
Part - B

Urban Local Bodies

Chapter – III
**An Overview of the Functioning,
Accountability Mechanism and Financial
Reporting issues of Urban Local Bodies**

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An Overview of the Functioning of the Urban Local Bodies (ULBs) in the State

3.1 Introduction

Government of India had (GoI) enacted (1992) the 74th amendment to the Constitution to empower Urban Local Bodies (ULBs) as local self-governing institutions in the country to perform effectively. GoI had further entrusted the ULBs with implementation of various socio-economic development schemes, including those enumerated in the Twelfth Schedule to the Constitution.

The States, in turn, were required to entrust these local bodies with such powers, functions and responsibilities as to enable them to function as effective institutions of self-governance and implement schemes for economic development and social justice.

Accordingly, State Government had enacted Andhra Pradesh Municipal Corporations Act, 1994 to set up Municipal Corporations in the State. Provisions of Hyderabad Municipal Corporation (HMC) Act, 1955 including the provisions relating to levy and collection of taxes or fees were extended to all other Municipal Corporations in the State of Andhra Pradesh. Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965.

3.1.1 State profile

As per the 2011 census, the total population of the 13 districts of Andhra Pradesh State was 4.96 crore, of which 1.46 crore (29 *per cent*) lived in urban areas. A profile of urban Andhra Pradesh is given below:

