

CHAPTER III

SECTION 'A'

AN OVERVIEW OF URBAN LOCAL BODIES

3.1 Introduction

3.1.1 The 74th Constitutional amendment enacted in 1992 envisioned creation of local self-governments for the urban area population wherein municipalities were provided with the constitutional status for governance. The amendment empowered Urban Local Bodies (ULBs⁵²) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 subjects listed in the XII Schedule of the Constitution. The amendment also brought out some principal changes in the urban fabric of the country, *inter alia*, mandating

- establishment of an independent State Election Commission for the superintendence and conduct of municipal elections every five years and
- constitution of a State Finance Commission (SFC) every five years for reviewing the financial position of municipalities.

The amendment introduced certain uniformity in the fundamental structure of the ULBs at the national level. Being a State subject, State Legislative Acts govern these bodies and set out their powers, responsibilities, service delivery mandates and obligations with regard to accounting, audit and oversight.

The category-wise ULBs in the State as of February 2011 are as shown in **Table 3.1** below:

Table 3.1: Category-wise ULBs in Karnataka State

Sl.No.	Urban Local Bodies	Number of ULBs
1	City Corporations (CCs)	9
2	City Municipal Councils (CMCs)	43
3	Town Municipal Councils (TMCs)	94
4	Town Panchayats (TPs)	68
5	Notified Area Committees (NACs)	4

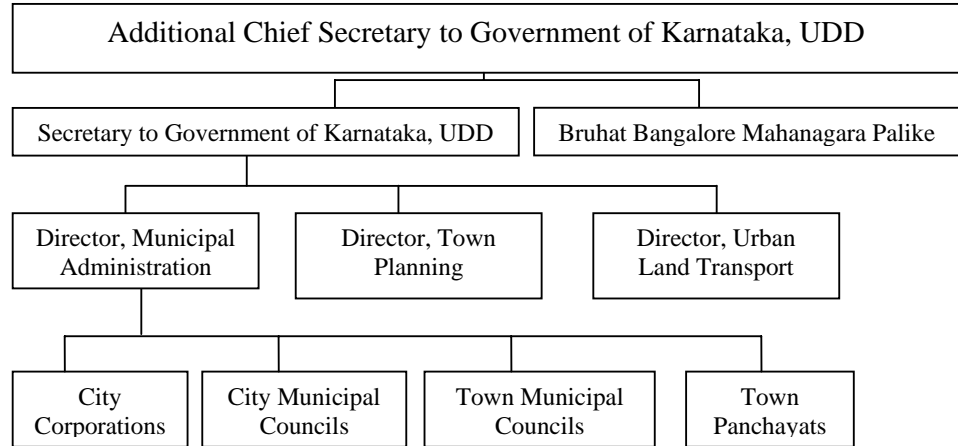
Source: Administrative Report of UDD for the year 2009-10

The CCs are governed by the Karnataka Municipal Corporations Act (KMC Act), 1976 and the other ULBs are governed by the Karnataka Municipalities Act (KM Act), 1964. Each corporation/municipal area is divided into a number of wards, which is determined and notified by the State Government considering the population, dwelling pattern, geographical condition and economic status of the respective area.

⁵² Classified as City Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats, *etc.* based on the population

3.2 Organisational set-up

3.2.1 The Urban Development Department (UDD) is headed by Additional Chief Secretary to Government of Karnataka and is the nodal department. The organisational structure with respect to functioning of ULBs in the State is as under:



3.2.2 In order to ensure comprehensive development and to improve service delivery system in thickly populated areas and urbanised areas in the State, the State Government constituted various Boards/Authorities⁵³ assigning specific functions to them.

3.2.3 While Bruhat Bangalore Mahanagara Palike (BBMP) functions directly under the UDD, the other ULBs discharge their duties under the control/guidance of subordinate wings of UDD headed by a Director for each wing. The subordinate wings of UDD and their responsibilities are as indicated in **Table 3.2** below:

Table 3.2: Subordinate wings of UDD and their responsibilities

Sl.No.	Wing	Responsibilities
1	Municipal Administration	<ul style="list-style-type: none"> to ensure that ULBs discharge their functions and guide them in discharge of obligatory, special and discretionary functions urban reforms, especially relating to revenue collection, computerisation and accounting implementation of the Centrally Sponsored and State Government Schemes
2	Town Planning	<ul style="list-style-type: none"> assist the Government in formulation of policies on matters related to planning and development of urban and rural areas of the State extending technical support to Urban Development/Planning authorities, ULBs in preparation and enforcement of development plans and preparation of town extension

