

CHAPTER I

Section-A Overview of Accounts and Finances of Local Bodies

1.1 Background

Government of India (GoI) enacted the 73rd and 74th Amendments to the Constitution, to empower the local self governing institutions like the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to ensure a more participative governance structure in the country. The GoI further entrusted the implementation of key socio-economic developmental programmes to the PRIs and ULBs and devolved funds through successive Finance Commissions.

The States, in turn were required to entrust these local bodies with such powers, functions and responsibilities as to enable them to function as institutions of self-government and implement schemes for economic development and social justice including those enumerated in the Eleventh and Twelfth Schedules to the Constitution.

Accordingly, the State Government enacted the Andhra Pradesh Panchayat Raj (APPR) Act in 1994 repealing all the existing Acts, to establish a three-tier system at Village, Mandal and District levels. Further, the Andhra Pradesh Municipal Corporations Act, 1994 was enacted to set up Municipal Corporations in the State. However, all the provisions of the Hyderabad Municipal Corporation (HMC) Act, 1955 including the provisions relating to the levy and collection of taxes or fees were extended to all other Municipal Corporations in the State. The Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965.

All the above mentioned Acts provided for conducting elections to the Local Bodies once in every five years. Elections to the PRIs and ULBs in the State were last conducted during July-August 2006 and September 2005 respectively. In respect of the Greater Hyderabad Municipal Corporation (GHMC), elections were conducted in November 2009.

1.2 State profile

Andhra Pradesh is the fourth largest State in the country in terms of size, and spans an area of 2.75 lakh sq.km. As per the 2001 census, the total population of the State was 7.62 crore, of which, 5.54 crore (73 per cent) lived in rural areas. The comparative demographic and developmental profile of the State vis-à-vis the national profile is given in **Table 1.1** below:

The ratio of rural and urban population of Andhra Pradesh is 73:27.

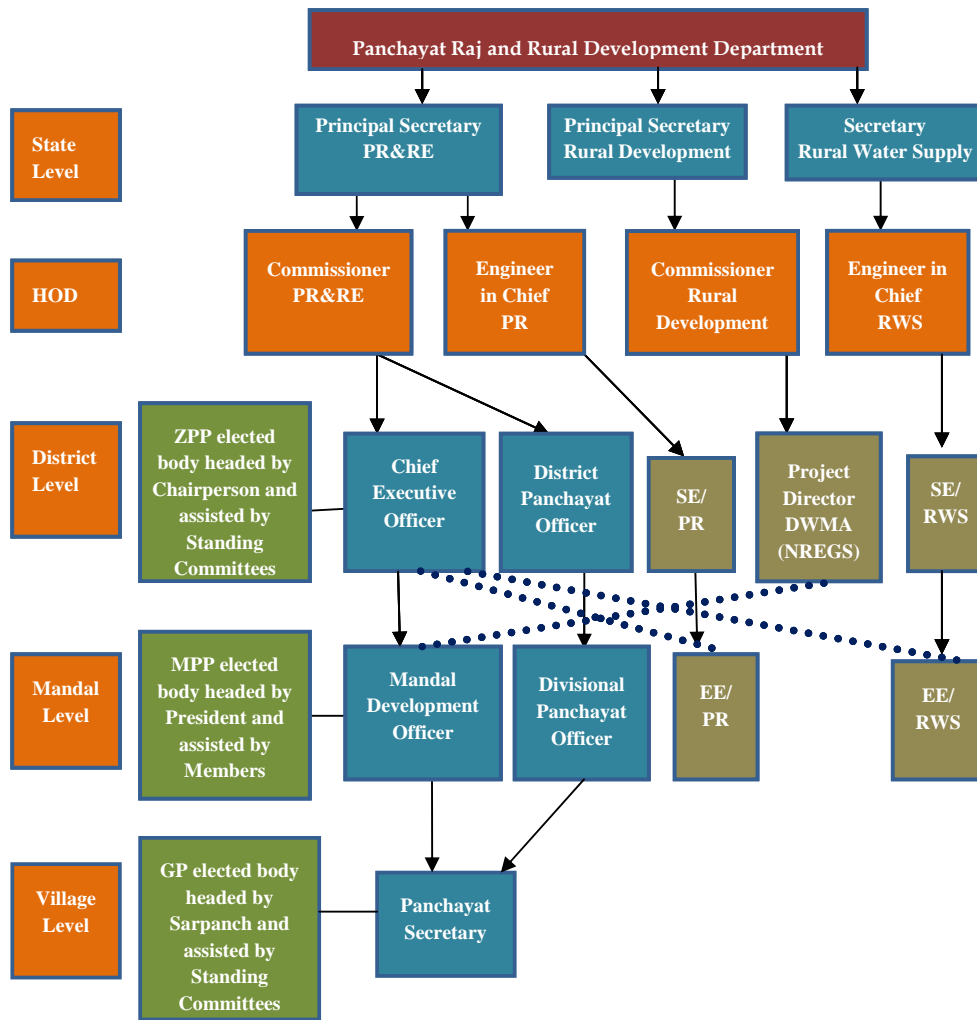
Table 1.1

	Indicator	Unit	State	National	Rank
1.	Population	Crore	7.62	102.86	5
2.	Population density	Sq. Km	277	313	11
3.	Sex Ratio	1000 Males	978	933	4
4.	Literacy Rate	Percentage	66.59	64.84	18
5.	Rural population	Crore	5.54	74.25	5
6.	Urban population	Crore	2.08	28.61	5
7.	PRIs	Number	22927	240000	4
	Zilla Praja Parishads	Number	22	540	10
	Mandal Praja Parishads	Number	1098	6000	1
	Gram Panchayats	Number	21807	234000	4
8.	ULBs	Number	124	3700	9
	Municipal Corporations	Number	15	120	2
	Municipalities	Number	109	1400	7

