



CHAPTER-III

An overview of Urban Local Bodies

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 Bodies³⁸ (ULBs) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 functions listed in the XII Schedule of the Constitution.

The category-wise ULBs in the State, as of March 2012, were 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)	8
2	City Municipal Councils (CMCs)	44
3	Town Municipal Councils (TMCs)	94
4	Town Panchayats (TPs)	68
5	Notified Area Committees (NACs) ³⁹	4

Source: Administrative Report of Urban Development Department for the year 2011-12

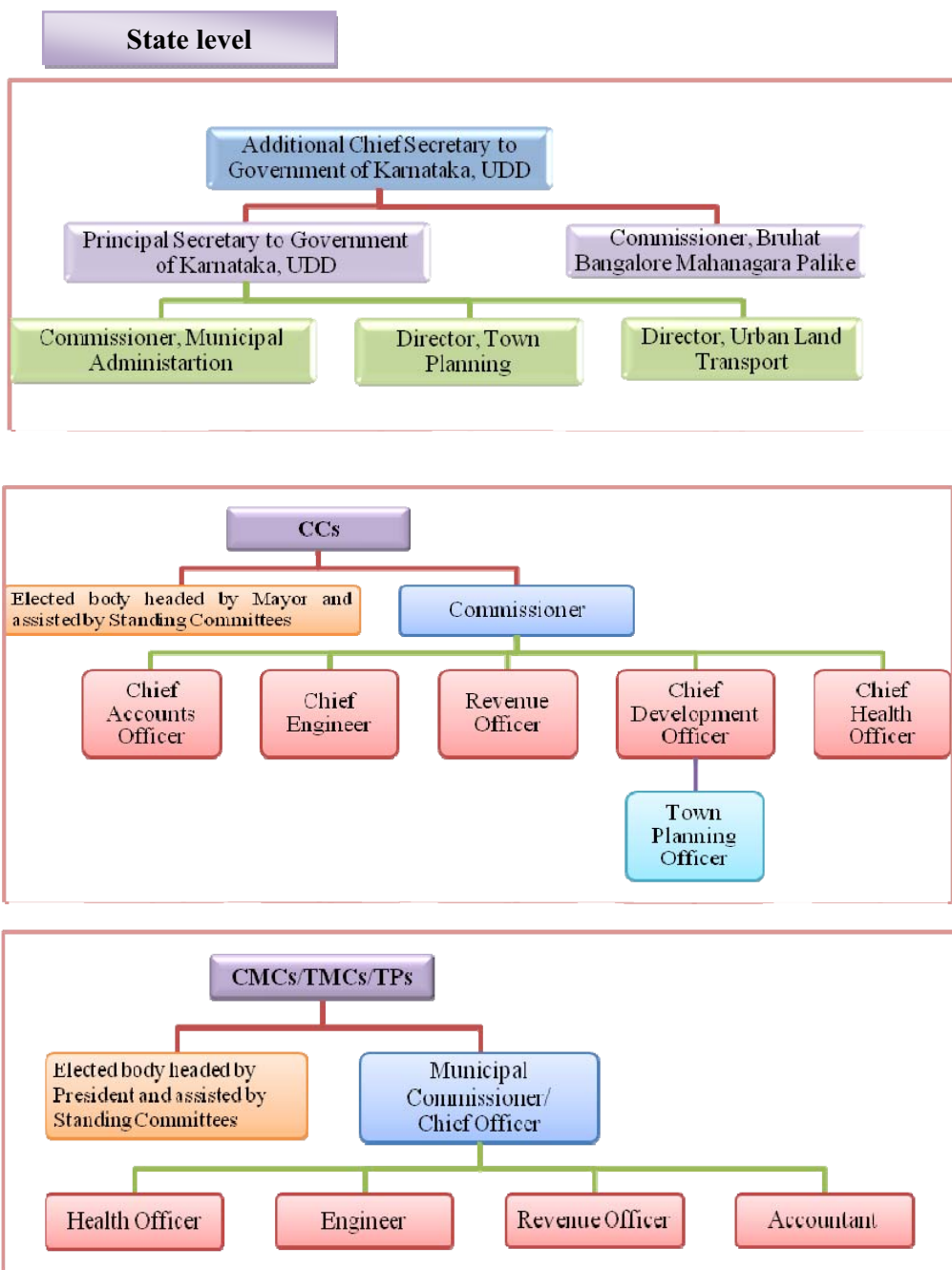
The CCs are governed by Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by Karnataka Municipalities Act, 1964 (KM Act). Each corporation/municipal area is divided into a number of wards, which is determined and notified by the State Government considering the population,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

3.2 Organisational structure

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 follows:

³⁸ Classified as City Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats based on the population

³⁹ Audit of accounts of NACs had not been entrusted to the Comptroller and Auditor General of India



The Directorate of Municipal Administration (DMA), established in December 1984, is the nodal agency to control and monitor the administrative, developmental and financial activities of the ULBs except Bruhat Bangalore Mahanagara Palike (BBMP), which functions directly under the UDD.