⁵³ Bangalore Metropolitan Regional Development Authority, Bangalore Development Authority, Bangalore Water Supply and Sewerage Board, Bangalore Metro Rail Corporation Limited, Karnataka Urban Water Supply and Drainage Board, Karnataka State Town Planning Board, Karnataka Urban Infrastructure Development and Finance Corporation, Urban Development Authorities (UDAs) for 27 cities

Sl.No.	Wing	Responsibilities
		schemes, etc.
3	Urban Land Transport	<ul style="list-style-type: none"> periodical assessment of travel demand in a given urban area through scientific methods determination of the level of public transport required in different corridors and the type of transport systems required based on a comprehensive appraisal of public transport technologies assessment and recommendation of the new investments needed for creation of infrastructure over a specified time horizon liaisoning with the municipal bodies/UDAs in designing and developing integrated policies and plans for city level transportation and their financing

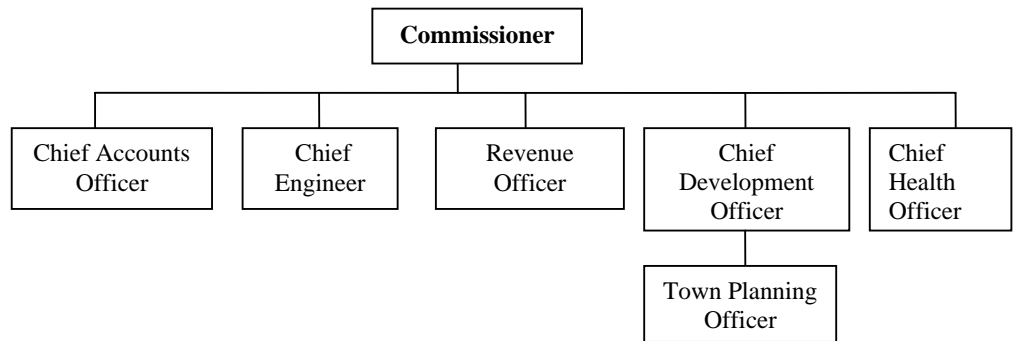
Source: Administrative Report of UDD

3.2.4 Composition of ULBs

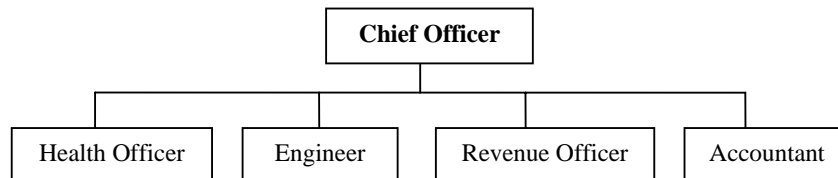
All the ULBs have a body comprising of Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected on majority by the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. While the ULBs other than BBMP have four⁵⁴ Standing Committees, BBMP has additional four⁵⁵ Standing Committees to deal with their respective functions.

The Commissioner/Chief Officer is the executive head of ULBs. The officers of ULBs exercise such powers and perform such functions as notified by the State Government from time to time, which are detailed in **Appendix 3.1**. The executive set-up of CCs and ULBs are as shown below:

Executive set-up of City Corporations



Executive set-up of other ULBs



⁵⁴ 1) Taxation, Finance and Appeals 2) Public Health, Education and Social Justice

3) Town Planning and Improvement 4) Accounts.