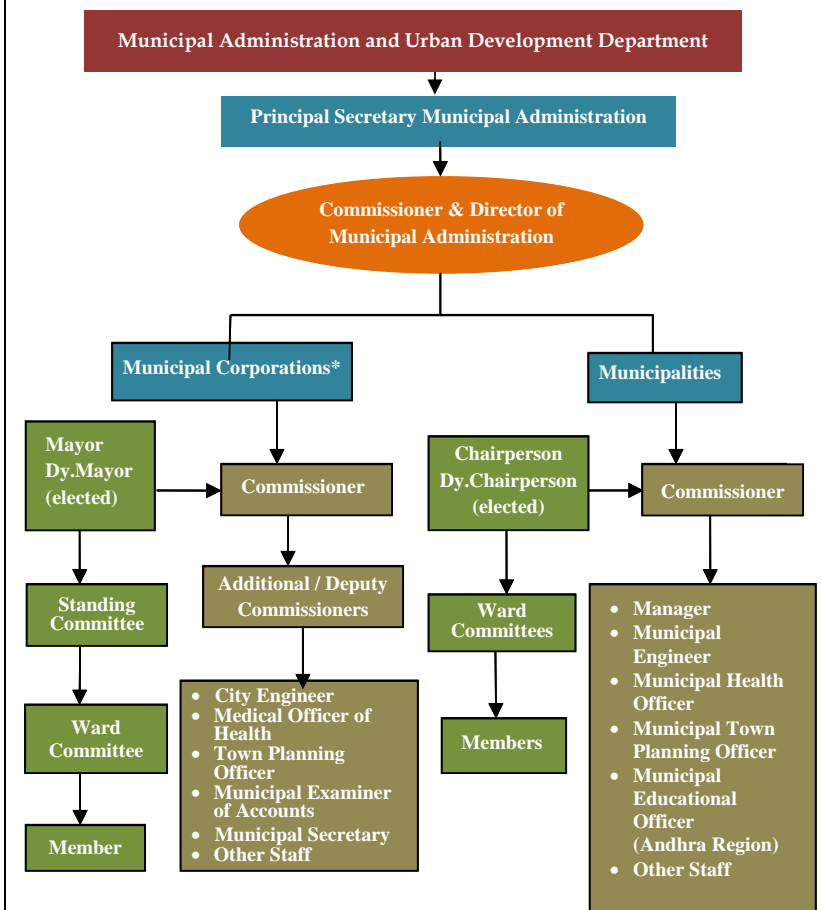
Source: Census 2001, AP at a glance, information furnished by CPR&RE and CDMA

1.3 Organisational set-up

Organisational arrangements for the PRIs and ULBs, inclusive of Government machinery and elected representatives in the State, are as under:



Dotted lines represent partial supervision



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

The roles and responsibilities of each level of organisational set-up of PRIs are detailed in **Appendix-1**.

The Municipal Councils and Corporations transact their business as per the provisions of the Acts concerned. In respect of the Corporations, the standing committees, comprising the Chairpersons of all the ward committees under it, meets at intervals prescribed by the Act. Similarly, in respect of the Councils, the municipal ward committees meet at prescribed intervals to transact the business, make regulations and scrutinize the 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, play grounds, school buildings, review the revenue collections, preparation of annual budget and sanctioning the works. The day-to-day administration of all the ULBs rests with the Commissioner, who is assisted by Additional/Deputy/Assistant Commissioner, Municipal Engineer, Medical Health Officer, Examiner of Accounts, Town Planning Officer and other staff.

1.4 Decentralised planning

As per the Constitution of India, the State Government is required to constitute a District Planning Committee (DPC) to consolidate the plans prepared by the Panchayats and Municipalities in the district, to undertake integrated development of the district. Accordingly, the State Government enacted the Andhra Pradesh District Planning Committee Act 2005 (APDPC Act). District Planning Committees (DPCs) were to be constituted under this Act in all the districts, with the following members:

- The Chairperson, ZPP shall be the ex-officio Chairperson of the Committee.
- The District Collector shall be the Member Secretary.
- Four members to be nominated by the Government, of whom, one member is to be from the minority community and three members to be nominated from among the experts on the subject.
- Twenty four members of the Committee are to be elected in the prescribed manner by and from amongst the elected members of Zilla Parishad territorial constituencies and the Municipalities in the district by following the rules of reservation as specified in the APPR Act, 1994.

All the members of the State Legislative Assembly whose constituencies lie within the district, the members of the State Legislative Council who are registered as electors in the district and the Deputy Commissioner are permanent invitees to the Committee. Audit scrutiny revealed that, DPCs have been constituted in all the 22 districts. However, as per the information furnished by Commissioner, Panchayat Raj & Rural Employment (CPR&RE), Action Plans for the year 2009-10 were received only from 13 DPCs, and that too, pertaining only to Backward Region Grant Fund (BRGF). However, both the Central and the State Governments released funds to all the PRIs and ULBs, despite non-preparation of the Action Plans by them.

Consequently, substantial funds remained unutilised by the PRIs/ULBs as brought out in paragraph 1.11.5 and 1.11.12, since they had not planned for their utilisation in a systematic manner.

1.5 Financial profile

1.5.1 Fund flow

The resource base of PRIs and ULBs consists of devolutions at the instance of State Finance Commission (SFC) and Central Finance Commission (CFC), State Government and Central Government grants for maintenance and development purposes. The fund-wise source and its custody for each tier are given in **Table 1.2** below. The authorities responsible for reporting the use of funds in respect of ZPPs, MPPs and GPs are the Chief Executive Officer (CEO), Mandal Parishad Development Officer (MPDO) and Panchayat Secretary respectively. The Commissioner concerned is responsible in the case of Corporations and Municipalities.

