

## CHAPTER I

### ACCOUNTS AND FINANCES OF LOCAL BODIES

#### CHAPTER SUMMARY

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

**PANCHAYAT RAJ & RURAL EMPLOYMENT DEPARTMENT**

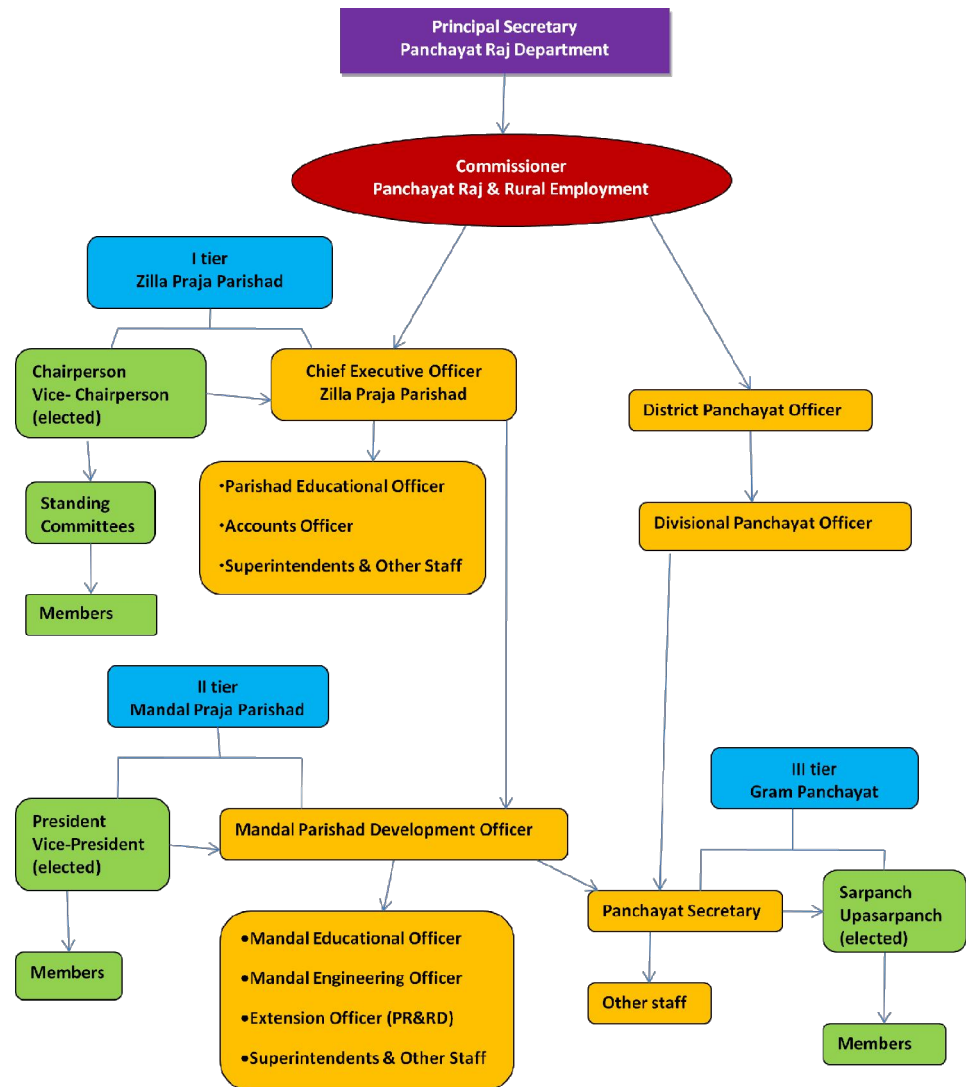
**1.1 PANCHAYAT RAJ INSTITUTIONS**

**1.1.1 Introduction**

In conformity with 73<sup>rd</sup> Constitutional Amendment Act, the Andhra Pradesh Panchayat Raj (APPR) Act was enacted in 1994 repealing all existing Acts, to establish a three-tier system at the Gram Panchayat, Mandal Praja Parishad and Zilla Praja Parishad level. As per the 2001 census, the total population of Andhra Pradesh State was 7.57 crore, of which 5.52 crore (72.92 per cent) lived in rural areas. As on 31 March 2009, there were 22927 Panchayat Raj Institutions (PRIs) in the State consisting of 22 Zilla Praja Parishads (ZPPs), 1098 Mandal Praja Parishads (MPPs) and 21807 Gram Panchayats (GPs). Elections to the PRIs were conducted in the months of July and August 2006 and newly elected members took charge in October 2006.

**1.1.2 Organisational set-up**

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



### 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<sup>1</sup> of PRIs upto the year 2007-08<sup>2</sup> were obtained from State Audit Department and are given in Table 1.1 below:

**Table 1.1 : Summary of Receipts and Expenditure of PRIs**

(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
2006-07	1001.15	3041.82	4042.97	1982.98	2059.99
2007-08	2059.99	2442.16	4502.15	2046.85	2455.30
<b>TOTAL</b>	<b>6135.44</b>	<b>12387.30</b>	<b>18522.74</b>	<b>11027.31</b>	<b>7495.43</b>

<sup>1</sup> These were not inclusive of the major Centrally Sponsored Scheme NREGA as the Director, State Audit does not conduct audit of NREGA.

<sup>2</sup> As the compilation of data for 2008-09 was not completed, the State Audit Department furnished the figures till 2007-08.

<b>Mandal Praja Parishad</b>					
<b>Year</b>	<b>Opening balance</b>	<b>Receipts</b>	<b>Total</b>	<b>Expenditure</b>	<b>Closing balance</b>
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
2006-07	513.84	760.73	1274.57	852.52	422.05
2007-08	422.05	1225.45	1647.50	999.46	648.04
<b>TOTAL</b>	<b>2387.62</b>	<b>8171.55</b>	<b>10559.17</b>	<b>7993.85</b>	<b>2565.32</b>
<b>Gram Panchayats</b>					
<b>Year</b>	<b>Opening balance</b>	<b>Receipts</b>	<b>Total</b>	<b>Expenditure</b>	<b>Closing balance</b>
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
2006-07	26.05	852.41	878.46	767.27	111.19
2007-08	111.19	759.64	870.83	760.56	110.27
<b>TOTAL</b>	<b>1040.65</b>	<b>7441.89</b>	<b>8482.54</b>	<b>7380.55</b>	<b>1101.99</b>

The receipts of MPPs increased in the year 2007-08 compared to 2006-07 but declined in respect of ZPPs and GPs. The Director, State Audit had not furnished specific reasons for the same when sought for.

#### **PRI Resources**

The sector-wise details of PRIs resources and application of funds from 2003-04 to 2007-08, as furnished by the State Audit department are given below.