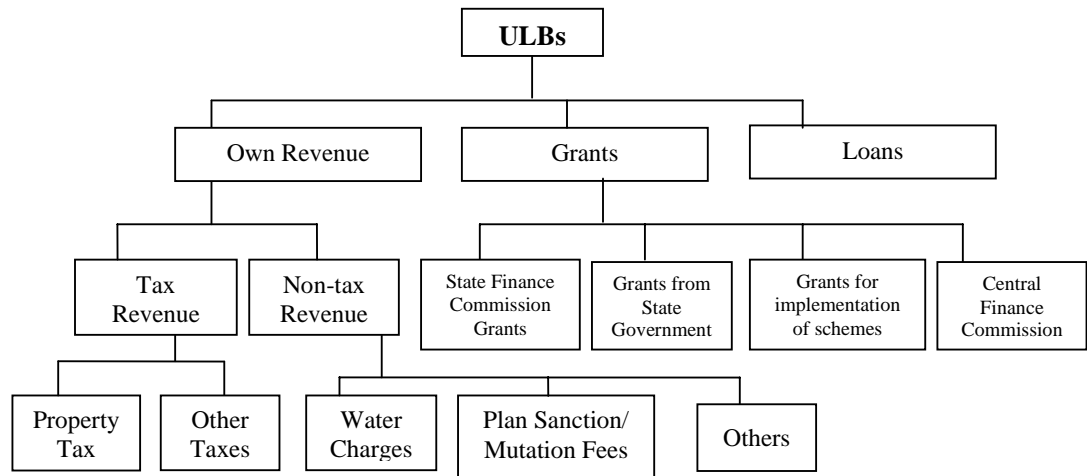
⁵⁵ 1) Public Works 2) Education and Social Justice 3) Appeal 4) Horticulture

3.3 Financial profile

3.3.1 Resources of ULBs

The ULBs do not have a large independent tax domain. The finances of ULBs comprise of receipts from own sources, grants and assistance from Government of India (GOI)/State Government and loans procured from financial institutions or nationalised banks as the State Government may approve. The property tax on land and buildings is the mainstay of ULB's own revenue. While power to collect certain taxes is vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, *etc.* are vested with the State Government. The own non-tax revenue of ULBs comprise of fee for sanction of plans/mutations, water charges, *etc.*

Grants and assistance released by the State Government/GOI as well as loans raised from financial institutions are utilised for developmental activities and execution of various schemes. Flow chart of finances of ULBs is as shown below:



3.3.2 Custody of fund in ULBs

The grants received from the State Government are kept in Personal Deposit account of ULBs in the Treasury. All receipts are to be paid into the treasury and any money required for disbursement are drawn from the treasury through cheque. The grants received for implementation of schemes are kept in banks duly authorised by the State Government. The Drawing and Disbursing Officers (DDOs) under ULBs are empowered to draw the fund from the treasury/banks after getting sanction from the Commissioner/Chief Officer.

3.3.3 Release of Grants to ULBs

The details of grants released by the State Government to ULBs during the period from 2007-08 to 2009-10 are as shown in **Table 3.3** below.

Table 3.3: Statement showing release of grants

ULBs	2007-08		2008-09		2009-10	
	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	534	559	802	749	679	662
CMCs/TMCs	968	968	1,210	1,260	1,335	1,372
TPs/NACs	398	397	449	331	351	438
Total	1,900	1,924	2,461	2,340	2,365	2,472

Source: State Budget Estimates and Finance Accounts

It could be observed from the table above that though the grants released by the State Government to all ULBs increased by 28 *per cent* from the period 2007-08 to 2009-10, the grants released to CCs decreased by 12 *per cent* during 2009-10 when compared to the previous year.

3.3.4 Own revenue of ULBs

Own revenue of ULBs include property tax, advertisement tax, fees, water charges, *etc.* Details of own revenue of ULBs are shown in **Table 3.4** below:

Table 3.4: Statement showing own revenue of ULBs

Year	Tax Revenue	Water Charges	Total own revenue
2007-08	103	Not available	-
2008-09	200	1,144	1,344
2009-10	216	1,148	1,364

Source: As furnished by Municipal Administration

3.4 State Finance Commission

3.4.1 The 73rd and 74th Constitutional amendments mandate the constitution of State Finance Commission every five years to determine sharing of revenue between the State Government and local bodies. So far, three SFCs were constituted and recommendations of the first and second finance commissions were implemented.

The second SFC recommended (January 2003) devolution of funds at the rate of eight *per cent* of the Non-Loan Gross Own Revenue Receipts (NLGORR) of the State Government. However, the State Government decided (June 2006) to release eight *per cent* of Non-Loan Net Own Revenue Receipts (NLNORR) of the State to ULBs. The details of release of grants to ULBs during 2007-10 are shown in **Table 3.5** below:

Table 3.5: Release of grants to ULBs

Year	NLNORR of the State	Released to ULBs	Percentage
2007-08	29,345.00	2,468.20	8
2008-09	30,804.00	2,339.11	7
2009-10	33,923.00	2,471.69	7

Source: State Finance Accounts

It could be observed from the table that though the State Government released eight per cent of NLNORR during 2007-08, the grants released declined to seven per cent during 2008-10.