Table 1.2

Nature of Fund	Zilla Praja Parishads		Mandal Praja Parishads		Gram Panchayats/ Corporations/Municipalities	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	Users	Treasury (PD A/cs)	Users	Treasury (PD A/cs)	Assesses and Users	Treasury (PD A/cs)
Assigned revenues	State Govt	Treasury (PD A/cs)	State Govt	Treasury (PD A/cs)	State Govt	Treasury (PD A/cs)
SFC/State Plan						
CFC/CSS	GoI	Bank	GoI	Bank	GoI	Bank (Saving bank)

1.5.2 Fund flow arrangement in flagship programmes

Details of fund flow with regard to the flagship programmes of GoI, released to PRIs and ULBs are detailed in **Table 1.3 and 1.4** below:

PRIs

Table 1.3

Scheme	Fund flow														
MNREGS	<p>Expenditure for implementation of the Mahatma Gandhi National Rural Employment Guarantee scheme (MNREGS) is shared by the Central and State Governments on a 90:10 basis. Funds released by both the GoI and the State Government are pooled in the State Employment Guarantee Fund (SEGF). The procedures relating to flow of funds for the scheme has undergone a change with effect from 15 February 2010. As regards the system being followed upto 15 February 2010, District Water Management Agency (DWMA) received GoI's share and State's share of funds. The Project Directors, DWMA's release funds in advance to the Mandal Parishad Development Officers (MPDOs) for implementation of the scheme at Mandal and GP level. The funds are kept in separate bank accounts opened for operating the Scheme. Later, with the Central Fund Management System (CMFS) coming into effect from 15 February 2010, entire State and Central share is kept with the nodal bank at a central place in Hyderabad. The respective designated drawing officers are required to raise the Fund Transfer Orders (FTOs) directly to the Director, EGS as and when wages/payments are due.</p> <p>The financial assistance provided by the GoI and GoAP from 2005-06 to 2009-10 was ₹ 10493.89 crore. Of this, the State Government utilised ₹ 10265.79 crore (98 per cent) as detailed below.</p> <p style="text-align: right;">(₹ in crore)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="background-color: #f4a460;">Opening Balance</td> <td style="text-align: center;">Nil</td> </tr> <tr> <td style="background-color: #f4a460;">Fund released by GoI during 2005-10</td> <td style="text-align: center;">9517.51</td> </tr> <tr> <td style="background-color: #f4a460;">Funds released by GoAP during 2005-10</td> <td style="text-align: center;">826.30*</td> </tr> <tr> <td style="background-color: #f4a460;">Miscellaneous receipts</td> <td style="text-align: center;">150.08</td> </tr> <tr> <td style="background-color: #f4a460;">Total funds available</td> <td style="text-align: center;">10493.89</td> </tr> <tr> <td style="background-color: #f4a460;">Expenditure incurred (up to March 2010)</td> <td style="text-align: center;">10265.79</td> </tr> <tr> <td style="background-color: #f4a460;">Closing Balance as on 31 March 2010</td> <td style="text-align: center;">228.10</td> </tr> </tbody> </table> <p>The Director, EGS reported (January 2011) that the closing balance of ₹ 228.10 crore was available in the SEGF.</p>	Opening Balance	Nil	Fund released by GoI during 2005-10	9517.51	Funds released by GoAP during 2005-10	826.30*	Miscellaneous receipts	150.08	Total funds available	10493.89	Expenditure incurred (up to March 2010)	10265.79	Closing Balance as on 31 March 2010	228.10
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BRGF

Funds are transferred to the Consolidated fund of the State, and are supposed to be transferred to the bank accounts of the PRIs by the State Government within 15 days of the release of funds by GoI.

The funds under Backward Region Grant Fund (BRGF) are being released through two different funding windows viz, Capacity Building Fund and Development Fund. The State Government outsourced the task of capacity building of Local Bodies to a third party. The Development Fund, which is in the nature of an untied grant, is released to all three tiers of PRIs for supplementing and converging with their existing development inflows into the district. Release and utilisation of funds with regard to the BRGF during the last five years 2006-11 are as follows:

(₹ in crore)

Year	Releases		Utilisation Certificate issued	
	Capacity building fund	Development fund	Capacity building fund	Development fund
2006-07	13.00	0	13.00	0
2007-08	13.00	2.6 304.48	13.00	1.3 303.18
2008-09	0	23.59 226.79	0	23.59 226.79
2009-10	22.11	335.28	22.11	85.93
2010-11	0	335.34	0	125.52
Total	48.11	1228.08	48.11	766.31

As can be seen from the table above, PRIs are yet to provide UCs for ₹ 461.77 crore of BRGF to the GoI.

ULBs

Table 1.4

Scheme	Fund flow
JNNURM	<p>The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) comprised of four sub-missions viz., Urban Infrastructure and Governance (UIG); Basic Services to the Urban Poor (BSUP); Integrated Housing and Slum Development Programme (IHSDP) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT).</p> <p>The programme is funded by the GoI, GoAP and ULBs at prescribed percentage, as laid down in the guidelines of the respective submissions. The Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (APUFIDC) is the nodal agency for implementation of JNNURM in the State. Funds are initially released by both the Central and the State Governments to APUFIDC, which in turn releases them to the implementing agencies based on the progress of work.</p>
SJSRY	<p>Swarna Jayanti Shahari Rozgar Yojana (SJSRY) comprises five major components viz, Urban Self Employment Programme (USEP), Urban Women Self-help Programme (UWSP), Skill Training for Employment Promotion amongst Urban Poor (STEP-UP), Urban Wage Employment Programme (UWEP) and Urban Community Development Network (UCDN).</p> <p>Funding under SJSRY is shared between the Centre and the States in the ratio of 75:25. The Central share is directly released in the form of Demand draft to Commissioner & Director of Municipal Administration (CDMA) and the State share is apportioned through budget. Funds from both the sources are placed initially with the Mission of Elimination of Poverty in Municipal Areas (MEPMA), a State level nodal agency. In turn these funds are released to ULBs.</p>

1.5.3 Twelfth Finance Commission grants

The main objective of the Twelfth Finance Commission (TFC) grants in respect of PRIs is to undertake repairs / rejuvenation of assets relating to water supply and sanitation and also for utilising towards their O&M costs. Similarly, the objective in respect of ULBs is for implementation of solid waste management.