3.2.2 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 four⁴⁰ Standing Committees, BBMP has 12 Standing Committees⁴¹ to deal with their respective functions. The Commissioner/Chief Officer is the executive head of ULBs.

3.2.3 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 schemes, <i>etc.</i>
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/Urban Development Authorities (UDAs) in designing and developing integrated policies and plans for city level transportation and their financing

Source: Administrative Report of UDD for the year 2011-12

3.2.4 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/Authorities⁴² assigning specific functions to them.

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

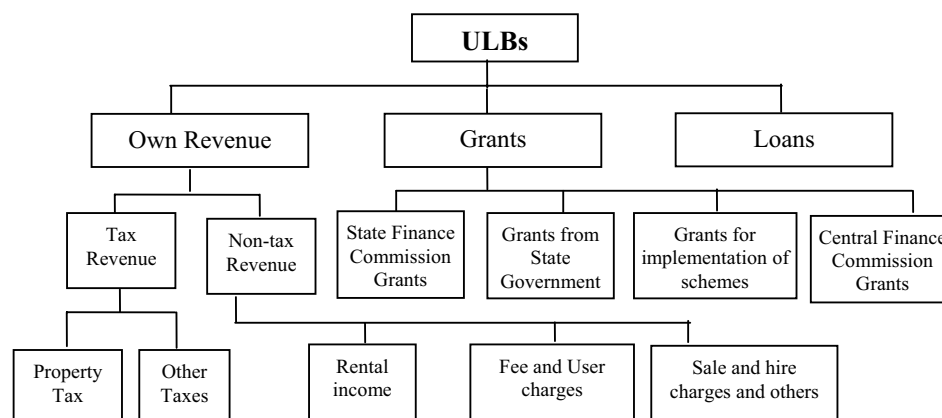
⁴⁰ 1) Accounts 2) Public Health, Education and Social Justice 3) Taxation, Finance and Appeals 4) Town Planning and Improvement

⁴¹ 1) Accounts 2) Appeals 3) Education 4) Establishment and Administrative Reforms 5) Horticulture 6) Major public works 7) Markets 8) Public health 9) Social Justice 10) Taxation and Finance 11) Town planning and improvement and 12) Ward level public works

⁴² Bangalore Development Authority, Bangalore Metropolitan Regional Development Authority, Bangalore Metro Rail Corporation Limited, Bangalore Water Supply and Sewerage Board, Karnataka State Town Planning Board, Karnataka Urban Water Supply and Drainage Board, Karnataka Urban Infrastructure Development and Finance Corporation, UDAs for 29 cities

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, rental income, 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 funds in ULBs

The grants received from the State Government are kept in Personal Deposit Account maintained at Treasury. All receipts are to be credited into the treasury and any money required for disbursement is 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 2008-09 to 2011-12 are as shown in **Table 3.3** below.

Table 3.3: Statement showing release of grants to ULBs

ULBs	2008-09		2009-10		2010-11		2011-12	
	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	802	749	679	662	617	616	2,800	2,864
CMCs/TMCs	1,210	1,259	1,335	1,372	1,789	1,936	1,252	1,126
TPs/NACs	449	331	351	438	474	423	285	258
Total	2,461	2,339	2,365	2,472	2,880	2,975	4,337	4,248

Source: State Budget Estimates and Finance Accounts

It could be observed that though the grants released to CCs increased by 365 *per cent*, the grants released to CMCs and TPs decreased by 42 *per cent* and 39 *per cent* respectively during 2011-12 when compared to the previous year.

The increase in grants to CCs was mainly due to release of grants under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) to BBMP and CC, Mysore and also due to release of grants under Mukhya Mantri Nagarothana Yojane, Tribal Sub-Plan (TSP)/ Special Component Plan (SCP) to all CCs. The decrease in grants to CMCs and TPs was due to non release of grants under SCP and TSP programmes.