3.4.2 Financial position of CCs

The receipt and expenditure of all the CCs including BBMP during the period from 2007-08 to 2009-10 is detailed in **Table 3.6** below:

Table 3.6: Receipt and expenditure of CCs

(₹ in crore)

CCs	2007-08		2008-09		2009-10		Percentage of increase compared to 2007-08	
	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure
Bangalore (BBMP)	1,935.87	1,821.97	2,508.06	2,436.21	3,363.07	3,397.92	74	86
Mangalore	160.27	150.50	175.77	120.62	232.64	223.25	45	48
Bellary	34.57	28.64	80.08	67.45	109.09	111.20	216	288
Hubli-Dharwad	99.46	73.26	122.46	91.73	109.33	110.38	10	51
Belgaum	65.10	51.49	89.48	62.17	85.21	101.13	31	96
Davanagere	60.89	17.22	48.29	58.96	96.08	98.57	58	472
Gulbarga	52.37	46.52	55.33	39.77	67.07	63.11	28	36
Mysore	144.02	124.69	157.50	145.74	197.26	154.60	37	24

Source: Audit Report of Chief Auditor (2007-08) and Fund based accounting system figures furnished by BBMP. In respect of other CCs – as furnished by Municipal Administration (Municipal Reforms Cell)

Note: Tumkur CC has been reverted to CMC from 2011

3.5 Investment through major schemes

Expenditure incurred *vis-à-vis* receipts for major schemes implemented by ULBs during 2008-09 and 2009-10 are given in **Table 3.7** below:

Table 3.7: Statement showing receipts and expenditure of major schemes

(₹ in crore)

Name of the Scheme	2008-09		2009-10	
	Receipts	Expenditure	Receipts	Expenditure
Swarna Jayanti Shahari Rozgar Yojane (SJSRY)	38.64	31.49	54.07	26.67
Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	151.97	118.43	15.55	199.13
Chief Minister's Small and Medium Towns Development Programme (CMSMTDP)	NA	123.41	NA	332.42
Chief Minister's Special Grant to seven CCs	119.00	17.43	243.00	272.21
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	283.08	358.00	446.78	1,091.00

Source: As furnished by Municipal Administration and Karnataka Urban Infrastructure Development and Finance Corporation Limited.

NA: not available

3.6 Devolution of Functions, Funds and Functionaries

3.6.1 Transfer of Functions

The 74th amendment envisaged devolution of 18 functions to ULBs. The State Government stated (November 2010) that out of 18 functions, 14 functions were transferred to ULBs and two⁵⁶ functions are being implemented by ULBs and the State Government. The other two functions namely, Urban Planning and Fire Services have not been transferred to ULBs. The water

⁵⁶ (1) Urban forestry, protection of environment and ecology (ULBs and Forest Department)
(2) Slum improvement and upgradation (ULBs and Slum Development Board)

supply for domestic and industrial purposes is implemented through separate agencies⁵⁷ of the State Government.

3.6.2 Transfer of Funds

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly through budget to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes.

3.6.3 Transfer of Functionaries

The KMC and KM Acts stipulate that the State Government, as it considers necessary, appoint personnel including officers from Karnataka Municipal Administrative Service to ULBs and also depute the staff as per the percentage fixed under Karnataka Municipalities (Recruitment of Officers and Employees) Rules, 2010.

3.7 Accountability framework

3.7.1 Powers of the State Government

Acts governing ULBs entrusts the State Government with the following powers so as to enable it to monitor the proper functioning of the ULBs:

- frame rules to carry out the purposes of KMC and KM Acts;
- dissolve the ULBs, if the ULBs fail to perform or default in the performance of any of the duties imposed on them;
- cancel a resolution or decision taken by ULBs, if Government is of the opinion that it is not legally passed or in excess of the powers conferred by provisions of the Acts;
- regulate the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of the staff and officers of ULBs.

A detailed list of powers of the State Government is given in **Appendix 3.2**.

3.7.2 Vigilance mechanism

The Lokayukta appointed by the State Government as stated in Chapter I of the Report has power to investigate and report on allegations or grievances relating to the conduct of officers and employees of ULBs.