In pursuance of the TFC guidelines empowering the CAG to audit the release and utilisation of its grants, the records of ZPPs, 30 MPPs, 150 GPs and 23¹ ULBs pertaining to 2008-09 were test checked in six districts during April-September 2010. It was observed that the first installment of 2007-08 was released with a delay ranging from 1 to 43 days in 137 PRIs, the second installment with a delay ranging from 3 to 62 days in 136 PRIs and the first installment of 2008-09 was released with a delay ranging from 3 to 66 days in 128 PRIs. In four PRIs, the first installment of 2008-09 was not released as of the date of audit (November 2010).

As for the ULBs, the delay in release of the first installment (2007-08) ranged from 6 to 27 days and delay in release of second installment of 2007-08 and first installment of 2008-09 ranged from 30 to 31 days in the seven test checked ULBs.

As for utilisation of funds, audit scrutiny revealed that the CPR&RE and CDMA did not exercise proper control over the utilisation of funds by PRIs and ULBs respectively. UCs were issued to the Government as soon as the funds were released to them. Following are some illustrative observations on utilisation of funds in the test checked PRIs and ULBs.

PRIs

- ZPP, Visakhapatnam deposited ₹ 6.49 crore in fixed deposits instead of crediting to PD account, in violation of GoI guidelines governing the utilisation of TFC grants. Parking of funds in banks resulted in non-achievement of the envisaged objectives of the programme for which, the funds were released.
- ₹ 15.41 crore² released (2006-09) by the GoI was diverted by the ZPPs towards construction of Individual Sanitary Latrines (ISLs) of newly constructed houses under the State sponsored INDIRAMMA Housing scheme. While the GoI funds are meant for renovation of existing community sanitation facilities, utilisation of such funds for individual benefit for construction of capital items of sanitation is irregular and is violative of the guidelines governing the TFC grants.

ULBs

- In 23 test checked ULBs, ₹ 57.17 crore was available as of 31 March 2009. Out of this amount, only ₹ 13.50 crore was utilised (24 per cent) leaving a

¹ Srikakulam, Amudalavalasa, Ichapuram, Palasa-Kasibugga, Rajam, GVMC (Visakhapatnam), Anakapalle, Bheemuniapatnam, SPSR Nellore, Kavali, Gudur, Venkatagiri, Kurnool, Nandyal, Adoni, Yemmiganur, Dhoni, Mahbubnagar, Wanaparthi, Narayanapet, Gadwal, Tandur, Vikarabad.

² ZPP Srikakulam ₹ 7.61 crore and in ZPP Mahbubnagar ₹ 7.80 crore.

balance of ₹ 43.67 crore. In three³ ULBs, no funds were utilised during 2008-09.

- In contravention of GoI guidelines, three ULBs have drawn ₹ 5.30 crore⁴ from PD account concerned and kept in fixed deposits.
- An amount of ₹ 19.43 lakh was incurred (2008-09) by six ULBs⁵ on works such as painting to Municipal buildings, shops; repairs to vehicles; laying of bore wells etc., which are not eligible for funding from TFC grants.

1.5.4 Resources and application of resources

Trends and composition

PRIs

Resources:

As there was no system of consolidating the financial position at the Commissioner level, the resources and expenditure particulars⁶ of PRIs upto the year 2008-09⁷ were obtained from the State Audit Department. **Table 1.5** below shows the trends of resources of PRIs during 2004-09.

Table 1.5

(₹ in crore)

Resources	2004-05	2005-06	2006-07	2007-08	2008-09
Own Revenue	505.61	401.84	294.87	290.89	388.39
General fund and Assigned revenue	4632.96	2509.37	1708.39	2065.67	2803.95
Grants for CFC / SFC	528.95	333.10	302.80	185.14	392.59
GoI grants for CSS /State Schemes	956.44	1330.00	994.10	1332.75	1416.44
Other Receipts	548.48	385.66	1354.80	552.80	686.60
Total	7172.44	4959.97	4654.96	4427.25	5687.97

Source: Information furnished by State Audit

³ Yemmiganur, Gadwal and Narayanapet Municipalities.

⁴ Nellore Municipal Corporation ₹ 4.09 crore, Kavali Municipality ₹ 86.13 lakh, Mahbubnagar Municipality ₹ 35.40 lakh.

⁵ Municipalities : Tandur ₹ 5.08 lakh, Ichapuram ₹ 0.92 lakh, Anakaplle ₹ 3.58 lakh, Gudur ₹ 2.93 lakh, Wanaparthy ₹ 5.43 lakh and Nellore Municipal Corporation ₹ 1.49 lakh.

⁶ These were not inclusive of the major Centrally Sponsored Scheme MNREGS as the Director, State Audit does not conduct audit of MNREGS.

⁷ As the compilation of data for 2009-10 was not completed, the State Audit Department furnished the figures till 2008-09.