## Gram Panchayats

Table 1.2 : Resources of Gram Panchayats

(Rupees in crore)

Resources		2003-04	2004-05	2005-06	2006-07	2007-08
<b>1. Own Revenue</b>						
a.	Taxes (House tax, Water tax, etc.)	97.20	203.00	186.41	143.37	145.82
b.	Non-taxes (Market rents, rents of shops and other property, auctions, etc.)	90.84	302.61	215.43	151.50	145.07
<b>Total</b>		<b>188.04</b>	<b>505.61</b>	<b>401.84</b>	<b>294.87</b>	<b>290.89</b>
<b>2. Grants-in-aid</b>						
a.	Salary Grant	95.59	151.26	128.59	36.59	36.54
b.	Sampoorna Grameena Rozgar Yojana (SGRY)	208.15	334.18	265.41	0	0
c.	Eleventh Finance Commission (EFC)	157.57	317.46	176.75	0	0
d.	State Finance Commission (SFC)	76.40	192.70	105.44	0	0
e.	Other grants (per capita grant, seignorage charges, profession tax etc.)	537.72	740.86	605.76	363.42*	252.73
<b>Total</b>		<b>1075.43</b>	<b>1736.46</b>	<b>1281.95</b>	<b>400.01</b>	<b>289.27</b>
<b>3. Deposits and Advances</b>		9.49	11.24	18.67	11.99	12.05
<b>4. Other Receipts</b>		133.20	274.68	193.23	145.54	167.43
<b>Total</b>		<b>1406.16</b>	<b>2527.99</b>	<b>1895.69</b>	<b>852.41</b>	<b>759.64</b>

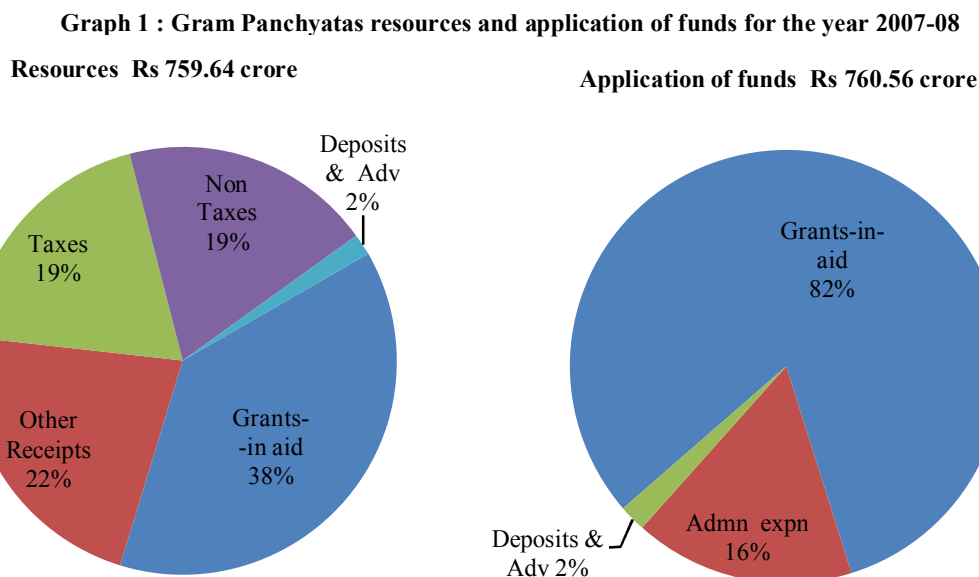
Table : 1.3 Application of funds by Gram Panchayats

(Rupees in crore)

Application of funds		2003-04	2004-05	2005-06	2006-07	2007-08
<b>Expenditure particulars</b>						
<b>1</b>	<b>Expenditure from Grants in aid</b>					
a.	Salary	135.92	194.01	229.82	72.27	74.67
b.	Works expenditure from grants received under SGRY, EFC, SFC, etc.	866.09	1306.15	1772.70	380.85	336.38
c.	Maintenance expenditure	133.90	266.04	275.18	176.66	208.90
<b>Total</b>		<b>1135.91</b>	<b>1766.20</b>	<b>2277.70</b>	<b>629.78</b>	<b>619.95</b>
<b>2.</b>	Deposits and Advances	13.29	17.85	47.78	18.05	15.06
<b>3.</b>	Other administrative expenditure	128.33	244.58	221.08	119.44	125.55
<b>Total</b>		<b>1277.53</b>	<b>2028.63</b>	<b>2546.56</b>	<b>767.27</b>	<b>760.56</b>

\* Break-up for remaining items of Grant-in-aid was not furnished by the Director, State Audit for 2006-07 and 2007-08.

The Gram Panchayats resources and application of funds for the year 2007-08 are depicted through pie chart as shown in Graph 1 below:



### Mandal Praja Parishads

Table 1.4 : Resources of Mandal Praja Parishads

(Rupees in crore)

Resources		2003-04	2004-05	2005-06	2006-07	2007-08
<b>Grants and other receipts including fund accounts</b>						
<b>1</b>	<b>Grants in aid</b>					
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	146.84	281.85
b.	Social Welfare	19.44	16.84	50.29	20.85	105.04
c.	Minor Irrigation and Rural Water Supply	1.59	1.92	12.09	7.17	2.86
d.	Roads and Bridges maintenance	4.18	2.92	5.41	1.75	2.62
e.	Education	2381.49	2085.41	609.93	205.52	228.60
	<b>Total</b>	<b>2509.18</b>	<b>2211.26</b>	<b>926.66</b>	<b>382.13</b>	<b>620.97</b>
<b>2</b>	<b>Scheme funds</b>					
a.	SGRY	31.49	25.18	146.91	86.22	104.61
b.	EFC/TFC/SFC	0	1.72	5.79	26.51	18.37
c.	Others (Building grant, Natural Calamity grant, NABARD, MPLADS, Pension grants, etc)	35.66	62.64	160.30	251.09	467.78
	<b>Total</b>	<b>67.15</b>	<b>89.54</b>	<b>313.00</b>	<b>363.82</b>	<b>590.76</b>
<b>3.</b>	<b>Deposits, Advances and Loans</b>	<b>32.47</b>	<b>16.68</b>	<b>19.43</b>	<b>14.78</b>	<b>13.72</b>
	<b>Total</b>	<b>2608.80</b>	<b>2317.48</b>	<b>1259.09</b>	<b>760.73</b>	<b>1225.45</b>

Table 1.5 : Application of funds by Mandal Praja Parishads

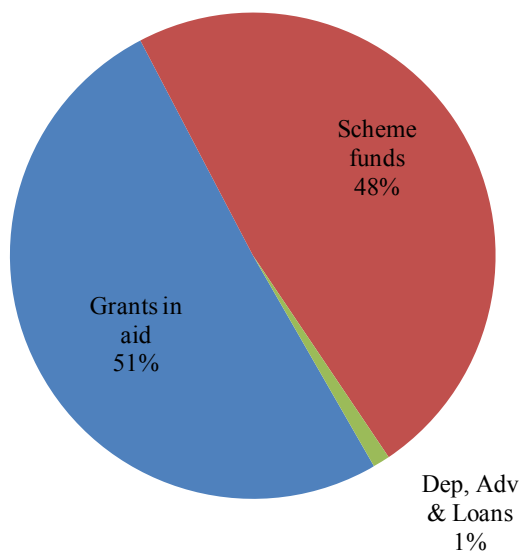
(Rupees in crore)