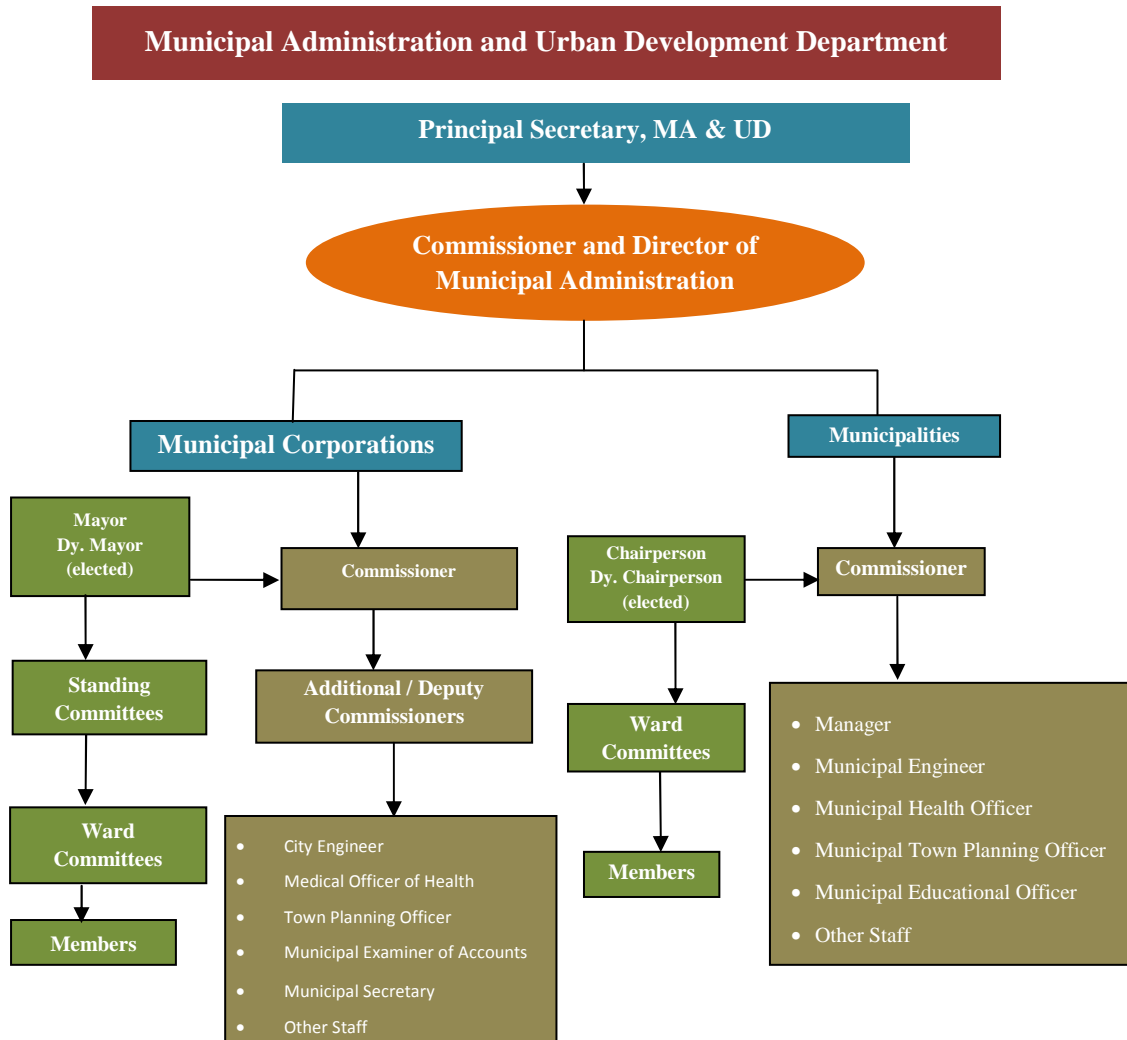
Table 3.1

Sl. No.	Indicator	Unit	State
1.	Urban population	Crore	1.46
2.	Urban population density	Sq. Km	3,593
3.	Urban sex ratio	Females per 1000 Males	1,004
4.	Urban literacy rate	Percentage	79.17
5.	Municipal Corporations	Number	14
6.	Municipalities	Number	71
7.	Nagar Panchayats	Number	25
Total number of ULBs (5+6+7)			110

Source: Information furnished (August 2016) by Commissioner and Director Municipal Administration (CDMA) and 'Andhra Pradesh at a Glance' published (January 2016) by State Government

3.2 Organisational setup of ULBs

Organisational arrangements for the ULBs, inclusive of Government machinery and elected representatives in the State, are as follows.



The ULBs are under the administrative control of the Commissioner and Director of Municipal Administration (CDMA). The elected members of ULBs are headed by Chairperson. They convene and preside over the meetings of Standing committees and General body. The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. Day-to-day administration of all the ULBs rests with the Commissioner.

3.3 Functioning of ULBs

The 74th Constitutional Amendment Act, 1992 had identified 18 functions for ULBs as incorporated in Twelfth Schedule to the Constitution. All the functions mentioned in this Schedule were devolved to ULBs in the State except 'Fire Services'. The Department stated (August 2016) that devolution of 'Fire Services' was under consideration at Government level.

3.4 Formation of various committees

The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. In respect of the Corporations, the Standing Committees, comprising the Chairpersons of all the Ward Committees under them, meet at intervals prescribed by the Act. Similarly, in respect of the Municipalities, the Municipal Ward Committees meet at prescribed intervals to transact business, make regulations and scrutinise municipal accounts. The main functions of the Ward Committees (both Municipalities as well as Corporations) include provision and maintenance of sanitation, water supply and drainage, street lighting, roads, market places, playgrounds, school buildings, review of revenue collections, preparation of annual budget, etc. The Department stated that (October 2016) formation of the above committees in ULBs was not done.

3.5 Audit arrangement

3.5.1 Primary Auditor

Director, State Audit (DSA), functioning under the administrative control of Finance Department, is the statutory auditor for ULBs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare a Consolidated State Audit and Review Report for presentation to the State Legislature. The DSA has four Regional Offices and 13 District offices in Andhra Pradesh State. As per Section 10 of the Act, DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of local authorities or other authorities and such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

As per the information furnished (June 2016) by DSA, audit of annual accounts pertaining to 36 ULBs were in arrears. DSA attributed (June 2016) delay in audit of accounts to non-production of records/non-finalisation of accounts by Municipal Corporations, Municipalities and Nagar Panchayats. As per the information furnished (June 2016) by DSA, no surcharge proceedings were issued during 2015-16.