Application of Resources:

Table 1.6 below shows the trends of application of resources of PRIs during 2004-09:

Table 1.6

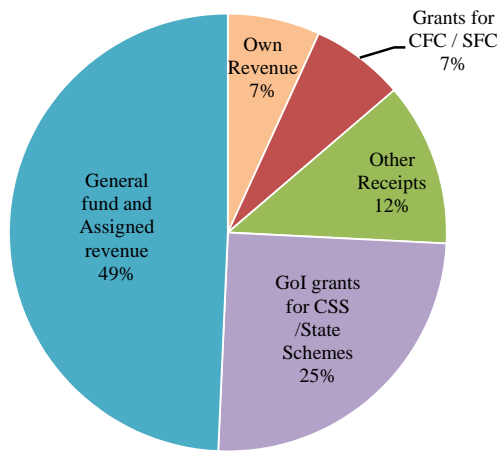
(₹ in crore)

Application of funds	2004-05	2005-06	2006-07	2007-08	2008-09
Expenditure from Grants-in aid					
Education	3142.21	881.82	427.55	469.54	684.70
Social Welfare	29.82	73.08	37.32	42.58	34.21
Minor Irrigation and Rural Water Supply	132.39	146.24	214.11	285.80	485.52
Roads and Bridges maintenance	100.34	109.13	188.70	173.39	369.14
Other expenditure	731.25	901.19	240.87	291.22	316.80
Total	4136.01	2111.46	1108.55	1262.53	1890.37
Scheme works such as SGRY, Janmabhoomi, BRGF and the expenditure of other programmes / grants	2127.24	2582.39	1660.91	1628.56	2216.95
Expenditure from general fund	237.57	504.64	520.24	611.43	672.57
Deposits, Advances and Loans	186.32	370.52	313.07	304.35	290.72
Grand Total	6687.14	5569.01	3602.77	3806.87	5070.61

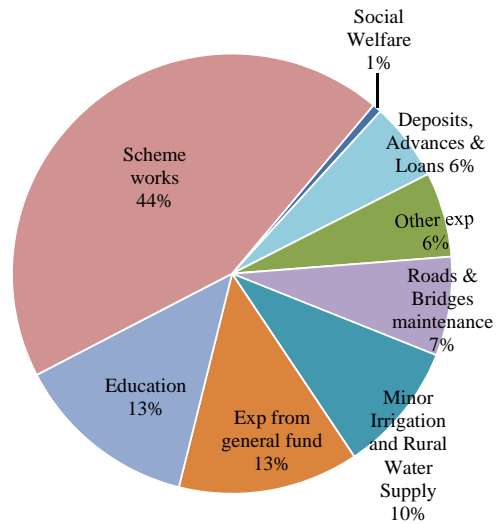
Source: Information furnished by State Audit

The break-up of the composition of resources and their application by PRIs during 2008-09 is depicted in pie-chart below.

Resources : ₹ 5687.97 crore



Application of funds : ₹ 5070.61 crore



ULBs

Resources

Table 1.7 below shows the trends of resources of ULBs during 2005-10.

Table 1.7

(₹ in crore)

Resources	2005-06	2006-07	2007-08	2008-09	2009-10
Own Revenue	955.59	1153.50	1362.75	1597.79	1697.65
Grants from GoI, State Government and Assigned Revenues	639.99	596.43	791.90	488.49	408.11
GoI grants for CSS/State Schemes	120.28	185.95	179.02	359.94	576.28
Other Receipts	301.64	354.60	159.63	1147.71	974.79
Total	2017.50	2290.48	2493.30	3593.93	3656.83

Source: CDMA

Application of resources

Table 1.8 below shows the trends of sector-wise application of resources of Corporations and Municipalities for the period 2005-10. Breakup of capital and revenue expenditure is detailed in *Appendix-2*.

Table 1.8

(₹ in crore)

Application of funds		2005-06	2006-07	2007-08	2008-09	2009-10
a.	Roads	278.23	145.87*	600.22	859.51	370.06
b.	Drains and Culverts	84.64	53.12*	120.90	214.15	170.29
c.	Buildings	33.71	32.70*	60.02	62.07	43.58
d.	Public health and sanitation	213.06	263.76	191.08	253.12	302.01
e.	Water supply	175.80	152.72*	252.10	343.89	243.87
f.	Lighting	96.11	64.33*	176.99	267.28	221.63
g.	Remunerative enterprises	25.44	27.49*	21.28	23.60	22.95
h.	Housing	-	-	-	152.38 ⁸	142.03
	Total	906.99	739.99	1422.59	2176.00	1516.42
i.	Pay and allowances	370.42	533.66	567.99	624.06	495.32
j.	Loans Repayment	38.83	60.98*	46.67	121.07	23.89
k.	Depreciation (MCH)	-	119.66	-	202.26	221.08
l.	Other expenditure (town planning, land acquisition, management expenses, etc.)	721.67	682.37	931.75	999.59 ⁹	1340.93
	Total	1130.92	1396.67	1546.41	1946.98	2081.22
GRAND TOTAL		2037.91	2136.66	2969.00	4122.98	3597.64

Source : Information furnished by CDMA

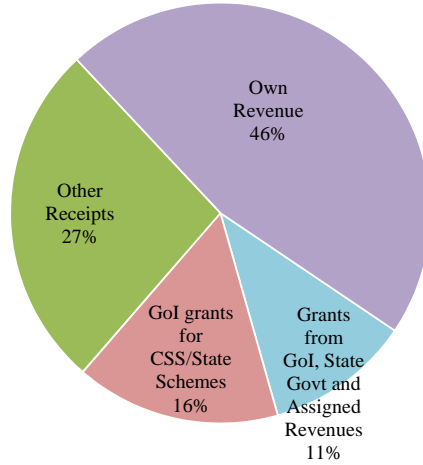
⁸ The amount pertains to GHMC only. This was not shown separately in ULBs.