Application of funds		2003-04	2004-05	2005-06	2006-07	2007-08
<b>1</b>	<b>Expenditure from Grants-in-aid</b>					
a.	Education	2389.29	2046.66	646.10	224.46	210.68
b.	Social Welfare	15.22	16.12	54.10	22.96	28.27
c.	Minor Irrigation and Rural Water Supply	2.64	1.33	12.24	27.60	7.22
d.	Roads and bridges maintenance	3.83	4.35	23.83	24.28	14.65
e.	Expenditure from General Fund account	108.97	105.34	216.09	142.84	194.66
	<b>Total</b>	<b>2519.95</b>	<b>2173.8</b>	<b>952.36</b>	<b>442.14</b>	<b>455.48</b>
<b>2.</b>	Scheme works such as SGRY, Janmaboomi, other grants and other programmes expenditure	56.75	68.63	143.33	358.33	457.20
<b>3.</b>	Deposits, Advances and Loans	30.74	14.31	12.01	20.33	11.32
<b>4.</b>	Other expenditure	8.76	5.23	156.00	31.72	75.46
	<b>Total</b>	<b>2616.20</b>	<b>2261.97</b>	<b>1263.70</b>	<b>852.52</b>	<b>999.46</b>

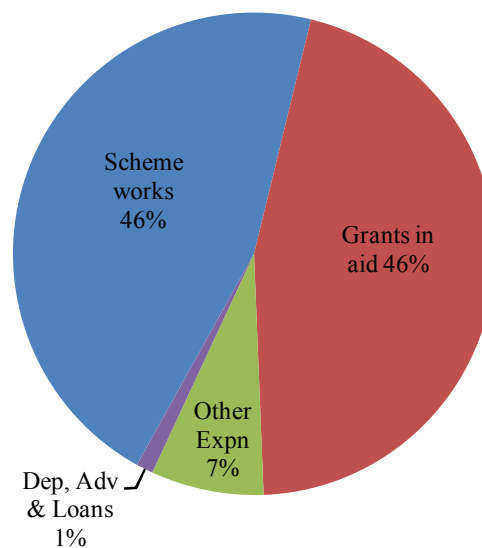
The Mandal Praja Parishads resources and application of funds for the year 2007-08 are depicted through pie chart as shown in Graph 2 below:

Graph 2 : Mandal Praja Parishads resources and application of funds for the year 2007-08

Resources Rs 1225.45 crore



Application of funds Rs 999.46 crore



## Zilla Praja Parishads

Table 1.6 : Resources of Zilla Praja Parishads

(Rupees in crore)

Resources		2003-04	2004-05	2005-06	2006-07	2007-08
<b>Grants and other receipts including fund accounts</b>						
<b>1</b>	<b>Grants in aid</b>					
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	405.54	462.51
b.	Social Welfare	21.06	27.92	24.67	13.69	5.40
c.	Minor Irrigation and Rural Water Supply	133.15	148.53	136.91	154.06	292.60
d.	Roads and Bridges maintenance	236.47	131.57	68.34	108.27	126.61
e.	Education	1307.28	1099.14	234.44	244.69	268.31
	<b>Total</b>	<b>1813.88</b>	<b>1529.58</b>	<b>848.36</b>	<b>926.25</b>	<b>1155.43</b>
<b>2</b>	<b>Scheme funds</b>					
a.	SGRY	380.45	318.26	373.46	97.31	127.17
b.	EFC/TFC/SFC	9.46	17.07	45.12	276.29	166.77
c.	Minimum Needs Programme (MNP)	4.66	3.07	6.95	0	0
d.	NABARD	31.36	6.50	26.71	19.86	99.54
e.	Others (Building grant, Natural Calamity grant, MPLADS, Pension grants, etc)	331.45	206.61	350.26	539.62	533.65
	<b>Total</b>	<b>757.38</b>	<b>551.51</b>	<b>802.50</b>	<b>933.08</b>	<b>927.13</b>
<b>3.</b>	<b>Deposits, Advances and Loans</b>	<b>199.90</b>	<b>245.88</b>	<b>154.33</b>	<b>1182.49</b>	<b>359.60</b>
	<b>Total</b>	<b>2771.16</b>	<b>2326.97</b>	<b>1805.19</b>	<b>3041.82</b>	<b>2442.16</b>

Table 1.7 : Application of funds by Zilla Praja Parishads

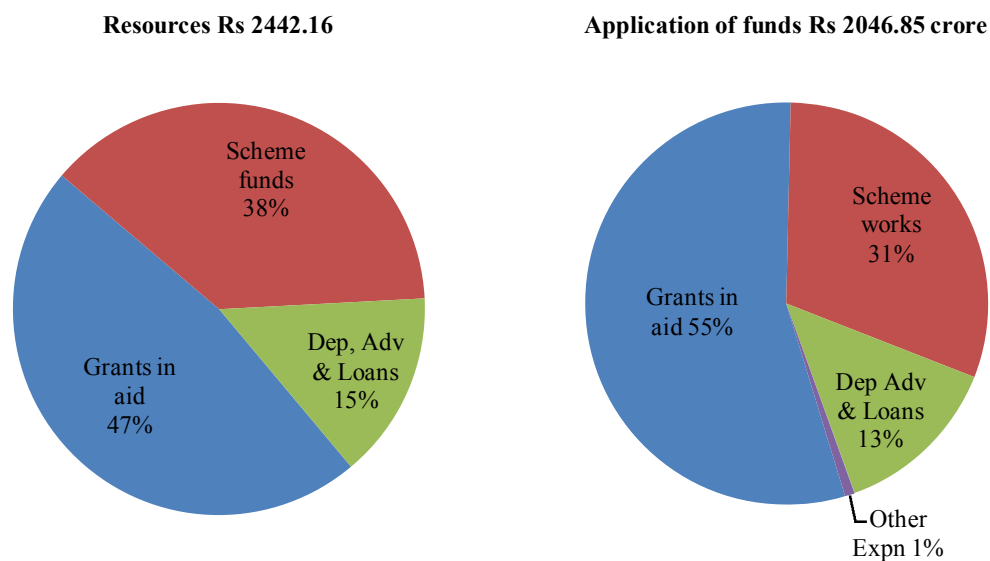
(Rupees in crore)

Application of funds		2003-04	2004-05	2005-06	2006-07	2007-08
<b>1</b>	<b>Expenditure from Grants in aid</b>					
a.	Education	1290.06	1095.55	235.72	203.09	258.86
b.	Social Welfare	17.61	13.70	18.98	14.36	14.31
c.	Minor Irrigation and Rural Water Supply	132.90	131.06	134.00	186.51	278.58
d.	Roads and Bridges maintenance	243.57	95.99	85.30	164.42	158.74
e.	Expenditure from General Fund account	134.11	132.23	288.55	377.40	416.77
	<b>Total</b>	<b>1818.25</b>	<b>1468.53</b>	<b>762.55</b>	<b>945.78</b>	<b>1127.26</b>
2.	Scheme works such as SGRY, Janmaboomi, other grants and other programmes expenditure.	759.68	486.42	391.18	745.07	626.08
3.	Deposits, Advances and Loans	193.32	154.16	310.73	274.69	277.97
4	Other expenditure	70.94	287.43	294.29	17.44	15.54
	<b>Total</b>	<b>2842.19</b>	<b>2396.54</b>	<b>1758.75</b>	<b>1982.98</b>	<b>2046.85</b>



The Zilla Praja Parishads resources and application of funds for the year 2007-08 are depicted through pie chart as shown in Graph 3 below.