3.3.4 Revenue and expenditure of ULBs

The revenue of ULBs include own revenue, assigned revenue, grants, loans, etc. Details of revenue and expenditure of ULBs are shown in Table 3.4 below:

Table 3.4: Statement showing revenue and expenditure of ULBs

(₹ in crore)

Revenue	2007-08	2008-09	2009-10	2010-11	Total
Own revenue	477.52	665.18	834.68	912.82	2,890.20
Assigned revenue	1.38	4.75	4.42	5.12	15.67
Grants	954.60	1,142.40	1,695.14	1,848.18	5,640.32
Loans	106.52	21.96	22.96	27.86	179.30
Others	17.85	29.46	29.16	27.14	103.61
Total	1,557.87	1,863.75	2,586.36	2,821.12	8,829.10
Expenditure					
Roads, Drains, Culverts	292.96	366.66	708.73	789.92	2,158.27
Public Health and Sanitation	27.23	42.20	52.49	69.39	191.31
Water supply	55.77	52.68	78.55	87.61	274.61
Pay & Allowances	180.39	217.07	267.26	270.40	935.12
Loan repayment	57.22	21.85	23.83	11.39	114.29
Others	321.76	434.37	566.35	652.65	1,975.13
Total	935.33	1,134.83	1,697.21	1,881.36	5,648.73

Source: As furnished by DMA

Details for the year 2011-12 were not furnished.

The above position indicated that though collection of own revenue increased by 91 per cent during the period 2007-08 to 2010-11, it constituted only 33 per cent of the total revenue during the same period. Thus, ULBs were largely dependent on Government grants (64 per cent).

The total expenditure of the ULBs increased by 101 per cent during the period 2007-08 to 2010-11. The recurring expenditure on Public Health and Sanitation was less and it constituted only 3 per cent of the total expenditure.

3.3.5 Financial position of selected ULBs

Out of 214 ULBs, Audit test-checked the records of BBMP, Mangalore CC, three CMCs⁴³, seven TMCs⁴⁴ and four TPs⁴⁵ to review the budgetary control and financial reporting system in ULBs.

3.3.5.1 Financial position in BBMP

Audit scrutiny of the financial statements (unaudited) of BBMP prepared under Fund Based Accounting System (FBAS) for the years 2007-08 to 2010-11 showed the following:

- General Fund registered an increase of 148 per cent during the period 2007-11 whereas Enterprise Market Fund increased by 0.82 per cent over

⁴³ Basavakalyana, Bidar and Hassan

⁴⁴ Bantwal, Bhalki, Chittaguppa, Humnabad, Moodbidri, Puttur and Ullal

⁴⁵ Aurad, Belthangadi, Mulki and Sullia

the same period. BBMP replied (December 2012) that against expected revenue of ₹701 crore, only ₹460 crore was collected during 2010-11, but the reason for less collection of revenue was not furnished.

- The current Liabilities and Provisions increased from ₹495.33 crore in 2007-08 to ₹689.30 crore in 2008-09. It increased to ₹2,797.33 crore in 2009-10 (i.e. an increase of ₹2,108.03 crore) and to ₹4,906.97 crore in 2010-11 (i.e. an increase of ₹2,109.64 crore). There was increase of 891 *per cent* in current Liabilities and Provisions during 2007-11. BBMP replied (December 2012) that due to merger of 110 villages and five city municipalities to BBMP, there was increase in liabilities.
- Long term debt (Loans) increased from ₹887.65 crore in 2007-08 to ₹3,138.11 crore in 2010-11. BBMP replied (December 2012) that long term loans were borrowed to provide basic infrastructure to newly created wards.
- Fixed assets of BBMP showed an increasing trend during the period 2007-11. It registered an increase from ₹5,146.09 crore in 2007-08 to ₹10,242.82 crore in 2010-11. The reasons for continuous increase in fixed assets could not be ascertained as the details of additions made during the above period were not provided to Audit.
- The current assets also registered a steady increase from ₹858.51 crore in 2007-08 to ₹1,052.60 crore in 2008-09, and to ₹1,625.92 crore in 2009-10. It increased to ₹2,084.01 crore in 2010-11. This was mainly due to increase in receivables towards property tax arrears.

3.3.5.2 Financial position in other ULBs

The details of own revenue *i.e.* tax and non-tax revenue realised by 15 selected ULBs are shown in **Appendix 3.1**.

The analysis of revenue indicated that:

- Tax revenue of ULBs increased from ₹17.20 crore to ₹39.29 crore during 2007-12 mainly due to increased collection under Property tax.
- The main source of non-tax revenue was rent, water charges, building licence fee, trade licence fee, *etc.* It increased from ₹34.21 crore to ₹69.30 crore during 2007-12.

- **Property Tax**

The Government of Karnataka introduced the Self Assessment scheme in all municipalities of the State with effect from 1 April 2002.

Audit scrutiny showed that as against the demand of ₹174.44 crore, property tax of ₹167.93 crore (96 *per cent*) was collected in 14 test-checked ULBs (March 2012). The ULBs did not take action to identify all land and buildings situated in the municipal area using Geographic Information System (GIS) and issue demand notices, as stipulated. TMC, Humnabad had not furnished the details.

- **Short realisation of water charges**

Every Municipality was responsible for providing supply of wholesome water for the domestic use of inhabitants. The supply of water for domestic and

non-domestic users was to be charged at the prescribed rates.