⁹ Break up for roads, drains, buildings etc., in respect of Guntur Municipal Corporation was not furnished. This amount includes ₹ 44.97 crore non-recurring and ₹ 1.22 crore recurring expenditure pertaining to Guntur Municipal Corporation.

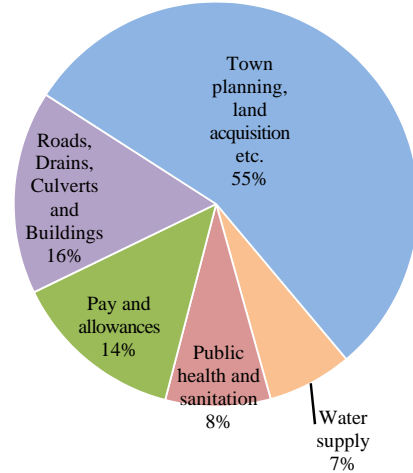
* Details are excluding the figures of MCH for the year 2006-07. Expenditure of MCH relating to these sectors for the year 2006-07 is included in other expenditure.

The break-up of the composition of resources and their application by ULBs during 2009-10 is depicted in pie-chart below.

Resources : ₹ 3656.83 crore



Application of Resources : ₹ 3597.64 crore



Quality of Expenditure

Availability of better infrastructure in social, educational and health sectors generally reflects the quality of expenditure. In view of the importance of public expenditure on development heads for social and economic development, it is important for Local Bodies to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public goods and services which will enhance the welfare of the citizens. Apart from improving the allocation towards development expenditure, the efficiency of expenditure is also reflected by the ratio of capital expenditure to total expenditure. **Table 1.9** below shows the key parameters for evaluating the quality of expenditure of ULBs:

Table 1.9

(₹ in crore)

Year	Total Expenditure	Revenue Expenditure (RE)	Percentage of RE to total	Capital Expenditure (CE)	Percentage of CE to total
2005-06	2037.91	1574.25	77	463.66	23
2006-07	2136.66	1809.40	85	327.26	15
2007-08	2969.00	2125.82	72	843.18	28
2008-09	4122.98	2552.61	62	1570.37	38
2009-10	3597.64	2750.37	76	847.27	24

Source : Information furnished by CDMA, as detailed in Appendix-2

1.6 Devolution of funds, functions and functionaries

PRIs

The Eleventh Schedule of the 73rd Constitutional Amendment Act, 1992 listed 29 subjects for devolution to strengthen the PRIs. During 2007-08, the GoAP devolved ten¹⁰ functions to PRIs. However, while six line departments released ₹ 161.31 crore to PRIs during the year 2009-10, they have not transferred the concerned functionaries. Details of function wise/district wise releases are shown in *Appendix-3*. As can be seen from this Appendix, funds were not released to all the districts by the departments.

It was further observed during test check of ZPPs that due to non-transfer of functionaries, the amounts drawn by ZPPs were either returned to the line departments concerned or remained unutilised as pointed out in para 2.2 on 'Functioning of two ZPPs' incorporated in Chapter-II of the Report. Therefore, the objective of devolution of functions, funds and functionaries to PRIs was not fully achieved.

ULBs

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

1.7 Accounting Arrangements

PRIs

The PRIs maintain accounts on cash basis. The Model accounting system was prescribed by the GoI in consultation with the CAG. As per the latest information furnished (February 2011) by CPR&RE, the State Government issued orders (September 2010) for adopting the format using PRIASoft (Panchayat Raj Institution Accounting Software) developed by NIC. It was planned to implement it initially in ZPPs and subsequently in Mandals and 475 GPs, which are notified as e-panchayats.

ULBs

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 State's specific requirements. Accordingly, a Steering Committee was

¹⁰ (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.

constituted (May 2005) by GoAP, and the Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. The State Government issued orders in 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 accepted by the State for implementation (August 2007) by the ULBs.

As per the latest information furnished (February 2011) by CDMA, the accounts under the new system were being prepared in 57 JNNURM implementing ULBs from the year 2008-09 and necessary preparatory work has been taken up to implement the project in the remaining 66 ULBs. GHMC has been implementing the double entry accounting system since 2002-03.

1.8 Accountability framework

1.8.1 Role of State Government in the decentralised setup

The APPR Act and HMC Act empower the State Government to exercise certain powers on PRIs and ULBs respectively for making rules, to dissolve, to cancel and suspend a resolution or decision taken, to issue directions to the executive authorities, for inspection and calling for records etc, as detailed in *Appendix-4*. The Government oversight role, however, seemed to be ineffective as highlighted in Section-B of this Chapter and issues highlighted in Chapter-II and III of the Report.

1.8.2 Social Audit

The basic objective of social audit is to ensure public accountability in the implementation of projects, laws and policies. Social audits allow people and civil society organisations/groups to enforce accountability and transparency, providing the ultimate users an opportunity to scrutinize developmental programmes. Since transparency, accountability and citizen participation in governance are important components of good governance, recent governmental programmes have been providing for social audit component within the scheme guidelines itself. Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), 2005 is one such example.

MNREGA provides for 100 days of guaranteed employment in one financial year to all rural households, where the members are willing to do unskilled work. The Act not only guarantees wage employment as a right, but also promotes community monitoring through Vigilance and Monitoring Committees and social audit through Gram Sabha.

In consonance with MNREG Act, the State Government made arrangements to operationalise the social audits by establishing Strategy Performance Innovative Units (SPIU) with effect from 2006, in co-ordination with Centre for Good Governance (CGG) with financial support from the Department for International Development (DFID). Consequent on closure of SPIUs, the State Government constituted an

independent Society for Social Audit in May 2009 for monitoring, accountability and transparency in implementation of the scheme. A state level cell at the office of the Commissioner, Rural Development and district level cell at the office of the Project Director, DWMA are formed to follow up action on social audit. The modus operandi of the social audit teams involve visits to all the GPs, public hearing of the complaints of wage seekers with regard to provision of employment and payment of wages and reporting to the Government about the achievement or otherwise, of the objectives of the programme in a fair and transparent manner.