DSA stated (June 2016) Consolidated State Audit and Review Reports for the year 2011-12 was submitted to Finance department and the Government tabled the Report on 30 March 2016 in the State Legislature. Consolidation of Reports for the years 2012-13, 2013-14 and 2014-15 were under progress. Some of the major findings observed in 2011-12 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, advances pending adjustments etc.

3.5.2 Audit by Comptroller and Auditor General of India (CAG)

CAG has conducted audit of ULBs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of the Eleventh Finance Commission, State Government had entrusted (August 2004) the responsibility for providing Technical Guidance and Supervision (TGS) in connection with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

Based on test check of ULBs a consolidated report (TGS Note) is prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2015-16 was issued in July 2016.

Planning and conduct of audit

The Audit process commences with assessment of risks of departments/local bodies/schemes/programmes, etc., based on expenditure incurred, criticality/complexity of activities, priority accorded to the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2015-16, 14 ULBs (three Municipal Corporations¹, two Municipalities² and nine Nagar Panchayats³), falling under the department of Municipal Administration and Urban Development, were subjected to compliance audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2015 was tabled in the State Legislature on 30 March 2016.

3.6 Response to audit observations

After completion of audit, Inspection Reports (IRs) containing audit findings are issued to heads of the units concerned. Heads of offices and next higher authorities are required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs are also discussed in meetings at district levels by officers of the departments with officers of Principal Accountant General's office.

As of November 2016, 138 IRs containing 3,638 paragraphs pertaining to the period up to 2015-16 were pending settlement, as given below. Of these, even first replies have not been received in respect of 91 IRs and 2,767 paragraphs.

Table 3.2

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2014-15	123	3,088	76	2,217
2015-16	15	550	15	550
Total	138	3,638	91	2,767

Lack of action on IRs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports remaining unaddressed.

¹ Guntur, Nellore and Ongole Municipal Corporations

² Adoni and Machilipatnam Municipalities

³ Addanki, Allagadda, Gollaprolu, Jangareddygudem, Nandigama, Nayudupet, Rajampet, Vuyyuru and Yeleswaram Nagar Panchayats

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

3.7 Ombudsman

The Thirteenth Finance Commission had recommended establishment of an independent Local Body Ombudsman System. Though an independent Ombudsman system was not adopted in the State, the State Government complied with this condition by making amendments to the existing AP Lokayukta Act, 1983 by bringing the elected representatives as well as the staff of Local Bodies into the purview of the Act for getting grants from the GoI.

3.8 Social Audit

Social Audit setup is yet to be constituted for programmes/schemes implemented by Department of Municipal Administration & Urban Development (MA&UD).

3.9 Property Tax Board

The Thirteenth Finance Commission had stipulated that State Government must constitute a Property Tax Board to assist all Municipalities and Municipal Corporations to put in place an independent and transparent procedure for assessing property tax. Accordingly, State Government had issued (March 2011) orders for constituting Property Tax Board and amended (2012) Andhra Pradesh Municipalities Act, 1965 to bring the Legislative framework for the functioning of Andhra Pradesh State Property Tax Board.

State Government had sanctioned (October 2013) 28 posts under 11 categories for effective functioning of the board. The Director of Municipal Administration (DMA) stated (August 2016) that at present Assistant Director of Municipal Administration was working as Member Secretary of the AP State Property Tax Board.

3.10 Service Level Benchmark

The Thirteenth Finance Commission had stipulated that State Government must notify or cause the Urban Local Bodies to notify the service standards of four core sectors i.e., water supply, sewerage, storm water drainage and solid waste management to be achieved by them by the end of fiscal year. State Government stated (September 2016) that targets for the year 2015-16 were not fixed.

3.11 Fire hazard response

Guidelines of Thirteenth Finance Commission stipulated that all Municipal Corporations, with a population of more than one million, must put in place a fire hazard response and mitigation plan and to notify in the State Gazette for demonstrating compliance by end of March 2014. Accordingly, State Government had notified (March 2014) the fire hazard response and mitigation plans to be implemented during the year 2014-15 by Greater Visakhapatnam Municipal Corporation (GVMC) and Vijayawada Municipal Corporation (VMC) with a

population of more than one million. However, no such plan was prepared during 2015-16.

