

CHAPTER V

URBAN DEVELOPMENT DEPARTMENT

FINANCIAL REPORTING IN URBAN LOCAL BODIES

5.1 Framework

5.1.1 Financial reporting in the public sector is a key element of accountability. According to the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), the Urban Local Bodies (ULBs) shall prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet and Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit them to the auditor appointed by the State Government, within two months from the end of the financial year.

5.1.2 Municipal reforms

The initiative of municipal reforms was started during 2006 through the 'Nirmala Nagara' programme whose components, among others, included accounting reforms, computerisation of municipal functions, setting up public grievance redressal system, etc. These reforms have since been adopted by all the ULBs of the State under Karnataka Municipal Reforms Project (KMRP).

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

5.1.3 Accounting reforms

On the recommendations of Eleventh Finance Commission, the Government of India (GoI) had entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the Comptroller and Auditor General of India (CAG).

The Ministry of Urban Development, GoI has developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The State Government has brought out the KMABR based on the NMAM with effect from 1 April 2006. The KMABR was introduced in a phased manner in all the ULBs except BBMP. As of 31 March 2015, all the ULBs were preparing the fund-based accounts in double entry system. BBMP was maintaining FBAS based on the Bengaluru Mahanagara Palike (Accounts) Regulations, 2001.

5.1.4 Preparation and certification of accounts of ULBs

According to KMABR, the financial statements of ULBs are to be audited by the Chartered Accountants (CAs) appointed by the DMA. The Commissioner/Chief Officer of ULBs concerned should submit the Annual Financial Statements for each year within two months from the end of financial year to the financial auditor and the auditor should complete the audit within four months (July) from the date of closure of financial year (March). The CA, after completion of audit, should submit a report along with the audited accounts to the Municipal Council and the State Government. The Audited Accounts should be adopted by the Council within five months from the end of the financial year. The **Table 5.1** below indicates the status of accounts prepared by ULBs and certified by the CAs during 2010-15 (November 2015).

Table 5.1: Status of preparation and certification of accounts as on November 2015

Year	Total number of ULBs required to prepare accounts	Number of ULBs which prepared the accounts	Number of ULBs accounts certified	Number of ULBs accounts yet to be certified
2010-11	213	213	213	0
2011-12	213	213	213	0
2012-13	213	213	210	3
2013-14	213	213	187	26
2014-15	213	158	0	213
Total	1,065	1,010	823	242

Source: As furnished by DMA

5.1.5 Preparation and certification of accounts of BBMP

In terms of Provision 9(2) of part II of Schedule IX to the KMC Act, the Commissioner, BBMP is required to prepare Annual Accounts for the year 2014-15 and produce the same along with relevant records to the Chief Auditor for scrutiny not later than the first day of October 2015. However, BBMP had not prepared the Annual Financial Statements for the year 2013-14 and 2014-15 for want of information from unit offices. The Controller, Karnataka State Accounts Department (KSAD) is the Statutory Auditor for the BBMP. The BBMP had submitted the Annual Accounts for the years 2008-13 to the KSAD for scrutiny, which were yet to be certified (November 2015).

5.2 Comments on Accounts

5.2.1 Statement of expenditure for advances/deposits with external agencies

As per Rule 73 of KMABR, the amount paid to Public Works Department/other external 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. Five³⁰ test-checked ULBs had released ₹7.36 crore during 2013-14 as advances to

³⁰ CMCs: Madikeri (₹0.46 crore), Nippani (₹2.60 crore), Sagar (₹0.68 crore) and Sira (₹2.82 crore), TMC: Nelamangala (₹0.80 crore)

external agencies but had not taken any action to obtain statement of expenditure along with unspent amount, if any, and adjust it against the advances.

5.2.2 *Fixed Assets*

None of the tests-checked ULBs had maintained the records showing full particulars including quantitative details and location of fixed assets and conducted physical verification of fixed assets during the five years ended 31 March 2015. In the absence of this, the correctness of valuation of fixed assets and impact on depreciation exhibited in the Annual Financial Statements of test-checked ULBs could not be assessed.

5.3 **Thirteenth Finance Commission grants**

The Thirteenth Finance Commission (TFC) was constituted to recommend the measures needed to augment the consolidated funds of the States to supplement resources of the Panchayat Raj Institutions (PRIs) and ULBs. The Commission had recommended grant-in-aid to the local bodies as a percentage of the previous year's divisible pool of taxes, over and above the share of the States. The grants were envisaged to be released under two component, *viz.*; general basic grant and performance grant in two instalments, for five years, with effect from the year 2010 onwards.