The Director, Social Audit in the State has been inspecting all the GPs and reporting their findings to the State Government. The first annual report was issued to Government in August 2010.

1.8.3 Audit mandate

1.8.3.1 Audit by Statutory auditor – Director State Audit

The Director, State Audit (DSA) is the statutory auditor for PRIs and ULBs under the Andhra Pradesh State Audit Act, 1989 and is required to conduct audit of all the 22927 PRIs and 124 ULBs annually. As per Section 11(2) of the Act, the Director is required to prepare the Consolidated State Audit and Review Report and present the same to the State Legislature. The Department functions under the administrative control of Finance Secretary to Government of Andhra Pradesh. It has 6 Regional Offices, 22 District Offices, 156 Sub offices and several resident offices.

- **Arrears in audit**

Certification of accounts gives an assurance that the funds have been utilised for the purpose for which these have been authorised. However, it was noticed from the information furnished (November 2010) by the DSA, that the audit of accounts of many ULBs was pending as the accounts were yet to be compiled by the ULBs. There were no arrears in audit of ZPPs and marginal arrears in respect of MPPs and in case of GPs, audit of 7139 GPs was in arrears as of March 2010. No reasons were furnished by the Director for delay in audit of GPs.

- **Submission of Consolidated State Audit and Review Reports**

The DSA has prepared and submitted Consolidated State Audit and Review Reports upto the year 2007-08 to the Finance department and the Government tabled (March 2011) the same in the State Legislature. Some of the major findings are on excess utilisation / non-utilisation / diversion / misutilisation of grants, non-collection of dues, advances pending adjustments, violation of rules, wasteful expenditure etc.

- **Issue of surcharge certificates**

According to Section 10 of the Act, the DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of Local authorities or other authorities. The amounts surcharged are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act. In this regard, details of surcharge certificates issued, amount recovered/waived and balance pending as of March 2010 against all the three tiers of PRIs are as shown in **Table 1.10** below:

Table 1.10

(₹ in crore)

Unit	Number of certificates issued		Recovered/waived		Balance	
	Cases	Amount	Cases	Amount	Cases	Amount
Zilla Praja Parishads	193	0.14	59	0.03	134	0.11
Mandal Praja Parishads	867	0.74	250	0.20	617	0.54
Gram Panchayats	124006	119.05	1141	3.60	122865	115.45
Total	125066	119.93	1450	3.83	123616	116.10

Recovery is very little as compared to the amount for which surcharge certificates were issued on GPs. As against ₹ 119.05 crore, only an amount of ₹ 3.60 crore was recovered. Non-recovery is a cause for concern and requires effective action by the State Government.

1.8.3.2 Audit by CAG

CAG conducts audit of Local Bodies (PRIs and ULBs) under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of the Eleventh Finance Commission, GoAP has 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.

CAG conducts only a test check and 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.

Status of CAG's audit observations

Test audit of accounts of six ZPPs (including engineering divisions), 81 MPPs, 316 GPs, four Municipal Corporations and 17 Municipalities was conducted under Section 20 (1) of CAG's (DPC) Act, 1971 during the year 2009-10. As of February 2011, there were 625 Inspection Reports comprising 4353 objections pending settlement with PRIs and 107 Inspection Reports comprising 2445 objections pending settlement with ULBs up to the year 2009-10. 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.

Despite reminding the Government (Principal Secretaries) at regular intervals, the response from PRIs and ULBs in furnishing replies is very poor.

1.9 Conclusion

The State ranks fifth in the country in terms of the number of people living in rural areas. Within the State itself, about 73 *per cent* of people live in the rural areas. However, the Government is yet to devise a system for obtaining a consolidated picture about the finances of the PRIs, despite the PR system having been in place for over 17 years. Planning for developmental activities is abysmal and there is no correlation between the requirements of the Local Bodies and the funds devolved to them. Further, utilisation of funds is very poor and in the absence of UCs in many cases from the PRIs, it is not possible to vouch for the expenditure reported to have been incurred by the Local Bodies in the State.

There were significant delays in compilation of accounts by ULBs, with consequent delay in their audit by the DSA. Further, since the Andhra Pradesh Municipal Accounts Manual was yet to be adopted in many ULBs, the latter continue to maintain their accounts on cash basis. The Government needs to look into these issues and initiate appropriate action to address them.

Section-B

Financial reporting

1.10 Framework

Financial reporting in the PRIs and ULBs is a key element of accountability. The best practices in matters relating to drawal of funds, form of bills, incurring of expenditure, maintenance of accounts, rendering of accounts by the PRIs and ULBs are governed by the provisions of the APPR Act, 1994 and HMC Act 1955 respectively, rules framed by the State Government from time to time, Andhra Pradesh Treasury Code, Financial Code, Public Works Accounts Code, Public Works Departmental Code, Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

1.11 Financial reporting issues

Some of the issues relating to financial reporting are enumerated below:

PRIs

1.11.1 Creation of database of PRIs

GoAP released (2002-10) EFC and TFC funds amounting to ₹ 57.80 crore¹¹ 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 and stated (February 2011) that no expenditure was incurred during the year (2009-10) towards the 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 nine years.

1.11.2 Preparation of budget

According to the provisions of the APPR Act, 1994, every GP should prepare budget estimates for a financial year before December of the preceding financial year, and obtain approval of the Divisional Panchayat Officer under Section 77(2) of the Act. However, it was noticed that 188 GPs (87 per cent) out of 216 test checked, had not prepared budget estimates for the year 2009-10. Funds were being released by the Government in a routine manner, thereby defeating the purpose of planning and taking into account the requirements of the grass root level people.