**Graph 3 : Zilla Praja Parishads resources and application of funds for the year 2007-08**



#### **1.1.4 Accounting arrangements**

The PRIs maintain accounts on cash basis. The Budget and Accounting formats prescribed by the CAG were adopted (May 2005) by the State Government. As per the State Government, GPs and MPPs have started implementing these formats from 2006-07 onwards, while ZPPs implemented the same from the year 2005-06. Government issued (September 2007) orders for deployment of a Master Book-Keeper in each Mandal through CDS-Andhra Pradesh Academy of Rural Development (APARD) to assist in maintenance of accounts and feeding the data of all GPs of respective Mandal. Information sought by audit with regard to further development in this regard was not furnished. Further as per the information furnished (March 2010) by CPR&RE, a software namely PRIA soft (Panchayat Raj Institution Accounting Software) developed by NIC was experimented in three<sup>3</sup> districts on a pilot basis. The feedback in this regard is awaited.

Although the State Government stated that GPs had started implementing the new accounting formats, audit, however, observed that none of the GPs test checked during 2008-09 were maintaining the accounts in new accounting formats.

#### **1.1.5 Creation of database of PRIs**

##### **Grants released from EFC**

GoAP released EFC grants amounting to Rs 22.96 crore (2002-04) to the CPR&RE for creation of database on the finances of PRIs. The CPR&RE kept the above funds with the CEO, ZPP Ranga Reddy District. The PR Department with the assistance of NIC, Hyderabad developed an

<sup>3</sup> Ananthapur, Nalgonda and Vizianagaram.

‘e’ Panchayat software package and implemented (06-07) initially in 475 GPs. The expenditure incurred by the department out of this fund is given in Table 1.8 below:

**Table 1.8 : Expenditure incurred out of EFC grant earmarked for creation of database**

(Rupees in crore)

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

### Grants released from TFC

In addition to EFC, GoAP also released Rs 34.84 crore as TFC grants for creation of database during the years 2005-10 to PR department. This amount was also parked in the accounts of CEO, ZPP Ranga Reddy district without utilisation from the date of release of first installment (2005).

The Commissioner replied (February 2010) that the computerisation of database is at developing stage. The NIC, Hyderabad is developing software for PRIs and once the software is tested, the funds would be utilised in all PRIs for the above purpose.

The database was not created despite provision of funds upfront by the GOI. Thus the objective of consolidating the finances of PRIs remained unachieved for more than eight years.

### 1.1.6 Audit arrangements

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

The Director, State Audit is the statutory auditor for PRIs under the Andhra Pradesh State Audit Act, 1989. The CAG conducts only a test check. A consolidated report (TGS Note) at the end of each financial year is communicated to the Director, State Audit for improving the quality of their reports. The TGS note for the year 2009-10 was sent in April 2010.

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

There were no arrears in audit of ZPPs and marginal arrears in respect of MPPs by the Director, State Audit for the year 2008-09. In case of GPs, audit of 1110 GPs was in arrears to end of March 2009, of which only 32 GPs were audited to the end of December 2009. No reasons were furnished by the Director for delay in audit of GPs.

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

As per Section 11(2) of the State Audit Act, the Director, State Audit is to prepare Consolidated State Audit and Review Reports and present the same to

the State Legislature. The Director, State Audit has so far prepared and submitted Consolidated State Audit and Review Reports upto the year 2005-06 to the Finance department. The Government tabled the Consolidated Audit and Review Reports in the State Legislature for the period from 1998-99 to 2004-05 in December 2008. Report of 2005-06 is yet to be placed. Some of the major findings by the Director, State Audit related to excess utilisation / non-utilisation / diversion / misutilisation of grants, non-collection of dues, advances pending adjustments/violation of rules, wasteful expenditure etc.

### 1.1.6.3 Misappropriation cases

The provisions (Articles 5, 273, 294, 300, 301 and 302) of Andhra Pradesh Financial code stipulate the responsibilities of Government servants in dealing with Government money, the procedure to fix responsibility for any loss sustained by the Government, the procedure to be followed and the action to be initiated for recovery. In addition to this, the State Government had also from time to time, issued instructions relating the manner in which the misappropriation cases are to be dealt with.

The misappropriation cases of PRIs noticed by the Director, State Audit during the years 2005-06 to 2007-08 and remained to be disposed off to the end of 31 March 2009 are given in Table 1.9 below:

**Table 1.9 : Misappropriation cases of PRIs**

(Rupees in lakh)

S No	PRI	No. of misappropriation cases	Amount involved	No. of misappropriation cases	Amount involved	No. of misappropriation cases	Amount involved
		2005-06		2006-07		2007-08	
1.	Zilla Praja Parishads	4	1.34	4	7.05	16	24.66
2.	Mandal Praja Parishads	113	28.36	100	30.17	195	50.05
3.	Gram Panchayats	863	278.53	2123	667.92	1139	348.11

In 2007-08, there was a four fold increase in number of misappropriation cases in respect of ZPPs involving an amount of Rs 24.66 lakh compared to 2006-07. Urgent action needs to be taken by the Government.

### 1.1.6.4 Issue of Surcharge Certificates

According to Section 10 of the Andhra Pradesh State Audit Act, 1989 the Director, State Audit is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of Local authorities or other authorities. In this regard, details of surcharge certificates issued, the amount recovered/waived and balance pending as of October 2009 against all the three tiers of PRIs are as shown in Table 1.10 below:

**Table 1.10 : Issue of Surcharge Certificate**

(Rupees in crore)

Sl. No	Unit	No of certificates issued		Recovered/ waived		Balance	
		Cases	Amount	Cases	Amount	Cases	Amount
1.	Zilla Praja Parishads	193	0.14	59	0.03	134	0.11
2.	Mandal Praja Parishads	841	0.76	205	0.11	636	0.65
3.	Gram Panchayats	123850	118.95	1132	3.52	122718	115.43
<b>Total</b>		<b>124884</b>	<b>119.85</b>	<b>1396</b>	<b>3.66</b>	<b>123488</b>	<b>116.19</b>

Source : Information furnished by Director, State Audit

Recovery is very little as compared to amount for which surcharge certificates were issued on GPs. As against Rs 118.95 crore, an amount of Rs 3.52 crore was only recovered. Non-recovery is a cause for concern and requires effective action by Government.

### 1.1.7 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 2007-08 was undertaken in six<sup>4</sup> districts during June-September 2009.

TFC grants released (2007-08) by the State Government to PRIs is given in Table 1.11 below:

**Table 1.11 : Releases of Twelfth Finance Commission grants**

(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
2 <sup>nd</sup> Installment of 2006-07	158.70	18.05.2007	28.05.2007	No delay	-
1 <sup>st</sup> Installment of 2007-08	158.70	18.03.2008	02.04.2008	No delay	-

The following observations were made on scrutiny of records:-

- Though the CPR&RE issued order for release of TFC grants within the stipulated time, there was a delay ranging from 6 to 31 days in actual release of the amounts pertaining to second installment of 06-07 to the PRIs concerned.
- Based on the orders of State Government, District Managers (Housing) and Superintending Engineers (RWS) diverted ( 2007-08) an amount of Rs 33.79 crore<sup>5</sup> to State sponsored INDIRAMMA programme in

<sup>4</sup> Vizianangaram, Guntur, Karimnagar, Ananthapur, Medak and Nizamabad.