3.7.3 Audit mandate

The Controller, State Accounts Department (SAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The Commissioner/Chief Officer shall be responsible for rectification of any defects or irregularities pointed out in the report of the SAD. The Director of Municipal Administration (DMA) has the power to penalise for illegal payment or loss caused by gross negligence or misconduct based on the recommendations of the Controller, SAD.

⁵⁷ Bangalore Water Supply and Sewerage Board for BBMP area and Karnataka Urban Water Supply and Drainage Board for other ULBs

The State Government entrusted (May 2010) the audit of accounts of all ULBs to the Comptroller and Auditor General of India under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09.

3.7.4 Arrears in Primary Audit

Audit of accounts of 190 ULBs as against 214 ULBs for the period up to 2008-09 was conducted by SAD as of 31 March 2010. The audit of remaining 24 ULBs was not conducted due to non-submission of accounts by ULBs and inadequate staff in SAD.

3.7.5 Response to Audit Observations

The Commissioners/Chief Officers are required to comply with the observations contained in the Inspection Reports (IRs) and rectify the defects and omissions and report their compliance to SAD within three months from the date of issue of IRs. The Controller, SAD informed (March 2011) that the DMA though intimated of the position through regular correspondence, failed to ensure prompt and timely action by the concerned officers of the ULBs. As a result, there were 1,02,887 audit paragraphs outstanding as at the end of March 2010 relating to the period up to 2009-10 involving ₹2,366.82 crore.

3.8 Resource utilisation

3.8.1 Twelfth Finance Commission grants

Twelfth Finance Commission (TFC) recommended GOI grants of ₹323 crore to ULBs in the State for five years from 2005-06 to 2009-10 to be released in 10 instalments (two instalments in a year). TFC suggested earmarking at least 50 per cent of grants for solid waste management (SWM) activities. The State Government allocated the grants to all ULBs based on the population and issued (January 2006) guidelines for execution.

As per the guidelines, priority should be given to public-private partnership to enhance service delivery of SWM services in urban areas and also for creation of database and maintenance of accounts at the grass root level. The State Government allocated (January 2006) grants in the ratio of 50:40:05:05 to SWM, untied grants, creation of database and energy saving measures respectively. The details of funds released and expenditure incurred on these activities during the period 2005-10 is as shown in **Table 3.8** below:

Table 3.8: Application of TFC grants in ULBs

(₹ in crore)

Category	Grants	Expenditure					Closing Balance
		SWM	Untied Grants	Database	Energy Savings	Total	
CCs	82.32	23.75	42.67	2.85	0.54	69.81	12.51
CMCs	91.36	39.40	28.01	5.93	6.41	79.75	11.61
TMCs	97.02	47.03	30.65	5.53	3.57	86.78	10.24
TPs	51.81	26.00	19.10	0.48	1.52	47.10	4.71
NACs	0.49	0.01	0.48	0.00	0.00	0.49	0.00
Total	323.00	136.19	120.91	14.79	12.04	283.93	39.07

Source: Data furnished by Municipal Administration

As is apparent from the table above, the ULBs have utilised only 42 per cent of grant on SWM during the period 2005-10.

3.8.2 Delayed release of funds

TFC guidelines stipulated that the GOI was to release the funds to State Government which in turn were to be transferred to ULBs within 15 days of their receipt, failing which interest at the RBI rate was to be paid for the delayed period. There were delays in transfer of funds, ranging from 1 to 136 days, during the period 2005-06 to 2007-08 but interest of ₹0.49 crore has not been paid by the State Government.

3.8.3 Deficiencies in utilisation of grant

Test-check of records of eight CCs⁵⁸, 11 CMCs⁵⁹, 30 TMCs⁶⁰ and 20 TPs⁶¹ disclosed the following deficiencies:

- ₹3.12 crore was diverted for other works in contravention of guidelines issued, as detailed in **Appendix 3.3**.
- Nine ULBs⁶² invested the TFC grants of ₹8.84 crore in fixed deposit in nationalised banks during the period 2005-10, thereby defeating the intention of providing timely service to the urban population as envisaged.