1.11.3 Reconciliation

In terms of the Budget Manual, the GPs are required to carry out reconciliation of cash book figures with treasury balances every month. The purpose of reconciliation of Treasury Personal Deposit Account and bank accounts is to watch whether remittances made into the accounts and the booking of sanctioned expenditure are

¹¹ EFC grants ₹ 22.96 crore (2002-04) and TFC grants ₹ 34.84 crore (2005-10).

correct and also to certify the genuineness of remittances made through challans. However, it was observed that 204 (94 per cent) out of 216 GPs audited have not conducted reconciliation with the treasury/Bank. There is, thus, a risk of misuse of Government money in the form of fictitious drawals/remittances and irregular booking of expenditure under various heads of account/scheme/programmes. The matter needs immediate attention for corrective action.

1.11.4 Maintenance of records

Records such as Works Register, DCB Register, Grants Register, Stock Register, Challan Register and Register of Receipts and Expenditure are to be maintained as per the provisions of GP Accounts Manual of Panchayat Raj and Rural Development Department. However, the above registers were not maintained as prescribed in almost all the GPs test checked, reflecting poor internal controls and inadequate accounting arrangements in GPs. These records are important as they are intended to constitute documentary evidence of proper receipt and utilisation of funds and account for stock. The Director, State Audit also pointed out this aspect in his reports. But no rectificatory action was taken by the State Government to ensure the maintenance of registers by GPs.

1.11.5 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 the Commissioner/PR should watch the balances of closed schemes lying in the accounts of different PRIs. Scrutiny of records of two ZPPs and 8 MPPs on a sample basis revealed that as of March 2010, an amount of ₹ 6.17 crore as detailed in *Appendix-5* remained unspent in the accounts of closed schemes. No action was initiated by the executives to transfer the amount to Government account.

1.11.6 Advances pending adjustment

According to the provisions of Andhra Pradesh Financial Code-1, advances paid should be adjusted without any delay and the DDOs concerned should watch their adjustment. Though the State Government is empowered to call for the records to examine the effective functioning of PRIs, no efforts were made by the Government to examine the cases as such. As a result, it was noticed in 27 MPPs that funds amounting to ₹ 1.81 crore advanced to different executive agencies remained unadjusted as of March 2010 as detailed in *Appendix-6*.

1.11.7 Furnishing of UCs

Scheme guidelines of CSS stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI/MoPR. Similarly, utilisation particulars of the funds released from PRIs general funds to SC, ST and Women and Child Welfare corporations also should be obtained by PRIs concerned. Scrutiny of records of one ZPP and 10 MPPs on a sample basis revealed

that UCs amounting to ₹ 51 lakh from different agencies were pending to be obtained by the PRIs as detailed in **Appendix-7** indicating poor monitoring not only by the DDOs but also the HOD.

1.11.8 Cases of misappropriation

The Andhra Pradesh Financial code stipulates 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. State Government ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis and the Chief Secretary to Government to review these cases once in six months with all the Secretaries concerned.

The misappropriation cases in PRIs noticed by the Director, State Audit during the years 2005-06 to 2007-08 (consolidated figure of 2008-09 and 2009-10 awaited) and remained to be disposed off to the end of 31 March 2010 are given in **Table 1.11** below:

Table 1.11

(₹ in crore)

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

There was no information with regard to the number of cases settled and the action initiated for recovery during the year 2009-10. Urgent action needs to be taken by the Government in this regard.

ULBs

1.11.9 Physical verification of stores and stock

According to the provisions of Article 143 of Andhra Pradesh Finance Code Volume I, all stores and stock should be verified physically once a year to end of March and a certificate of check after each verification, should be recorded by the Head of the office in the Register concerned. Scrutiny of records of ten ULBs during 2009-10 revealed that in respect of seven¹² of these, annual physical verification of

¹²Tirupathi Municipal Corporation, Proddutur, Bapthla, Jangaon, Ichapuram, Nagari and Vikarabad municipalities.

stock and stores was not conducted since many years and in some cases since inception (formation of Municipality).

1.11.10 Non-reconciliation of departmental figures with treasury

As per para 19.6 of Andhra Pradesh Budget Manual, the DDOs are required to reconcile every month the departmental receipts and expenditure with those booked in treasury to avoid any misclassification and fraudulent drawals. Scrutiny of records of ten ULBs during 2009-10 revealed that in respect of four of these, reconciliation was pending for two to three years.

1.11.11 Non-finalisation 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. As per the information furnished by the Director, State Audit, there were huge arrears (for more than two decades) in compilation of accounts by some ULBs as listed in *Appendix-8*.

1.11.12 Parking of scheme funds in FDRs

Parking of CSS / State Plan Schemes funds in Fixed Deposit Receipts (FDRs) by ULBs was highlighted in AR 2006-07. The State Government, however, had not taken any effective action to ensure that the funds are not parked in FDRs by ULBs. As a result, CSS, State Plan and CFC grants amounting to ₹ 26.32 crore were parked in FDRs in violation of the concerned scheme guidelines as observed during a test check of five ULBs during 2009-10.

Though the above mentioned audit finding have been brought to the notice of the State Government on several occasions, no effective action has been taken by the Government.

1.12 Conclusion

Financial reporting in PRIs and ULBs was inadequate as evidenced by non-preparation of budget, non-maintenance of crucial registers, non-remittance of unspent balances of closed schemes, non-furnishing of UCs and advances pending adjustment, non-finalisation of accounts, parking of scheme funds in FDRs, non-conducting of physical verification of stores and stock and non-reconciliation of departmental figures with treasury. Also, the database of finances was not created even after the lapse of nine years of releasing the funds.