

CHAPTER I

SECTION 'A' AN OVERVIEW OF URBAN LOCAL BODIES

1.1 Background

The 74th constitutional amendment gave constitutional status to Urban Local Bodies (ULBs) and established a system of uniform structure, regular election, regular flow of funds through Finance Commission etc. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as institutions of self-government.

Consequent to the 74th amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

1.2 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1** below. Tamil Nadu is the second most urbanised state in India. The urban population of the State as per the 2001 census was 2.59 crore constituting 42 *per cent* of the total State population (6.24 crore).

Table 1.1: Important statistics of the State

Indicator	Unit	State value	National value	Rank amongst all States
Population	Million	62.4	1028.61	6
Population density	Sq.Km	480	313	6
Urban population (<i>per cent</i>)	Million	2.59	286.12	3
Number of ULBS	Numbers	719	3842	1
Number of Corporations	Numbers	10	139	5
Number of Municipalities	Numbers	148	1595	4
Number of Town Panchayats	Numbers	561	2108	1
Gender ratio	1,000 males	987	933	3
Literacy	Percentage	73.45	65	6

(Source : Thirteenth Finance Commission and Census 2001)

1.2.1 Classification of Urban Local Bodies

The Municipalities and Town Panchayats are classified into different grades by the Government of Tamil Nadu based on their own revenue and State Finance Commission Grants, as given in **Table 1.2**.

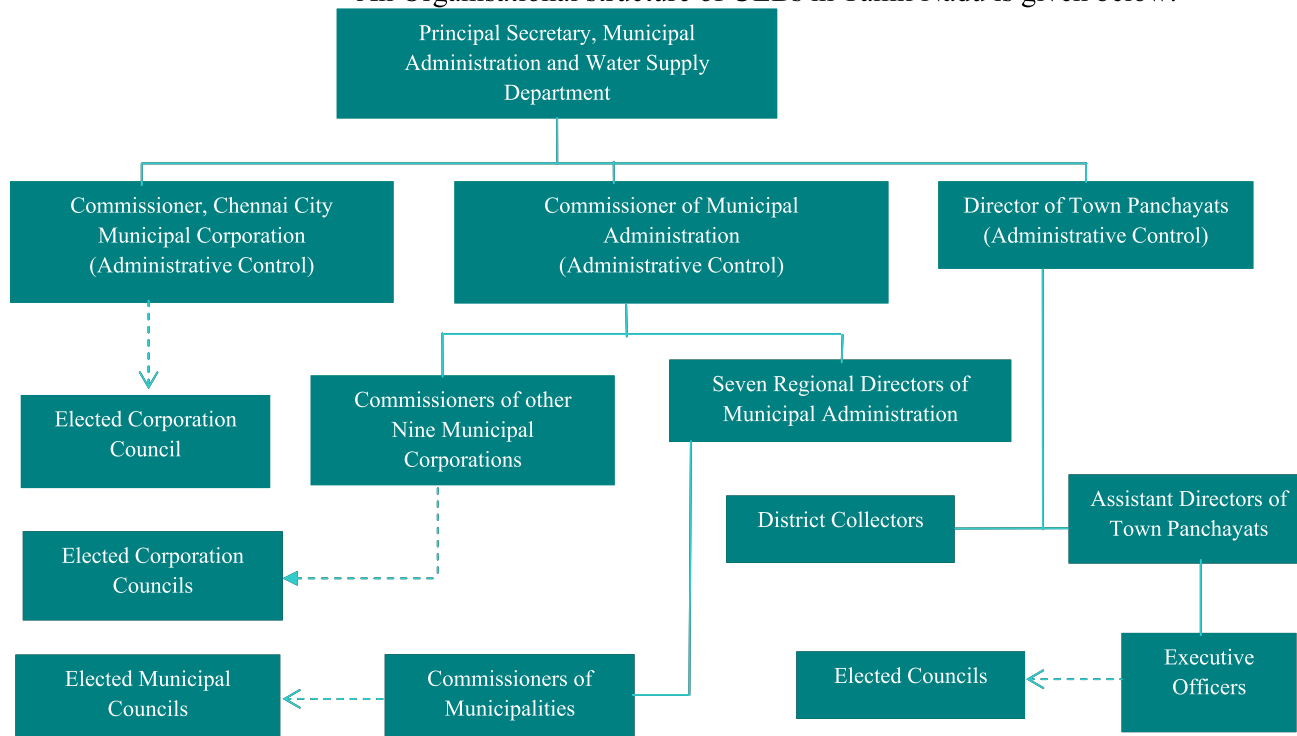
Table 1.2: Income wise classification of ULBs