It was seen in 14 test-checked ULBs that a sum of ₹124.63 crore (87 per cent) was collected towards water charges as against the demand of ₹143.48 crore (March 2012). TMC, Humnabad had not furnished the details.

- **Non-realisation of rent**

As of March 2012, 13 test-checked ULBs had raised a demand of ₹18.71 crore towards rent from stalls and shops of market complexes, against which a sum of ₹16.08 crore (86 per cent) was collected. The arrears in realisation of rent amounted to ₹2.63 crore at the end of March 2012. The shortfall in realisation of rent reduced the revenues of these ULBs to that extent, thereby widening the resource gap. TMC, Bantwal had collected 100 per cent of the rent due (₹41.73 lakh). TP, Aurad had not furnished the details.

- **Non remittance of cess**

As of March 2012, 14 test-checked ULBs had not remitted to the State Government an amount of ₹17.59 crore collected towards Beggary, Health and Library cess. CMC, Bidar had remitted the entire amount of ₹39.32 lakh collected towards cess.

3.4 State Finance Commission

3.4.1 The 73rd and 74th Constitutional amendments mandated the constitution of SFC 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 SFCs were implemented.

The third SFC had recommended (December 2008) the devolutions to the ULBs at 10 per cent of State's Net Own Revenue Receipts, to be implemented from 2010-11 onwards. However, the State Government decided only in October 2011 to allocate 8.5 per cent of Non-loan Net Own Revenue Receipts (NLNORR) during 2011-12 and increase it by 0.5 per cent every year. The State Government had released ₹4,247.90 crore to ULBs during 2011-12 which was 8.4 per cent of NLNORR (₹50,563 crore).

3.5 Devolution of Functions, Funds and Functionaries

3.5.1 Transfer of functions

The 74th Constitutional amendment envisaged devolution of 18 functions listed in the XII Schedule of the Constitution to ULBs. As of March 2012, the State Government had transferred 14 functions to ULBs. Two functions⁴⁶ were being implemented by both ULBs and the State Government. The other two functions namely, Urban Planning and Fire Services had not been transferred to ULBs. The water supply for domestic and industrial purposes was implemented through separate agencies⁴⁷ of the State Government.

⁴⁶ (1) Urban forestry, protection of environment and ecology (ULBs and Forest Department)
(2) Slum improvement and up-gradation (ULBs and Slum Development Board)

⁴⁷ Bangalore Water Supply and Sewerage Board for BBMP area and Karnataka Urban Water Supply and Drainage Board for other ULBs

3.5.2 Transfer of funds

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes. In audit, the functions of Slum improvement and up-gradation and Urban Poverty Alleviation were test-checked to ascertain the extent of transfer of funds. It was seen that the State Government had not separately earmarked funds for both these functions. The funds were released as lump sum amount under SFC grants. It was seen that out of 15 test-checked ULBs, only five ULBs⁴⁸ had spent ₹3.01 crore towards Urban Poverty Alleviation during the period 2007-08 to 2011-12 and only CMC, Bidar had spent ₹0.78 lakh for Slum improvement and up-gradation during the period 2010-11. The ULBs replied (September-December 2012) that funds were being spent on Urban poverty alleviation and Slum improvement and up-gradation programmes through other schemes such as Swarnajayanti Shahari Rojgar Yojane (SJSRY). However, the fact remained that separate funds were not earmarked and also action plans were not prepared in this regard.

3.5.3 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.

As at the end of October 2012, the total sanctioned strength of the CMCs, TMCs and TPs was 24,952 whereas the working strength was 17,105 (69 per cent). The vacancies in the posts of Office Manager, Revenue Officer, Health Inspector and water supply operator were more than 40 per cent of the sanctioned strength which hampered the functioning of ULBs. The details of working strength relating to CCs were not available with the DMA.

3.6 Accountability framework

3.6.1 Powers of the State Government

The Acts governing ULBs entrust 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; and
- regulate the classification, method of recruitment, conditions of service, pay and allowance, discipline, conduct of the staff and officers of ULBs.

⁴⁸ Belthangadi (₹29.16 lakh), Bidar (₹32.77 lakh), Mangalore (₹64.30 lakh), Mulki (₹62.29 lakh) and Sullia (₹112.38 lakh)

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

3.6.2 Vigilance mechanism

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

3.6.3 Audit mandate

The Controller, State Accounts Department (SAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs⁴⁹ to the Comptroller and Auditor General of India (CAG) under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09 and under Technical Guidance and Supervision from 2011-12 onwards by amending the statutes (October 2011).

3.6.4 Arrears in Primary Audit

Out of 214 ULBs, audit of accounts of 190 ULBs for the period up to 2010-11 was conducted by SAD as of 31 March 2012. The audit of remaining 24 ULBs (11 *per cent*) was not conducted due to non-submission of accounts by ULBs and inadequate staff in SAD.