<sup>5</sup> Rs 32.89 crore released to ZPPs of six districts (Vizianangaram, Guntur, Karimnagar, Ananthapur, Medak and Nizamabad) ; Rs 89.84 lakh released to MPDOs of Karimnagar district for construction of 4856 ISLs under INDIRAMMA.

contravention of guidelines and an amount of Rs 11.46 crore remained unutilised as on 31 March 2008.

- An amount of Rs 46.49 lakh was incurred (2007-08) by 19 test checked PRIs of Karimnagar, Guntur, Vizianagarm, Medak, Nizamabad and Ananthapur districts on certain ineligible works (construction of CC roads, culverts, levelling of grave yard etc.).
- Out of the grant of Rs 3.98 crore released (May 2007) by CPR&RE to the District Panchayat Officer (DPO), Karimnagar for distribution among GPs in the district, an amount of Rs 29.60 lakh was kept (May 2007) at the disposal of the District Collector, Karimnagar for immediate repairs to the damage works for restoration of drinking water supply. Similarly an amount of Rs 5 lakh was utilised by the DPO Vizianagaram for sanitation purpose. In both the cases, the UCs were not obtained for the amounts released.
- There was improper maintenance of Records and Registers (cash books and other subsidiary registers) by the GPs resulting in lack of assurance that the funds were properly utilised.

### State Finance Commission

According to Article 243-I of the Constitution and Section 235 (1) & (2) of Andhra Pradesh Panchayat Raj Act, 1994 constitution of State Finance Commission (SFC) once in five years to recommend devolution of funds from the State Government to Local Bodies is mandatory. The First SFC was constituted during 1994 and the Second SFC started functioning from December 1998 and its Report was placed in the State Legislature in August 2002. The Third SFC was constituted in January 2003 and submitted its Report in January 2008. The Government constituted (March 2008) a committee of Ministers/Secretaries to examine the recommendations of the SFC and to table the Action Taken Report in the State Legislature. So far the Action Taken Report was not placed in the State Legislature.

Funds were being released to PRIs on the basis of second State Finance Commission Recommendation at Rs 200 crore per annum from which outstanding dues were being adjusted. The amounts released during the last four years from 2005-06 to 2008-09 is given in Table 1.12 below:

**Table 1.12 : Releases of State Finance Commission grants**

(Rupees in crore)

Details of PRIs	Amount released in			
	2005-06	2006-07	2007-08	2008-09
ZPPs	20.00	113.55	20.00	10.00
MPPs	12.50	8.73	12.50	6.25
GPs	167.50	47.16	157.50	33.75
<b>Total</b>	<b>200.00</b>	<b>169.44</b>	<b>190.00</b>	<b>50.00</b>

Source : Information furnished by Commissioner, PR&RE

- In 2008-09 there was shortfall of Rs 100<sup>6</sup> crore in release.
- Audit noticed discrepancies in the SFC figures furnished by the Director, State Audit and the CPR&RE for the year 2007-08 as shown in Table 1.13 below:

**Table 1.13: Discrepancies in SFC figures**

(Rupees in crore)

Unit	SFC figures furnished by the Director, State Audit	SFC figures furnished by CPR&RE
Zilla Praja Parishads	24.30	20.00
Mandal Praja Parishads	10.58	12.50

### **1.1.8 Devolution of funds, functions and functionaries to PRIs**

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

During 2007-08, the GoAP devolved ten<sup>7</sup> functions to PRIs. Accordingly, five line departments released an amount of Rs 26.40 crore to PRIs during the year 2008-09. Details of function wise/district wise releases were shown in the **Appendix-1**. It was observed that funds were not released to all the districts. As regards transfer of functionaries, no information was furnished by the Government though sought for (October 2009).

It was further observed during test check of ZPPs that due to non-transfer of functionaries, the amounts drawn by ZPPs were returned to the line departments concerned as pointed out in para 2.1 on 'Functioning of two ZPPs' incorporated in Chapter-II of the Report. Thereby the objective of the devolution of functions, funds and functionaries to PRIs was not fully achieved.

### **1.1.9 Status of CAG's audit observations**

Test audit of accounts of five ZPPs (including engineering divisions), 38 MPPs and 670 GPs was conducted under Section 20(1) of CAG's (DPC) Act, 1971 during the year 2008-09. As of February 2010, there were 536 Inspection Reports comprising 3661 objections pending settlement with PRIs up to the year 2008-09. These Reports also include the items relating to audit conducted under Section 14 prior to entrustment of Local Bodies Audit under TGS in 2005-06.

Audit Committee Meetings (both departmental as well as district level) are conducted at frequent intervals to review the pending IR paras. During the

<sup>6</sup> Against the recommended amount of Rs 200 crore, CPR&RE released Rs 50 crore to PRIs and Rs 50 crore was adjusted against the AP Transco dues of PRIs. Still there was a shortfall of Rs 100 crore.

<sup>7</sup> (i) Agriculture and Agricultural extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Rural Development (v) Drinking water and Sanitation (RWS) (vi) Primary, Secondary and Adult Education (vii) Health, Sanitation, PHC, Dispensaries, Family welfare (viii) Social Welfare, (ix) Backward classes welfare, (x) Women and Child Development.

year 2008-09, eight meetings were conducted covering eight districts, wherein 60 per cent of the old IR paras have been cleared. Apart from above, reminders are also issued to the Government (Principal Secretary) every six months seeking replies from the PRIs.

#### **1.1.10 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.

Audit examined the issue under the following two aspects:

##### **1. Maintenance of Records / Registers**

Internal control mechanism with regard to maintenance of records was deficient in almost all the Gram Panchayats (670 GPs) test checked. Several crucial records viz., cash books, stock register, DCB register, asset register were not maintained properly. Non preparation of these vital records is fraught with the risk of misappropriation and misutilisation of funds.

##### **2. Inspection by higher authorities**

As per the Andhra Pradesh Panchayat Raj Officers Delegation of Powers Rules, 2000 the CPR&RE shall inspect all the ZPPs once in a calendar year and submit copies of inspection notes to the Government. None of the test checked ZPPs (five ZPPs) in the year (2008-09) were inspected by the HOD.

Test check (2008-09) of accounts of PRIs revealed several financial irregularities, lapses in utilization of grants/funds resulting in diversion of funds, excess expenditure, incomplete projects, loss of revenue, locking up of funds etc., which were communicated through the Inspection Reports. Some of the major findings are incorporated in para 3.1 of Chapter III of the Report. Similarly, compliance to the pending inspection reports of PRIs was also poor.

#### **1.1.11 Conclusions**

The Commissioner, Panchayat Raj is not consolidating the receipts and expenditure particulars of PRIs reflecting poor monitoring of finances. The income of GPs and ZPPs declined during 2007-08. The transfer of funds in respect of subjects devolved to PRIs was inadequate and the utilisation of these funds suffered due to non-transfer of functionaries. The database to consolidate the details of finances was not created even after lapse of eight years of releasing the funds. Deviations to the guidelines were noticed in utilisation of Twelfth Finance Commission and State Finance Commission grants. The system of internal controls was grossly inadequate.

