfer of schools to municipalities/Corporations in urban areas of Telangana region were still pending. The Third SFC submitted its report in January 2008. The Government constituted (March 2008) a committee of Ministers/Secretaries to examine the recommendations.

1.2.7 Status of CAG's Observations

Test audit of accounts of five Municipal Corporations and 13 Municipalities was conducted under Section 20(1) of CAG's DPC Act, 1971 during the year 2006-07. As of September 2008, there were 68 Inspection Reports comprising 1236 objections pending settlement with ULBs up to the year 2006-07. The Inspection Reports includes the items relating to audit conducted prior to entrustment of Local Bodies Audit under TGS in 2005-06.

1.2.8 Internal Control

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

Test check (2006-07) of accounts of 18 ULBs revealed several financial irregularities, lapses in utilization of grants/funds resulting

in diversion of funds, excess expenditure, incomplete projects, loss of revenue, locking up of funds etc. which were communicated through the Inspection Reports. Some of the major findings are incorporated in paras 3.2.1 to 3.2.9 of the Report. Audit observed that there was poor compliance to Inspection Reports from ULBs. The internal control system was totally inadequate and did not ensure economical/efficient operation.

1.2.9 Conclusions

The AP Municipal Accounts Manual was not adopted in all the ULBs except MCH. TFC grants were released with delay. TFC grants were not utilised for Solid Waste Management and not earmarked for Database. There were huge arrears in audit by the Director, State Audit, primarily due to arrears in compilation of accounts ranging between 2 to 35 years.

1.2.10 Recommendations

- The Municipal Administration Department needs to oversee and ensure that the compilation of Annual Accounts is taken up in earnestness and the arrears cleared in time bound manner, so as to facilitate timely audit and remedial action on deficiencies.
- The Government should ensure that the pending Audit Reports of the Director, State Audit for the years 1998 to 2006 are placed in the State Legislature as stipulated in the Act.
- With increasing trend in urbanisation, emphasis to be laid on speedy implementation of recommendations of SFC.
- Replies to the Inspection Reports are to be expedited.