3.6.5 Response to Audit observations

The Commissioners/Chief Officers are required to rectify the defects and omissions contained in the Inspection Reports (IRs) and report their compliance to SAD within three months from the date of issue of IRs. The Controller, SAD informed (February 2013) 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 1,15,646 audit paragraphs outstanding as at the end of March 2011 relating to the period up to 2009-10 involving ₹1,347.04 crore.

On a review of statutory auditor's report on the accounts of BBMP for the year ended 31 March 2009, it was observed that audit paragraphs involving financial irregularities amounting to ₹1,321.12 crore for the period from 1964-65 to 2007-08 were outstanding (November 2012). Out of this, an amount of ₹197.03 crore was proposed for recovery by Audit. During the course of last audit conducted for the year 2008-09, audit paragraphs involving financial irregularities amounting to ₹190.72 crore were communicated to BBMP by the Auditors for taking corrective action, of which an amount of ₹50.38 crore was proposed for recovery. BBMP replied (December 2012) that a separate cell was formed during 2009-10 to clear the audit objections.

3.7 Resource utilisation

3.7.1 Thirteenth Finance Commission grants

The Thirteenth Finance Commission (TFC) was constituted (November 2007) to recommend the measures needed to augment the consolidated funds of the States to supplement the resources of the Panchayat Raj Institutions (PRIs) and ULBs. TFC had recommended grant-in aid to the local bodies as a

⁴⁹ Except Notified Area Committees(NAC)

percentage of the previous years' divisible pool of taxes, over and above the share of the States. The grants allocated to the ULBs in the State for the period 2011-12 were General Basic grants (₹215.10 crore) and Performance grants (₹73.53 crore).

The GOI released General Basic grants of ₹232.50 crore and Performance grants of ₹116.64 crore during 2011-12 to ULBs in Karnataka in two instalments. TFC had suggested earmarking at least 25 *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 (August 2010) guidelines for execution.

3.7.1.1 Delayed release of funds

TFC guidelines stipulated that the funds should be transferred to the accounts of ULBs within five days from the date of receipt of grants from GOI, failing which the State Government would be liable to release the instalment with interest at the Reserve Bank of India rate for the delayed period. The GOI released the first and second instalments during November 2011 and March 2012. Audit observed that there were delays ranging from four to 39 days in transfer of funds to ULBs. On this being pointed out (October 2012) by Audit, the State Government released interest of ₹45.96 lakh to ULBs during November 2012.

3.7.1.2 Non-utilisation of TFC grants

It was observed in test-checked ULBs that utilisation of TFC grants during 2010-12 ranged between five and 100 *per cent* and ₹96.79 crore remained unutilised as at the end of 31 March 2012 as detailed in **Table 3.5**, thereby defeating the intention of providing timely service to the urban population as envisaged.

Table 3.5: Details of utilisation of TFC grants in test-checked ULBs

(₹ in crore)

Name of the ULB	Grants released		Total	Amount utilised	Balance	Percentage of utilisation
	2010-11	2011-12				
Aurad TP	0.41	0.52	0.93	0.44	0.49	47
Bantwal TMC	0.59	0.99	1.58	0.71	0.87	45
Basavakalyana CMC	0.66	0.77	1.43	0.79	0.64	55
BBMP	41.34	92.07	133.41	60.54	72.87	45
Belthangadi TP	0.34	0.39	0.73	0.61	0.12	84
Bhalki TMC	0.52	0.43	0.95	0.08	0.87	8
Bidar CMC	1.57	2.99	4.56	0.28	4.29	6
Chittaguppa TMC	0.57	0.57	1.14	0.06	1.08	5
Hassan CMC	0.99	2.02	3.01	0.48	2.53	16
Humnabad TMC	0.64	0.51	1.15	0.36	0.79	31
Mangalore CC	3.69	5.79	9.48	0.43	9.05	5
Moodbidri TMC	0.54	1.02	1.56	0.94	0.62	60
Mulki TP	0.38	0.44	0.82	0.82	0.00	100
Puttur TMC	0.75	1.18	1.93	0.99	0.93	51
Sullia TP	0.46	0.53	0.99	0.56	0.43	57
Ullal TMC	0.57	1.22	1.79	0.58	1.21	32
Total	54.02	111.44	165.46	68.67	96.79	42

Source: As furnished by ULBs

It was seen that the test-checked ULBs excluding BBMP had kept the amount in Personal Deposit accounts maintained at Treasuries. Separate cash books for accounting these grants were not maintained. Thus, Audit could not ensure the correctness of the amount utilised and balance available under TFC.