3.9 Conclusion

While the grants released by the State Government to all ULBs increased by 28 *per cent* from the period 2007-08 to 2009-10, the grants released to CCs decreased by 12 *per cent* during 2009-10 when compared to the previous year. Even though the second SFC recommended grants to the extent of eight *per cent* of NLGORR of the State, the State Government released only seven *per cent* of NLNORR of the State during 2008-10. Out of 18 functions to be devolved to ULBs, the State Government devolved only 14 functions. The ULBs have utilised only 42 *per cent* of TFC grants on SWM during the period 2005-10 as against the prescribed 50 *per cent*.

⁵⁸ Bangalore, Belgaum, Bellary, Davanagere, Dharwad, Gulbarga, Mangalore and Mysore

⁵⁹ Chikmagalur, Chitradurga, Gadag, Gokak, Harihar, Hospet, Jamakhandi, Shahabad, Tiptur, Tumkur and Yadgir

⁶⁰ Aland, Athani, Badami, Bailhongal, Bannur, Bantwal, Chittapur, Doddaballapur, Gundlupet, Harapanahalli, Hiriya, Hoovinahadagali, Hunsur, Kampli, KR Nagar, Malavalli, Malur, Moodabidri, Mudalgi, Nanjangud, Pavagada, Puttur, Ron, Sandur, Sedam, Shahpur, Shorapur, Sira, Siraguppa and Ullal

⁶¹ Afzalpur, Belthangadi, Channagiri, Chincholi, Gubbi, Gurmitkal, Honnali, Jagalur, Jewargi, Kamalapura, Koratagere, Kottur, Kudachi, Kudligi, Mulki, Periyapatna, Saragur, Sullia, Sringeri and Tekkalkote

⁶² Athani, Belgaum, Gokak, Jhamkhandi, KR Nagara, Mangalore, Mudalgi, Pavagada and Raibhag

SECTION 'B'

Financial Reporting

3.10 Framework

3.10.1 Financial reporting in the public sector is a key element of accountability. Best practices⁶³ require preparation of General Purpose Financial Statements (GPFS) for each entity. According to Karnataka Municipalities Accounting and Budgeting Rules (KMABR), 2006, the ULBs shall prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet, Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit to the Auditor appointed by the State Government, within two months from the end of the financial year.

3.10.2 *Municipal Reforms*

The initiative of municipal reforms was consummated during 2006 through the Nirmala Nagara programme whose components, among others, included accounting reforms, computerisation of municipal functions, setting up public grievance system, *etc.* This programme was initially funded by Karnataka Urban Development Coastal Environmental Project. Only 57 ULBs, including eight CMCs which merged with BBMP were covered under this programme. These reforms are now adopted by the remaining ULBs of the State under Karnataka Municipal Reforms Project (KMRP). The main objectives of KMRP are to:

- improve delivery of urban services through enhancing the quality of urban infrastructure;
- enhance accountability, transparency and improve governance of ULBs;
- make ULBs need sensitive, demand responsive and self reliant;
- improve the financial health of the ULBs; and
- promote institutional reforms, capacity building measures and performance based investments and to explore and promote ways for public-private partnerships.

The Municipal Reforms Cell (MRC) working under DMA is responsible for computerisation and maintaining accounts on Fund Based Accounting System (FBAS) in ULBs (except BBMP). To bring in better governance and more efficient service delivery through the use of technology and process re-engineering, the State Government initiated (2005) the process of computerisation of municipal functions in all the ULBs of the State in a phased manner.

⁶³ Standard on presentation of financial statements issued by International Public Sector Accounting Standards (IPSAS)

3.10.3 Accounting Reforms

On the recommendations of Eleventh Finance Commission, GOI entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the CAG of India.

The Ministry of Urban Development, GOI developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The State Government brought out the KMABR based on the NMAM with effect from 1 April 2006. The financial statements of ULBs comprise of Income and Expenditure Account, Receipts & Payments Account and Balance Sheet. KMABR was introduced in a phased manner in all the ULBs except BBMP. As of 31 March 2011, all the ULBs are preparing the fund-based accounts in double entry system.

The BBMP is maintaining FBAS based on the Bangalore Mahanagara Palike (Accounts) Regulations, 2001 and the funds of BBMP are classified into three categories *viz.*, Governmental Fund, Propriety Fund and Fiduciary Fund based on the objectives, policies and activities.

3.10.4 Budget

According to the provisions of KMC Act, KM Act and Rule 132 of KMABR, the ULBs were to prepare the budget estimates duly considering the grants, loans and own revenues before fifteenth of January each year for the ensuing financial year and submit to the Municipal Council for approval. The Commissioner/Chief Officer was to seek additional funds required, if any, through re-appropriation/additional grants after getting the approval of the Municipal Council.