Category of ULB	Grade	Annual income	Number
Municipalities	Special grade	Above ₹ 10 crore	20
	Selection grade	₹ 6 crore and above but below ₹ 10 crore	29
	First grade	₹ 4 crore and above but below ₹ 6 crore	29
	Second grade	Below ₹ 4 crore	21
	Third grade	(Population above 30,000)	49
Total			148
Town Panchayats	Special grade	Above ₹ 20 lakh	13
	Selection grade	Above ₹ 16 lakh but below ₹ 20 lakh	245
	Grade I	Above ₹ 8 lakh but below ₹ 16 lakh	221
	Grade II	Above ₹ 4 lakh but below ₹ 8 lakh	82
Total			561

(Source : Policy Note 2009-10 of Municipal Administration and Water Supply Department)

1.3 Organisational structure of ULBs

An Organisational structure of ULBs in Tamil Nadu is given below:



(Source : Directorate of Municipal Administration)

1.4 Devolution of functions, functionaries and funds

Twelve out of 18 functions enlisted in the Twelfth Schedule of the Constitution have been devolved to the Town Panchayats. Commissioner of Municipal Administration (CMA) stated (June 2010) that 17 functions (except Fire Service) have been devolved to municipalities and municipal corporations. In Chennai City Municipal Corporation, only 13 functions have so far been devolved and the function of water supply is handled by Chennai Metropolitan Water Supply and Sewerage Board. As of March 2010, functionaries are however yet to be transferred to the ULBs to carry out the devolved functions. This is bound to have a negative impact on the performance of ULBs in these areas.

Government reported that plan and non-plan discretionary grants were being transferred to ULBs in addition to successive State Finance Commission grants. These earmarked grants were intended for specific functions such as water supply, roads, public health, street lighting, sanitation, etc., entrusted to ULBs. The ULBs were also empowered to revise and levy local taxes such as Property/House Tax, Profession Tax based on the recommendations of the State Finance Commissions (SFCs), as accepted by the Government and as per the Local Bodies Acts.

Based on the recommendations of the High Power Committee, State Government enhanced (February 2009) the powers of CMA in respect of Municipal Corporations other than Chennai to sanction estimates exceeding ₹ One Crore but not exceeding ₹ Five Crore.

1.5 Decentralised planning

1.5.1 Standing Committees

ULBs shall constitute standing committees to perform the assigned functions. The political constitution of the committees is given in **Table 1.3** below:

Table 1.3: Political constitution of the Standing Committees

Category of ULBs	Chief Political Executive	Standing Committees	Political executives
Corporations	Mayor	Public Health, Town Planning, Works, Taxation and Finance, Education and Accounts	Chairman (elected among the members)
Municipalities	Chairman	Contract Committee, Town Planning	
Town Panchayats	Chairman	Committee and Taxation Appeal Committee	

As per Section 241(1) of Tamil Nadu Panchayats Act, 1994 State Government constituted a District Planning Committee (DPC) in 28 districts in November 1997. The DPC consists of the following members:

- The Chairman of the District Panchayat;
- The Mayor of the City Municipal Corporation in the district;
- The Collector of the District and

- such number of persons, not less than four-fifth of the total number of members of the Committee, as may be specified by the Government, elected in the prescribed manner from amongst the members of the District Panchayats/Town Panchayats and Councillors of the Municipal Corporations and Municipal Councils in the district, in proportion to the ratio between the population of the rural areas and of the urban areas in the district.