3.7.1.3 Non preparation of Action Plan

As per guidelines issued (August 2010) by the State Government for utilisation of TFC grants, an action plan was required to be prepared and approved by Council and also by DMA before utilising the grants. However, no such action plan was prepared by BBMP before utilisation of grants. BBMP replied (December 2012) that TFC grants were included in programmes of works as per the budget approved by the Council. The reply was not acceptable as BBMP had to prepare a separate action plan for the TFC grants and got approved by the Council and DMA. In the other test-checked ULBs, action plans were prepared.

3.7.1.4 Loss of Interest

BBMP operated the TFC funds through current account opened in Syndicate Bank instead of savings bank account which yields interest on unspent balance amount. As a result, the Corporation lost the opportunity of earning interest of ₹95 lakh (approximately) on unspent funds lying in bank account during the period 2010-11 and 2011-12 at the rate of 3.5 per cent of interest applicable on savings account. BBMP replied (December 2012) that there was no instruction to keep the amount in savings account. However the fact remained that BBMP could have earned an interest of ₹95 lakh in case the amount had been kept in savings account.

3.7.2 Swarnajayanti Shahari Rojgar Yojane

Swarnajayanti Shahari Rojgar Yojane (scheme) was under implementation in 214 ULBs in the State from 01 December 1997. The objective of the scheme was to provide gainful employment to the urban unemployed and under-employed poor by encouraging them to set up self employment ventures and to provide wage employment. The important components of the scheme were Urban Self Employment programme and Urban Wage Employment programme. The scheme was implemented through the community based organisations created under the programme. The details of release of grants to ULBs during 2007-12 are shown in **Table 3.6** below.

Table 3.6: Release of grants to ULBs in Karnataka under SJSRY

(₹ in crore)

Year	OB	Grants released		Total grants available	Expenditure (Percentage)	Balance
		GOI	State Government			
2007-08	16.15	24.10	8.03	48.28	26.36 (55)	21.92
2008-09	21.92	48.96	16.32	87.20	33.87 (39)	53.33
2009-10	53.33	35.24	11.75	100.32	28.31 (28)	72.01
2010-11	72.01	53.76	13.13	138.90	47.90 (34)	91.00
2011-12	91.00	48.74	21.03	160.77	71.30 (44)	89.47

Source: As furnished by DMA

It was observed that out of ₹69.77 crore released during 2011-12 by GOI/State, DMA released only ₹56.88 crore to ULBs. Reason for not releasing the full amount to ULBs was not given.

The utilisation of grants ranged between 28 and 55 *per cent* which indicated that implementation of the scheme was not encouraging. However, the test-checked ULBs except BBMP spent ₹13.54 crore (84 *per cent*) out of ₹16.04 crore received during the period 2007-12. In BBMP, out of ₹20.12 crore received during 2009-12, ₹9.85 crore (49 *per cent*) were utilised indicating poor implementation of the scheme.

The reasons for shortfall attributed by selected ULBs were shortage of staff and inadequate public awareness.

It was also seen that cash book for the scheme account was not written properly by any of the test-checked ULBs and balances were not reconciled with bank account. A few other observations are as follows:

- The Chief Officer, Chittaguppa, TMC had drawn ₹1.05 lakh through self cheque in contravention of guidelines.
- TMC, Humnabad had shown subsidy amount of ₹10.42 lakh as expenditure though it was not drawn by beneficiaries.

3.8 Non-maintenance of Asset Register

As per the provisions contained in KM Act, assets of the ULBs should be recorded scheme-wise in Register of Immovable Properties. However, none of the test-checked ULBs had maintained the Asset Register. Thus, the properties encroached by others were not ascertainable by the ULBs. In TMCs, Bhalki and Humnabad, though municipal land to an extent of 1,28,284 square feet was encroached by others, no action was taken by the Chief Officers to evict them.

3.9 Conclusion

Out of 18 functions to be devolved to ULBs, the State Government had not devolved two functions. No separate funds were earmarked for Urban Poverty Alleviation programmes and Slum Improvement programmes. The ULBs had not adopted GIS system to identify the properties to levy Property Tax. There were delays in transfer of TFC grants to ULBs and separate cash books for TFC funds were not maintained in test-checked ULBs.

SECTION 'B'

FINANCIAL REPORTING

3.10 Framework

3.10.1 Financial reporting in the public sector is a key element of accountability. According to Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), the ULBs should 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 2005 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 under 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 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.

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.

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. KMABR was introduced in a phased manner in all the ULBs except BBMP. As of 31 March 2012, all the ULBs were preparing the fund-based accounts in double entry system. BBMP was maintaining FBAS based on the Bangalore Mahanagara Palike (Accounts) Regulations, 2001.

3.10.4 Budget formulation

According to the provisions of KMC Act, KM Act and Rule 132 of KMABR, the ULBs were to prepare the budget estimates before 15th of January each year for the ensuing financial year and submit to the Municipal Council for approval. Further, as per Rule 133 of KMABR, the ULBs should have two rounds of public consultations during November and December before finalisation of budget. The approved budget should be notified in two local newspapers having maximum circulation. The Commissioner/Chief Officer was to seek additional funds, if any, through re-appropriation/additional grants after getting the approval of the Municipal Council.