The GoI released two instalments of general basic grants of ₹333.02 crore and one instalment of performance grant of ₹122.69 crore for the year 2014-15 to ULBs. The GoI had not released second instalment of performance grant for the year 2014-15 (November 2015).

5.3.1 *Delayed release of funds*

The TFC guidelines stipulated that the funds should be transferred to the accounts of ULBs within five days from the date of receipt of grant from GoI, failing which the State Government would be liable to release the instalment with interest at the Reserve Bank of India (RBI) rate for the delayed period. The GoI released general basic grant during July 2014, March 2015 and performance grant during March 2015. Audit observed that there were delays ranging from 18 to 43 days in transfer of funds to ULBs. The interest of ₹1.79 crore for the delay in transferring of funds was not released to ULBs by the State Government.

5.3.2 *Poor utilisation of TFC grants by the test-checked ULBs*

Out of ₹60.04 crore received by the test-checked ULBs during the period 2010-15, only ₹34.72 crore (ranging from 36 to 67 *per cent*) was utilised, as detailed in **Table 5.2**.

Table 5.2: Details of TFC grants in test-checked ULBs

Name of the ULB	Grants released						Amount utilised	Balance	Percentage of utilisation
	2010-11	2011-12	2012-13	2013-14	2014-15	Total			
CC, Vijayapura	1.91	3.45	3.47	6.21	5.39	20.43	13.67	6.76	67
CMC, Madikeri	0.50	0.91	1.55	2.37	0.56	5.89	3.11	2.78	53
CMC, Nippani	0.63	1.20	1.51	1.85	0.48	5.67	2.06	3.61	36
CMC, Sira	0.65	1.23	1.98	1.89	0.90	6.65	4.01	2.64	60
CMC, Sagar	0.65	1.22	1.80	1.60	1.32	6.59	3.87	2.72	59
TMC, Gowribidanur	0.55	1.05	1.65	1.41	0.60	5.26	2.68	2.58	51
TMC, Mudalagi	0.57	1.09	1.62	1.79	0.26	5.33	3.04	2.29	57
TMC, Nelamangala	0.37	0.70	1.51	1.43	0.21	4.22	2.28	1.94	54
Total	5.83	10.85	15.09	18.55	9.72	60.04	34.72	25.32	58

Source: As furnished by ULBs

5.3.3 Non-maintenance of separate cash book and bank account

It was observed that the test-checked ULBs (except BBMP) had not maintained separate bank account as envisaged in the guidelines and no separate cash book was maintained for TFC grants.

BBMP had not maintained cash book or any other records/grant register for recording grant-wise receipt and component-wise expenditure of TFC grants during the year 2014-15. The BBMP had not furnished utilisation certificate (UC) to the Audit. In the absence of basic records, cash book and grant register, the correctness of grant receipts and component-wise expenditure could not be assessed.

These issues would not only impact the process of obtaining UCs but there was also the risk of misappropriation of funds.

5.3.4 Diversion of grant

BBMP had diverted TFC grant of ₹22.30 crore for repayment loans (₹20.24 crore) and payment of salaries (₹2.06 crore). This was done by transferring the funds irregularly from TFC bank account.

5.3.5 Non-preparation of action plan by BBMP

As per guidelines issued (18 August 2010) by the State Government for utilisation of TFC grants, an Action Plan was to be prepared and approved by the Council/Government before utilisation of grants. However, no such Action Plan had been prepared and got approved by the Council before utilisation of grants.

5.4 Internal control

The State Government did not have an Internal Audit Wing to oversee the functions of ULBs. It was also observed that ULBs were not adhering to financial rules as the statement of expenditure was not obtained and Annual Accounts were not prepared and certified within the stipulated dates. Non-maintenance of cash books, bank books and mandatory registers indicated

inadequate internal control system in ULBs. Further, there was no system of conducting physical verification of stores in the test-checked ULBs.

The Annual Accounts of BBMP were not prepared and certified within the stipulated dates. The ledger accounts prepared under FBAS were not properly balanced at the end of each financial year. The bank accounts were not reconciled periodically. The cash books, grant registers and records envisaged in fund based accounting manual for recording the transactions out of borrowings were not maintained. Internal audit system was not in existence in BBMP. These deficiencies in maintenance of books of accounts and absence of internal audit system indicated that the internal control was not effective in BBMP.

5.5 Conclusion

In spite of preparation of accounts by ULBs, there was shortfall in certification of accounts by the CAs during the years 2012-15. The Annual Accounts of BBMP for the years 2008-13 had not been certified. Statement of expenditure was not obtained from external agencies to which ULBs had paid advances. The ULBs had not utilised the entire TFC grants during the period 2010-15. Internal control mechanism was inadequate as there was no Internal Audit Wing and there were instances of non-maintenance of cash books and bank books.