## **MUNICIPAL ADMINISTRATION & URBAN DEVELOPMENT DEPARTMENT**

### **1.2 URBAN LOCAL BODIES**

#### **1.2.1 Introduction**

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

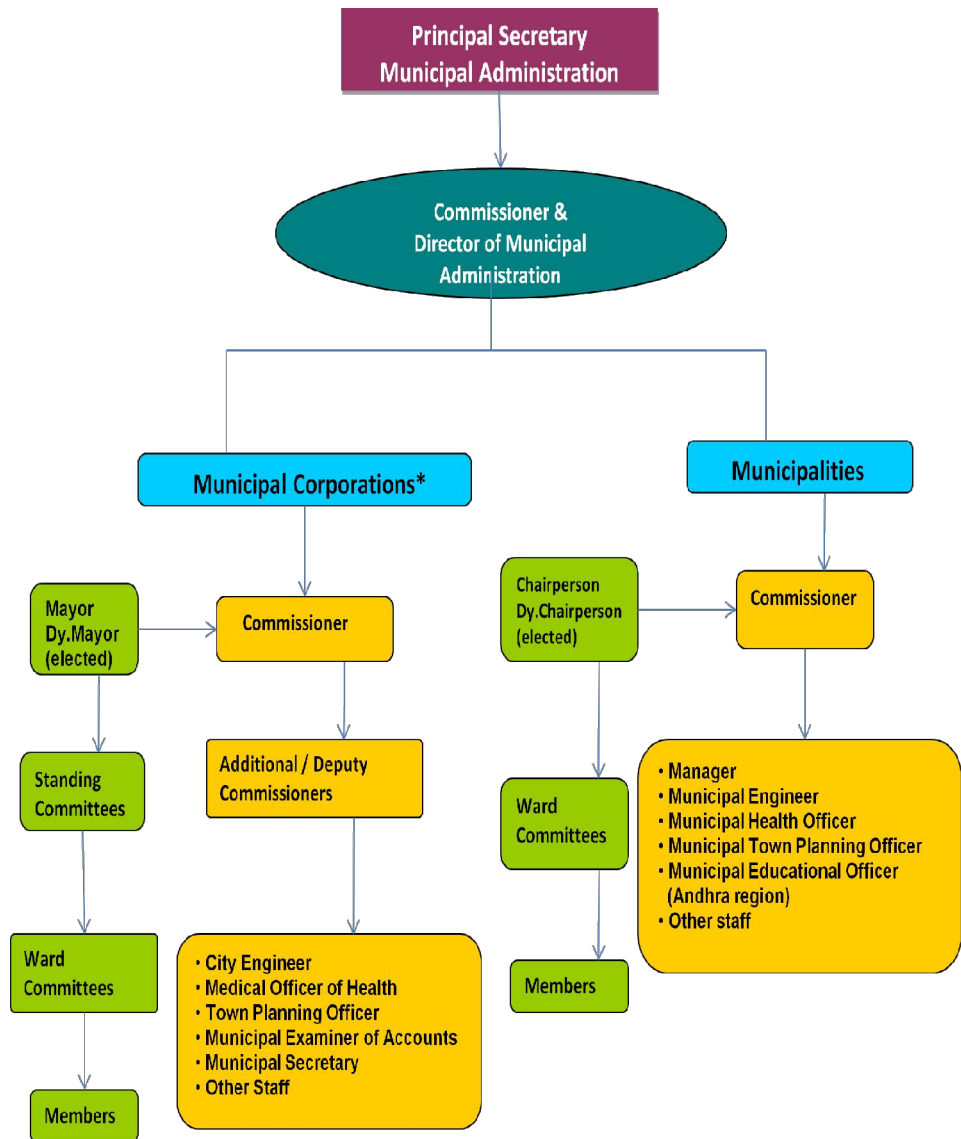
As per 2001 census, the total population of the State of Andhra Pradesh was 7.57 crore of which 2.05 crore (27.08 *per cent*) reside in urban areas. As on 31 March 2009, there were 124 Urban Local Bodies (ULBs) in the State. Of these, 109 were Municipalities and 15 were Municipal Corporations. The State Election Commission conducted elections to the ULBs in September 2005 and to Greater Hyderabad Municipal Corporation (GHMC) in November 2009. The newly elected members of GHMC took charge in December 2009.

#### **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:



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

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 for 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 accounts of ULBs was in arrears as detailed in para 1.2.5.

#### ULB resources

ULBs resources and application of funds from 2004-05 to 2008-09 as furnished by CDMA are given in Table 1.14 and 1.16 below:

Table 1.14 : Resources of Urban Local Bodies

(Rupees in crore)

Resources		2004-05	2005-06	2006-07	2007-08	2008-09
<b>Own Revenues</b>						
<b>A</b>	<b>Taxes</b>					
i	Property tax	584.24	520.41	495.76	772.29	898.26
ii	Other Tax revenue (Advertisement tax, taxes on animals and taxes on carriages and carts)	18.07	20.03	134.04	32.46	55.10
<b>Total Tax revenue</b>		<b>602.31</b>	<b>540.44</b>	<b>629.80</b>	<b>804.75</b>	<b>953.36</b>
<b>B</b>	<b>Non-Taxes</b>					
i	Water charges	104.69	119.91	130.06	150.60	156.93
ii	Encroachment fee	1.65	84.90	2.18	1.61	1.85
iii	Betterment/Development charges	50.46	59.83	66.91	86.53	112.63
iv	Building license fee	37.04	42.73	66.36	65.47	79.92
v	Others (Water supply donations, market fee, slaughter house fee, shops rent, trade license fee, etc.)	92.35	107.78	258.19	253.79	293.10
<b>Total Non-Tax revenue</b>		<b>286.19</b>	<b>415.15</b>	<b>523.70</b>	<b>558.00</b>	<b>644.43</b>

Assigned Revenue							
i	Entertainment tax	61.72	46.52	26.44	37.81	41.55	
ii	Surcharge on stamp duty	292.30	282.83	312.96*	315.24	317.66 <sup>8</sup>	
iii	Profession tax	91.07	111.65	36.58	91.09	15.50	
<b>Total Assigned revenue</b>		<b>445.09</b>	<b>441.00</b>	<b>375.98</b>	<b>444.14</b>	<b>374.71</b>	
<b>Non-Plan Grants</b>		201.95	198.99	220.45**	347.76	113.78	
<b>Plan Grants</b>		138.03	120.28	185.95**	179.02	359.94	
<b>Loans</b>		54.14	10.99	9.67**	---	179.90	
<b>Other Income</b>		293.02	290.65	344.93 <sup>#</sup>	159.63	967.81	
<b>Grand total</b>		<b>2020.73</b>	<b>2017.50</b>	<b>2290.48</b>	<b>2493.30</b>	<b>3593.93</b>	

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

\*\* excluding the figures of GHMC

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

The tax revenue comprising mainly Property Tax was increased by 16 *per cent* during 2008-09 as compared to 2007-08. Similarly there was an increase in other receipts viz., non-tax revenue and plan grants during 2008-09 compared to 2007-08. However, there was a decline of 16 *per cent* in assigned revenue from 2007 -08 to 2008-09, for which no reasons were furnished by the State Government though sought for (May 2010).