Out of 15 test-checked ULBs, except CMC, Hassan, no other ULBs had records to show that public meetings were conducted and notified in the newspapers.

Expenditure should not be incurred without the approved budget. However, it was seen that eight⁵⁰ out of 15 test-checked ULBs had incurred expenditure though there were delays ranging from 27 days to 270 days in passing the budget. Thus, the expenditure incurred by the ULBs before passing of budget was irregular.

In BBMP, there were delays ranging from 3 to 24 weeks in approving the budget during the period 2007-08 to 2011-12. BBMP replied (December 2012) that vote on account was obtained during that period, but reason for delayed approval was not furnished.

3.11 Financial Reporting issues

3.11.1 Preparation of unrealistic budget in BBMP

The details of budget estimates *vis-à-vis* actuals of BBMP for the years 2007-11 are detailed in **Table 3.7** below.

Table 3.7: Details of receipts and payments of BBMP for the years 2007-11

(₹ in crore)

Year	Receipt		Variation (short realisation)		Payments		Variation	
	Budget	Actuals	Amount	Percentage	Budget	Actuals	Amount	Percentage
2007-08	3,302.35	1,935.87	1,366.48	41	3,325.51	1,821.97	1,503.54	45
2008-09	2,842.48	2,502.55	339.93	12	2,918.71	2,430.70	488.01	17
2009-10	3,959.29	3,627.90	331.39	8	4,238.42	3,508.59	729.83	17
2010-11	8,446.75	3,326.31	5,120.44	61	8,862.04	3,620.22	5,241.82	59

Source: BBMP Budget documents

Figures for 2011-12 were not furnished by BBMP.

3.11.1.1 Budget estimates for receipt

It could be observed that as compared to budget estimates, there was short realisation of receipts to the extent of 61 *per cent* during the year 2010-11. BBMP replied (December 2012) that higher revenue was anticipated due to

⁵⁰ Bantwal, Basavakalyana, Bhalki, Bidar, Hassan, Moodbidri, Mulki and Ullal

change in property tax assessment system and addition of new areas, however, it was not realised.

3.11.1.2 Budget estimates for expenditure

The payments made during the year 2007-08 and 2010-11 when compared to the budgeted provisions were short by ₹1,503.54 crore (45 per cent) in 2007-08 and ₹5,241.82 crore (59 per cent) in 2010-11.

It was also seen that BBMP had incurred excess expenditure over budget provision under Finance & Accounts head during the period 2007-10 and under public works activities during 2008-10, which was irregular. Further, BBMP did not utilise ₹1,000 crore provided to Engineering capital investment plan during 2010-11. The shortfall ranging from 17 to 59 per cent was observed in expenditure *vis-à-vis* the budget provision during the period 2007-11, indicating preparation of unrealistic budget estimates. BBMP replied (December 2012) that number of developmental works were taken up during 2007-08 to 2011-12 which had been approved during 2006-07 by erstwhile CMCs, hence provision was made to complete those works.

3.11.2 Budget estimates in other ULBs

A comparison of budget provision and expenditure incurred (2009-12) by 15 test-checked ULBs under three heads of account showed the following:

- **Roads & Footpaths:** As against the budget provision of ₹144.36 crore, 15 test-checked ULBs incurred ₹132.76 crore (92 per cent) during the period 2009-12. However, in nine ULBs⁵¹, the expenditure had exceeded the budget provisions, which was irregular. ULBs stated (September-December 2012) that the excess expenditure was met out of grants available under other heads of account.
- **Urban Forestry, Parks & Garden:** In six ULBs⁵², expenditure incurred (2009-12) under this head of account was ₹0.38 lakh whereas the budgeted provisions were ₹2.89 crore. CMC, Hassan had spent ₹1.55 crore during the year 2011-12 though there was no budget provision. In remaining eight ULBs⁵³, budget provisions were not made. Evidently, the ULBs had not given importance for urban forestry activities and the budget was also not realistic as the expenditure incurred in six ULBs was only 13 per cent of the budget provision.
- **Urban Poverty Alleviation:** Out of 15 test-checked ULBs, only five ULBs⁵⁴ had made provisions for the urban poverty alleviation programmes. TPs, Belthangadi & Mulki had utilised grants ranging from 41 to 99 per cent, whereas CMC, Bidar did not incur any expenditure though a provision of ₹53.75 lakh was made during the years 2009-10 to 2011-12. In TP, Sullia, the expenditure of ₹40.25 lakh (2009-12) was in excess of the budget provision of ₹31.21 lakh.