3.11 Financial Reporting issues

3.11.1 Preparation of unrealistic budget

The overall budget provision and the expenditure of the ULBs (excluding BBMP) for the years 2007-08, 2008-09 and 2009-10 are given in **Table 3.9** below:

Table 3.9: Statement showing budget provision and expenditure of ULBs

(₹ in crore)					
Year		Budget Provision	Expenditure	Savings	Percentage of savings
2007-08	Revenue	983.42	867.91	115.51	12
	Capital	749.28	588.34	160.94	21
2008-09	Revenue	1,371.24	994.84	376.40	27
	Capital	1,334.15	874.74	459.41	34
2009-10	Revenue	1,547.65	1,164.88	382.77	25
	Capital	1,858.79	1,198.76	660.03	36

Source: As furnished by MRC. The Cell did not furnish data relating to two CCs, 15 CMCs, eight TMCs and 21 TPs

Persistent savings were observed in both revenue and capital expenditure *vis-à-vis* the budget provisions over the last three years ranging from 12 to 36 *per cent*, indicating preparation of unrealistic budget estimates.

3.11.2 Certification of accounts

According to KMABR, the financial statements of ULBs shall be audited by the Chartered Accountants (CAs) appointed by the DMA. The CAs after completion of audit shall submit to the Municipal Council and the State Government, a report along with the audited accounts. **Table 3.10** below shows the position of accounts prepared by ULBs and certified by the CAs during the period 2006-07 to 2009-10 (February 2011).

Table 3.10: Position of preparation and certification of accounts

Year	Number of ULBs which prepared accounts					Number of accounts certified by CAs*				
	CC	CMC	TMC	TP	Total	CC	CMC	TMC	TP	Total
2006-07	4	34	6	7	51	4	34	6	7	51
2007-08	4	42	41	7	94	2	22	5	3	32
2008-09	4	28	3	6	41	NIL	NIL	NIL	NIL	NIL
2009-10	3	9	1	4	17	NIL	NIL	NIL	NIL	NIL

Source: Information furnished by MRC

* except BBMP

It was observed that while the number of ULBs which prepared the accounts during 2006-10 varied between 17 and 94 out of 213, the number of accounts certified by CAs were 51 and 32 during 2006-07 and 2007-08 respectively. Despite preparation of accounts, the CAs did not certify accounts in any of the ULBs during 2008-10.

3.11.3 Improper maintenance of Investment Register

As at the end of March 2010, BBMP had invested ₹61.08 crore in term deposits as seen from the provisional annual accounts. Audit could trace only term deposit entries for ₹46.04 crore in the Investment Register maintained. No supporting records were produced for the remaining amount of ₹15.04 crore.

3.11.4 Non-accountal of transactions

An amount of ₹20.70 crore invested in term deposits⁶⁴, (42 Fixed Deposits of ₹49 lakh each and a deposit of ₹12 lakh) were encashed in October 2008 with an interest of ₹46.63 lakh. However, these transactions were neither recorded in the Investment Register of BBMP nor brought to the books of accounts maintained under FBAS.

3.11.5 Theft, loss, misappropriation, surcharge, etc.

During 2009-10, the Controller, SAD has reported misappropriation/defalcation cases involving ₹38.02 lakh in ULBs of 18 districts.

The Controller, SAD proposed surcharge⁶⁵ of ₹1.84 crore and forwarded to DMA to initiate action on the officers/officials based on the seriousness of audit objections reported during the period 1996-97 to 2002-03. Further action taken by the DMA is not forthcoming. During December 2010, the Department has issued show cause notice to two officers for recovery of ₹36.94 lakh based on the report of SAD for the year 2007-08.

⁶⁴ Axis bank (Account No.02004)

⁶⁵ penalty

3.12 Conclusion

In spite of preparation of accounts by ULBs, the CAs did not certify accounts for the years 2008-10. Persistent savings were observed in both revenue and capital expenditure *vis-à-vis* budget provision ranging from 12 to 36 *per cent* over the last three years. Internal control mechanism was inadequate as evidenced from misappropriation/defalcation cases, improper maintenance of investment register and non-accountal of transactions in the books of account.