The role and responsibility of the DPC is to consolidate the plans prepared by the District Panchayats, Panchayat Union Councils, Village Panchayats, Town Panchayats, Municipal Councils and the Municipal Corporations in the district and prepare a draft development plan for the district as a whole.

At present, the Annual Plans prepared at the apex level are only consolidated and adopted as District plans. No separate inputs are received from the ULBs. Requirements at the grass root level were thus not completely reflected in the District plans.

1.6 Financial profile

1.6.1 Funds flow to ULBs

The major resource base of ULBs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, Centrally Sponsored Schemes (CSS) Grants, Own Revenue and Assigned Revenue and Loans.

Table 1.4: Funds flow mechanism in ULBs

Nature of Funds	Corporations		Municipalities		Town Panchayats	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own Revenue	Assessees and users	Bank	Assessees and users	Bank	Assessees and users	Bank
Assigned Revenue	State Government	Bank	State Government	Bank	State Government	Bank
SFC						
CFC/CSS	GOI	Bank	GOI	Bank	GOI	Bank
State Plan Grant	State Government	Bank	State Government	Bank	State Government	Bank
Loans	GOI/SG/Financial Institution	Bank	GOI/SG/Financial Institution	Bank	GOI/SG/Financial Institution	Bank

1.6.2 Funds Flow Arrangements in flag ship schemes

The funds flow arrangements in flag ship schemes relating to ULBs are given in **Table 1.5**.

Table 1.5: Fund flow arrangements in flagship schemes

Sl.No.	Scheme	Fund flow
1	Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	On receipt of GOI release order, Head of the Department (CMA) send proposals to the State Government for releasing both the GOI and State share. On receipt of cheque, sanction proceedings are issued to ULBs and the amount released through ECS to the concerned ULBs and the Bank transfers the amount on the same day through ECS.

Sl.No.	Scheme	Fund flow
2	Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	GOI releases its share directly to the Department through Demand Draft. Government of Tamil Nadu releases its share headwise after deducting administrative and other expenditure charges and Information, Education and Communication charges and the amount released to ULBs.

Table 1.6 below shows the details of receipts and expenditure of ULBs for the period 2005-06 to 2009-10.

Table 1.6 : Details of receipts and expenditure of ULBs

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Own Revenue	1,235	2,834	1,511	1,742	1,992
Assigned Revenue	368	298	453	451	370
Grants	1,026	1,709	2,000	1,944	2,658
Loans	121	151	114	353	428
Total Receipts	2,750	4,992	4,078	4,490	5,448
Revenue Expenditure	1,690	1,709	1,806	2,186	2,558
Capital Expenditure	940	876	1,395	1,767	1,878
Total Expenditure	2,630	2,585	3,201	3,953	4,436

(Source: Details furnished by the Commissioner of Chennai City Municipal Corporation in October 2010, March 2011 and May 2011; Commissioner of Municipal Administration in December 2010 and Director of Town Panchayats in March 2011)

The percentage of expenditure/savings compared to Total Receipts for the period 2005-06 to 2009-10 is as given in **Table 1.7**:

Table 1.7 : Percentage of expenditure/savings

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Expenditure	61	34	44	49	47
Capital Expenditure	34	18	34	39	34
Savings	5	48	22	12	19

While the Capital Expenditure over the years ranged from 18 to 39 *per cent* of the Total Receipts, Revenue Expenditure ranged from 34 to 61 *per cent*. The savings was 5 to 48 *per cent* of the Total Receipts. ULBs failed to utilize these savings towards Capital Expenditure for creating additional infrastructure.

1.7 Accounting framework

Accrual-based system of accounting is being followed in all Municipal Corporations and Municipalities as per the orders of the Government of Tamil Nadu with effect from 2000-01 and in all Town Panchayats with effect from 2002-03.