The revenue resources of ULBs and the percentage of receipt with reference to GSDP are indicated in the table 1.15 below:

**Table 1.15 : Analysis of ULB's resources in terms of GSDP**

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
ULB resources	2020.73	2017.50	2290.48	2493.30	3593.93
GSDP*	211802	239682	277286	328405	371229
Percentage of ULB resources with reference to GSDP	0.95	0.84	0.83	0.76	0.97

Source : **Socio Economic Survey** printed by Planning department of GoAP.

<sup>8</sup> Break up for assigned revenue in respect of Guntur Municipal Corporation was not furnished. Total amount of Rs 11.73 crore was included in surcharge on stamp duty.

**Table 1.16 : Application of funds by Urban Local Bodies**

(Rupees in crore)

Application of funds		2004-05			2005-06			2006-07			2007-08			2008-09		
		Non-Recurring	Recurring	Total	Non-Recurring	Recurring	Total	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*	463.98	136.24	600.22	645.62	213.89	859.51
b.	Drains and Culverts	76.50	12.36	88.86	71.75	12.89	84.64	46.66	6.46	53.12*	91.44	29.46	120.90	175.45	38.70	214.15
c.	Buildings	26.16	7.67	33.83	26.97	6.74	33.71	27.88	4.82	32.70*	43.94	16.08	60.02	48.14	13.93	62.07
d.	Public health and sanitation	21.70	114.40	136.10	17.17	195.89	213.06	17.86	245.90	263.76	19.66	171.42	191.08	22.70	230.42	253.12
e.	Water supply	153.46	89.71	243.17	94.48	81.32	175.80	86.21	66.51	152.72*	163.38	88.72	252.10	204.23	139.66	343.89
f.	Lighting	27.29	89.74	117.03	27.51	68.60	96.11	13.85	50.48	64.33*	43.29	133.70	176.99	104.15	163.13	267.28
g.	Remunerative enterprises	13.63	7.36	20.99	17.70	7.74	25.44	22.44	5.05	27.49*	17.49	3.79	21.28	14.44	9.16	23.60
h.	Housing	-	-	-	-	-	-	-	-	-	-	-	-	152.38	-	152.38 <sup>9</sup>
	<b>Total</b>	<b>576.25</b>	<b>385.04</b>	<b>961.29</b>	<b>463.66</b>	<b>443.33</b>	<b>906.99</b>	<b>327.26</b>	<b>412.73</b>	<b>739.99</b>	<b>843.18</b>	<b>579.41</b>	<b>1422.59</b>	<b>1367.11</b>	<b>808.89</b>	<b>2176.00</b>
i.	Pay and allowances	-	370.47	370.47	-	370.42	370.42	-	533.66	533.66	-	567.99	567.99	-	624.06	624.06
j.	Loans Repayment	-	65.89	65.89	-	38.83	38.83	-	60.98	60.98*	-	46.67	46.67	-	121.07	121.07
k.	Depreciation (MCH)	-	-	-	-	-	-	-	119.66	119.66	-	-	-	-	202.26	202.26
l.	Other expenditure (town planning, land acquisition, management expenses, etc.)	-	861.06	861.06	-	721.67	721.67	-	*682.37	682.37	-	931.75	931.75	203.26	796.33	999.59 <sup>10</sup>
	<b>Total</b>	<b>-</b>	<b>1297.42</b>	<b>1297.42</b>	<b>-</b>	<b>1130.92</b>	<b>1130.92</b>	<b>-</b>	<b>1396.67</b>	<b>1396.67</b>	<b>-</b>	<b>1546.41</b>	<b>1546.41</b>	<b>203.26</b>	<b>1743.72</b>	<b>1946.98</b>
<b>GRAND TOTAL</b>		<b>576.25</b>	<b>1682.46</b>	<b>2258.71</b>	<b>463.66</b>	<b>1574.25</b>	<b>2037.91</b>	<b>327.26</b>	<b>1809.40</b>	<b>2136.66</b>	<b>843.18</b>	<b>2125.82</b>	<b>2969.00</b>	<b>1570.37</b>	<b>2552.61</b>	<b>4122.98</b>

<sup>9</sup> The amount pertains to GHMC only. This was not shown separately in ULBs.

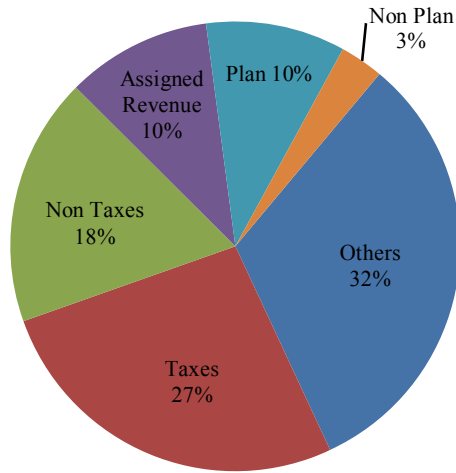
<sup>10</sup> Break up for Roads, drains, buildings etc., in respect of Guntur Municipal Corporation was not furnished. This amount includes Rs 44.97 crore non-recurring and Rs 1.22 crore recurring expenditure pertaining to Guntur Municipal Corporation.

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

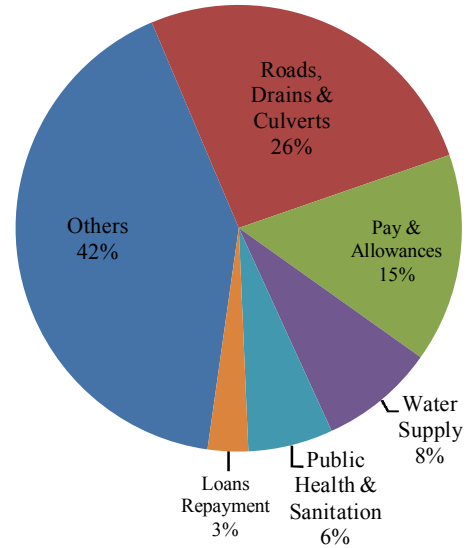
ULBs resources and application of funds for the year 2008-09 are depicted through pie chart as shown in Graph 4 below.

**Graph 4 : ULBs Resources and Application of funds for the year 2008-09**

**Resources Rs 3593.93 crore**



**Application of funds Rs 4122.98 crore**



#### 1.2.4 Accounting arrangements

##### Adoption of new Municipal Accounts Manual

Accounts of ULBs are being maintained on cash basis. The Greater Hyderabad Municipal Corporation adopted accrual based double entry system for maintaining its accounts since 2002-03. Ministry of Urban Development and Poverty Alleviation, GOI and CAG had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system for greater transparency and control over finances and requested (May 2005) the States to adopt the same with appropriate modifications to meet States specific requirements. Accordingly, a Steering Committee was constituted (May 2005) by GOAP and the Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. The State Government issued orders during August 2007 for adoption of APMAM in all the ULBs in the State. Similarly, the other manuals viz., Andhra Pradesh Municipal Budget Manual, and Andhra Pradesh Municipal Asset Manual as approved by CAG were also ordered (August 2007) by the State Government for implementation by ULBs.