⁵¹ Aurad, Bantwal, Belthangadi, Bhalki, Bidar, Chittaguppa, Hassan, Mangalore and Sullia

⁵² Aurad, Bantwal, Basavakalyana, Bidar, Mangalore and Puttur

⁵³ Belthangadi, Bhalki, Chittaguppa, Humnabad, Moodbidri, Mulki, Sullia and Ullal

⁵⁴ Belthangadi, Bidar, Mangalore, Mulki and Sullia

3.11.3 Preparation and certification of accounts

According to KMABR, the financial statements of ULBs should be audited by the Chartered Accountants (CAs) appointed by the DMA. The CAs after completion of audit should submit a report along with the audited accounts to the Municipal Council and the State Government. **Table 3.8** below shows the position of accounts prepared by ULBs and certified by the CAs during the period 2007-08 to 2011-12 (January 2013).

Table 3.8: 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(8)	CMC(44)	TMC(94)	TP(68)	Total
2008-09	8	43	70	5	126	6	37	17	3	63
2009-10	8	42	87	68	205	3	12	25	50	90
2010-11	8	39	81	67	195	0	36	12	13	61
2011-12	8	22	51	52	133	0	0	0	0	0

Source: Information furnished by MRC

It was observed that while the number of ULBs which had prepared the accounts during 2008-11 varied between 126 and 205 out of 214, there was shortfall in number of accounts certified by CAs. Despite preparation of 133 accounts, CAs did not certify any accounts for the year 2011-12. DMA replied (January 2013) that the financial auditors were appointed during November 2012.

3.11.4 The Commissioner, BBMP was responsible for preparation of annual accounts and its submission to the Chief Auditor by 1st day of October each year. It was seen that BBMP had delayed submission of annual accounts to its Statutory Auditor by eight months for the year 2008-09 and four months for the year 2010-11. BBMP accounts for these years were not certified by the Chief Auditor. BBMP replied (December 2012) that Auditor's Report on the annual accounts for the years 2008-09 to 2010-11 were yet to be received.

3.11.5 Improper maintenance of cash book and bank book

None of the test-checked ULBs maintained cash book in the prescribed proforma and reconciled the figures with treasury and bank. Further, as per KMABR, the ULBs had to maintain a bank book to record all transactions pertaining to bank and treasury. However, it was seen that none of the ULBs had prepared the bank book. Thus, the correctness of the figures exhibited in the financial statements could not be ensured in Audit.

3.11.6 Non-submission of Statement of expenditure

As per rule 73 of KMABR, the amount paid to PWD/other implementing agencies should be treated as advance and a statement showing the outlay incurred during each month with up-to-date figures should be obtained and adjusted against the advances paid. The unspent balance of advance released for the work, if any, should be claimed immediately after the completion of work from the Agency. In 10 test-checked ULBs⁵⁵, it was observed that a sum of ₹20.58 crore was released to implementing agencies to incur expenditure on behalf of ULBs. However, statement of expenditure was not received by ULBs and adjusted against the advances. No action was taken by the ULBs to

⁵⁵ Aurad, Basavakalyana, Bantwal, Bhalki, Bidar, Humnabad, Mangalore, Moodbidri, Puttur and Ullal

obtain unspent amount also. This resulted in incorrect exhibition of figures in accounts.

3.11.7 Internal control

The State Government did not have Internal Audit Wing to oversee the functions of ULBs. DMA stated (January 2013) that matter was taken up with the State Government to set up Internal Audit Wing.

Further, it was observed that ULBs were not adhering to financial rules as the utilisation certificates were not obtained and monthly/annual accounts were not prepared and certified within the stipulated dates. The cash books and bank books were not properly maintained and reconciled, indicating inadequate internal control system in ULBs.

3.11.8 Theft, loss, misappropriation, surcharge, etc.

During 2010-11, the Controller, SAD had reported misappropriation/ defalcation cases involving ₹6.28 crore in ULBs of 16 districts.

During January 2011, the department had issued show cause notice to two officers for recovery of ₹2.98 lakh on the basis of the report of SAD for the year 2007-09.

3.12 Conclusion

In spite of preparation of accounts by ULBs, there was shortfall in certification of accounts by CAs during the years 2008-09 to 2011-12. Budgets prepared by ULBs were not realistic as evidenced by savings in both receipts and payments *vis-à-vis* budget provisions. Internal control mechanism was inadequate as there was no Internal Audit wing and there were instances of improper maintenance of cash books and bank books, non-submission of statement of expenditure, etc.

3.13 Recommendations

The ULBs should mobilise additional resources both through Tax and Non-Tax revenue for expanding the tax base. They should also make efforts to collect revenue arrears. All the accounts should be prepared and certified within the stipulated time frame. Internal control system should be strengthened by establishing Internal Audit Wing.