1.8 Audit arrangements

As per the Government Order issued in August 1992, audit of ULBs had been entrusted to Director of Local Fund Audit (DLFA). He is to certify the correctness of accounts, assess internal control system and report cases of loss, theft and fraud to auditees and to the State Government. Further, Principal Accountant General (PAG) provides technical guidance to DLFA on a

continuing basis regarding audit of accounts of the ULBs in terms of Government of Tamil Nadu's order of March 2003.

The PAG audits the ULBs under Section 14 (2) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971.

Audit Reports upto the year 1995-96 were discussed by the Committee on Public Accounts (PAC) and recommendations were issued. As of June 2011, there were 106 recommendations relating to 1985-86 to 1995-96 of the Municipal Administration and Water Supply Department pending final settlement, which *inter-alia* consisted of paragraphs relating to ULBs. CAG's Audit Report on ULBs presented in State Legislature for the years 2003-04 to 2008-09 have not been taken up for discussion by PAC.

1.8.1 Audit of ULBs by Principal Accountant General (Civil Audit)

Audit of ULBs through test check of records are followed-up through Inspection Reports issued to the Commissioner of Municipal Administration with copies to ULBs concerned. Government had issued general orders in April 1967 fixing a time limit of four weeks for prompt response by the authorities for all such paragraphs included in the Inspection Reports issued by Audit.

As of December 2010, 4,278 paragraphs relating to 681 Inspection Reports were not settled for want of satisfactory replies.

SECTION 'B' – FINANCIAL REPORTING

1.9 Introduction

Financial reporting in the ULBs is a key element of accountability. The matters relating to drawal of funds, form of bills, incurring of expenditure, maintenance of accounts, rendering of accounts by the ULBs are governed by respective ULB Acts. A chart depicting various sources of revenues of ULBs is given in **Appendix 1.1**.

1.10 Accounts maintained by Urban Local Bodies

The following accounts are prepared on accrual basis by adopting Double Entry Accounting System (DEAS) as prescribed under Tamil Nadu Accounting Manual for ULBs in Tamil Nadu by all the Municipalities, nine Municipal Corporations (excluding Chennai) and all Town Panchayats:

- Revenue Fund and Capital Fund
- Water Supply and Drainage Fund (except Town Panchayats)
- Elementary Education Fund (except Town Panchayats)

The Chennai City Municipal Corporation maintains (i) a General Fund comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund. The cash balance of each of the above funds is maintained in a separate bank account.

The figures in this Chapter are compiled from the details furnished by the ULBs. However in the absence of data compiled from the audited account of the ULBs by the Department/Government, the accuracy of these figures could not be authenticated and the data are provisional subject to audit by DLFA.

1.11 Financial Reporting Issues

1.11.1 Budget

Budget is the most important tool for financial planning, accountability and control. As per the respective Acts of the ULBs, budget proposals containing detailed estimates of income and expenditure expected during the ensuing year were to be prepared by the respective standing committees of ULBs after considering the estimates and proposals submitted by the executive authorities of ULBs every year. After considering the proposals, the Finance, Audit and Planning Committee was to prepare the budget showing the income and expenditure of the respective ULBs for the ensuing year and to place it before the governing body every year.

1.11.2 Position of outstanding loans

The position of outstanding loans as of March 2010, is given in **Table 1.8**.

Table 1.8: Position of outstanding loans in ULBs as of March 2010

(₹ in crore)

Sl. No.	Category of ULB	Position of consolidated loan			
		Opening balance as on 1 April 2009	Fresh loans availed during 2009-10	Repayment made during 2009-10	Closing balance as on 31 March 2010
1.	Chennai City Municipal Corporation	107.45	57.14	11.05	153.54
2.	Other Municipal Corporations	301.69	175.55	27.10	450.13
3.	Municipalities	411.16*	146.66	40.38	517.44
4.	Town Panchayats	250.36**	49.06	24.65	274.77

(Source: Details furnished by Commissioner of Chennai City Municipal Corporation (April 2011), CMA (December 2010) and Director of Town Panchayats (March 2011))

* The variation between the closing balance for the year ended 31 March 2009 and the opening balance for the year 2009-10 is due to reconciliation of dues with the accounts of financial institutions as reported by CMA in December 2010.