The double entry accounting system has been successfully introduced in the Greater Hyderabad Municipal Corporation (GHMC), Greater Visakhapatnam Municipal Corporation, (GVMC) and Municipal Corporations of Vijayawada and Guntur. In addition to these, the Double Entry Accounting Reform (DEABAS Project) has been taken up in 57 JNNURM Project ULBs. Out of these, the project is at developing stage in 54 ULBs. The project in the

remaining 63 ULBs is being initiated and necessary preparatory work has been taken up.

### Compilation of Accounts

According to Rule 4 of Andhra Pradesh Municipalities (Preparation and Submission of Accounts and Abstracts) Act, 1970, ULBs are to compile their Accounts annually and forward a copy to Auditor not later than 15 June. However, there were huge arrears in compilation of accounts by ULBs. As of September 2009, district wise arrears in respect of Municipalities (**Appendix-2(i)**) and Municipal Corporations (**Appendix-2(ii)**) ranged from 1 to 42 accounts.

#### 1.2.5 Audit arrangements

CAG conducts audit of ULBs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of EFC, GoAP entrusted (August 2005) the Technical Guidance and Support(TGS) in connection with the accounts and audit of Urban Local Bodies under Section 20 (1) of CAG's (DPC) Act. Under TGS, a consolidated report (TGS note) at the end of each financial year is communicated to the Director, State audit for improving the quality of their reports. The TGS note for the year 2009-10 was sent in April 2010.

The Director, State Audit is the statutory auditor for ULBs under the Andhra Pradesh State Audit Act, 1989. Certification of accounts gives an assurance that the funds have been utilized as per codal provisions. However, the audit of accounts of ULBs by the Director of State Audit was pending for the past several years, as the accounts were yet to be compiled by ULBs.

According to Rule 11 of the State Audit Act, the Director, State Audit shall submit annually a Consolidated State Audit and Review Report on the accounts of local authorities in such form and in such manner as may be prescribed. The Director, State Audit has so far prepared and submitted Consolidated State Audit and Review Reports up to the year 2005-06 to the Finance department. The Government tabled the Consolidated State Audit and Review Reports in the State Legislature for the period 1998-99 to 2004-05 in December 2008. Report of 2005-06 is yet to be placed. Some of the major findings by the Director, State Audit related to excess utilisation/non-utilisation/diversion/misutilisation of grants, non-collection of dues, advances pending adjustments/violation of rules, wasteful expenditure etc. Delay in audit results in delay in remedial action on deficiencies noticed in audit.

#### 1.2.6 Finance Commissions

##### Twelfth Finance Commission:

During the year 2007-08, following were the releases of TFC grants made by the State Government to ULBs.

Table 1.17 : Releases of Twelfth Finance Commission grants

(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
2 <sup>nd</sup> Installment of 2006-07	37.40	18.05.07	10.07.07	37 days	Not worked out	-

Test check (June - September 2009) of records of 32<sup>1</sup> out of 124 ULBs relating to TFC grants for the year 2007-08 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 second installment of 2006-07 amounting to Rs 37.40 crore to ULBs in the year 2007-08 with a delay of 37 days for which interest of Rs 22.74 lakh was payable by the State Government. The amounts were credited in respective bank accounts of ULBs with further delay of 46 to 228 days by CDMA. However, the State Government did not workout and transfer the interest for delayed releases to ULBs in contravention of the guidelines.
- As against the available amount of Rs 29.82 crore as of 2007-08, the test checked ULBs utilised an amount of Rs 13.11 crore (44 per cent) to the end of March 2008 leaving a balance of Rs 16.71 crore due to delay in acquiring lands required for setting up of compost yards.
- As per the TFC guidelines, 50 per cent of the grants should be utilized for Solid Waste Management (SWM) and ULBs (with population more than one lakh) should prepare and submit Comprehensive Action Plan (CAP) for implementation of SWM. It was, however, noticed that the Action Plans prepared by the test checked ULBs and approved by the CDMA were ineffective as there was no provision for systematic implementation of SWM. As a result most of the municipalities were still in the process of land acquisition for developing compost yard. In addition to this, the funds amounting to Rs 3.49 crore were parked in FDRs by the Commissioners of nine ULBs<sup>2</sup> due to lack of effective action plans. Similarly, an amount of Rs 33.61 lakh was incurred on ineligible works namely construction of CRS masonry, court fee, legal fee, salaries etc.
- 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 was designed 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

<sup>1</sup> 32 out of 124 ULBs – Vizianagaram, Parvathipuram, Bobbili, Saluru, Guntur, Ponnur, Bapatla, Tenali, Repalle, Mangalgiri, Karimnagar, Ramagundam, Siricilla, Jagitial, Korutla, Metpally, Nizamabad, Bodhan, Armoor, Kamareddy, Sangareddy, Sadasivpet, Zaheerabad, Medak, Siddipet, Ananthapur, Dharmavaram, Hindupur, Kadiri, Tadipathri, Rayadurg and Gunthakal.

<sup>2</sup> Siricilla, Ramagundam, Ponnur, Tenali, Vizianagaram, Parvathipuram, Bobbili, Saluru and Jagitial municipality.

additional amounts to municipalities for civic amenities, grants linked to the performance of local bodies and transfer of schools to municipalities/Corporations in urban areas of Telangana region were yet to be acted upon.

The Third SFC submitted its report in January 2008. The Government constituted (March 2008) a committee of Ministers/Secretaries to examine the recommendations of the Third SFC and to table the Action Taken Report in the State Legislature. So far the Action Taken Report was not placed in the State Legislature.

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

Test audit of accounts of seven Municipal Corporations and ten Municipalities was conducted under Section 20(1) of CAG's DPC Act, 1971 during the year 2008-09. As of February 2010, there were 115 Inspection Reports comprising 2061 objections pending settlement with ULBs upto the year 2008-09. The Inspection Reports also include the items relating to audit conducted prior to entrustment of Local Bodies Audit under TGS in 2005-06.

Reminders are issued to the Government (Principal Secretary) every six months seeking replies from the ULBs.

### **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.

Internal control mechanism with regard to finalisation of accounts and adoption of new accounting manuals was deficient in all the 17 ULBs test checked during the year 2008-09. There were huge arrears (for more than two decades) in compilation of accounts by some ULBs. Despite being brought to the notice of Government on several occasions, there was no compliance. As regards the new accounting manuals, 80 *per cent* of the ULBs were yet to adopt despite the State Government orders (August 2007).

Test check (2008-09) of accounts of 17 ULBs revealed several financial irregularities, lapses in utilization of grants/funds resulting in diversion of funds, excess expenditure, incomplete projects, loss of revenue, locking up of funds etc., which were communicated through the Inspection Reports. Some of the major findings are incorporated in para 3.2 of Chapter III of the Report. Audit observed that there was poor compliance to Inspection Reports from ULBs. Thus, internal control system was inadequate.

### **1.2.9 Conclusions**

The Andhra Pradesh Municipal Accounts Manual was yet to be adopted in many ULBs. TFC grants were released with delay. TFC grants were not utilised for Solid Waste Management and not earmarked for database. There were arrears in audit by the Director, State Audit, primarily due to arrears in compilation of accounts by ULBs. There have been slippages in submission of Consolidated State Audit and Review Reports by the Director, State Audit.

The matter was reported to the Government (April 2010); reply had not been received (October 2010).