** The variation between closing balance for 2008-09 and opening balance for 2009-10 is due to non finalization of audit by DLFA as reported by DTP in March 2011.

1.11.3 Arrears in Accounts

While accepting the Third State Finance Commission (TSFC) recommendation, the State Government stated that the accounts will be finalised within three months after the end of the financial year. Though due date of submission of accounts to DLFA by Municipal Corporations is 30th June; Municipalities is 15th May and for Town Panchayats is 30th April, the position of non-submission of accounts by ULBs to DLFA from 2008-09 as of January 2011 is given in **Table 1.9**.

Table 1.9 : Position of non-submission of accounts of ULBs

Category of ULB	Number of ULBs not submitted accounts relating to	
	2008-09	2009-10
Corporations	Nil	10
Municipalities	3	56
Town Panchayats	Nil	121

(Source: Details furnished by DLFA in March 2011)

The pendency in preparation of accounts of ULBs and the eventual delay in the audit of their accounts would result in continued existence of deficiencies in the accounts and the respective council could not analyse the true and correct picture of the financial position of the ULBs in time.

1.11.4 Arrears in Audit

Audit of accounts of all ULBs was completed by DLFA up to 2006-07. Position of arrears in completion of audit of ULBs, as of January 2011, as reported by DLFA in March 2011 is given in **Table 1.10**.

Table 1.10 : Position of non-completion of audit of ULBs

Category of ULB	Total number	2007-08 Number of units			2008-09 Number of units			2009-10 Number of units		
		Completed accounts (A)	Audit completed (B)	Audit pending (C)	(A)	(B)	(C)	(A)	(B)	(C)
Corporations	8 (2007-08) 10 (2008-09) 10 (2009-10)	8	8	Nil	10	7	3	-	-	10
Municipalities	150 (2007-08) 148 (2008-09) 148 (2009-10)	150	148	2	148	72	76	92	7	141
Town Panchayats	561	561	559	2	561	290	271	440	48	513

(Source: Details furnished by DLFA in March 2011)

Although the due date of submission of accounts for Municipal Corporations is 30th June, for Municipalities 15th May and for Town Panchayats is 30th April, audit of only seven Municipalities and 48 Town Panchayats for the year 2009-10 was completed as of January 2011. The main reason attributed (March 2011) by DLFA for the arrears was due to non-submission of annual accounts returned by the DLFA to the ULBs for rectification of accounts.

DLFA reported (April 2011) that the number of paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats included in their Inspection Reports (IRs) issued upto 2007-08 that were pending settlement as of March 2010 aggregated to 3,17,099 paragraphs. The year-wise break-up details are given in **Appendix 1.2**. The details of inspection paragraphs issued during 2008-09 are yet to be compiled by DLFA and made available to Audit. Based on the recommendations of TSFC, a District High Level Committee (DHLC) for settling the pending paragraphs of DLFA relating to Municipal Corporations and a State High Level Committee for monitoring the functions of DHLC was formed in 2007. A district committee for settling pending paragraphs was already in existence.

The CMA stated (April 2011) that 3,554 paragraphs relating to six Municipal Corporations (Coimbatore, Madurai, Salem, Tirunelveli, Tiruppur and Thoothukudi) and 2,327 paragraphs relating to Municipalities were settled during 2010-11 in the DHLC meetings.

The DTP stated (April 2011) that 51 DHLC meetings and three State High Level Committee meetings were conducted between January 2008 and February 2011 and 2,480 audit objections relating to Town Panchayats were settled in those meetings.

1.12 Conclusion

Transfer of functionaries to ULBs to carry out devolved functions have not been made by the Government. Due to non-preparation of accounts in time by ULBs, true and correct picture of their financial position could not be analysed in time. DLFA could not complete the audit due to non-submission of annual accounts returned by him to ULBs for rectification of accounts. As of January 2011, Audit has been completed only in seven municipalities and 48 town panchayats for the year 2009-10 while Audit of 141 Municipalities and 513 Town Panchayats are yet to be completed for the year 2009-10.