3.12 Submission of Utilisation Certificates (UCs)

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that UCs should be obtained by departmental officers from the grantees and, after verification, should be forwarded to GoI. Scrutiny of records of 14 ULBs during 2015-16 showed that in respect of four⁴ ULBs, UCs amounting to ₹2.53 crore were not furnished as of March 2016.

3.13 Internal Audit and Internal Control system of ULBs

Scrutiny of records of 14 ULBs during 2015-16 showed that in respect of six⁵ ULBs, Internal Audit was not conducted. Information in respect of other eight ULBs was not furnished to audit.

Financial Reporting Issues

3.14 Sources of funds

The resource base of ULBs consists of their own revenue generated by collection of tax⁶ and non-tax⁷ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts⁸. The Commissioner concerned is responsible for reporting the utilisation of funds in respect of Corporations and Municipalities.

Summary of receipts of ULBs for the years 2011-16 are given in Table 3.3. Receipts for the period 2011-14 pertained to the composite State of Andhra Pradesh, whereas the receipts for 2014-16 pertained to the residuary State of Andhra Pradesh.

Table 3.3

(₹ in crore)

Sl. No.	Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
1	Own Revenue	2,297.17	2,898.52	3,183.43	840.86	946.04
2	Assigned Revenue ⁹	795.70	819.28	695.66	181.81	156.84
3	State Government Grants	608.00	921.00	1,358.60 ¹⁰	NA**	118.62
4	GoI Grants					
	Scheme funds	704.24	378.36	-	NA**	178.29
	13 th and 14 th Finance Commission	111.85	Nil	-	818.28	318.31
5	Other Receipts	Nil	Nil	275.60*	79.66	47.36
	Total	4,516.96	5,017.16	5,513.29	1,920.61	1,765.46

Source: Data furnished by Commissioner and Director of Municipal Administration

* Other receipts include loans, accrued interest, penalties received, forfeited security deposits etc.

** Data not made available

⁴ Gollaprolu - ₹0.04 crore, Vuyyuru - ₹0.20 crore, Jangareddygudem - ₹0.67 crore and Ongole - ₹1.62 crore

⁵ Gollaprolu, Yeleswaram, Vuyyuru, Nandigama, Machilipatnam and Ongole

⁶ Property tax, Advertisement fee etc.

⁷ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

⁸ Donations, interest on deposits etc.

⁹ Seignorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue

¹⁰ This includes grants received from GoI

3.14.1 Financial Assistance to ULBs

Financial assistance is provided by State Government to ULBs by way of grants and loans. Details of the financial assistance provided by the Government to ULBs, for the years 2011-14 pertaining to the composite State of Andhra Pradesh and for the period 2014-16 pertaining to the State of Andhra Pradesh, are given below:

Table 3.4

(₹ in crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Budget	177.45	177.45	483.45	77.07	219.87	1,135.29
Actual Release	91.42	90.57	441.37	25.65	219.87	868.88

Source: Information furnished by CDMA

3.14.2 Fund flow arrangement in flagship programmes

Details of fund flow with regard to the flagship programmes of GoI, released to ULBs are given below:

Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	<p>This flagship programme was launched in December 2005 to encourage reforms and fast track planned development of identified cities, with focus on efficiency in urban infrastructure and service delivery mechanisms etc. Initially the mission period was for seven years (2005-12), which was extended upto March 2017. The four components under JNNURM are Urban Infrastructure and Governance (UIG), Basic Services to the Urban Poor (BSUP), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and Integrated Housing and Slum Development Programme (IHSDP).</p> <p>During 2015-16, an amount of ₹104.50 crore was released, of which ₹33.41 crore was expended leaving a balance of ₹71.09 crore.</p>
Atal Mission for Rejuvenation and Urban Transformation (AMRUT)	<p>The purpose of Atal Mission for Rejuvenation and Urban Transformation (AMRUT) is to (i) ensure that every household has access to a tap with assured supply of water and a sewerage connection; (ii) increase the amenity value of cities by developing greenery and well maintained open spaces (e.g. parks) and (iii) reduce pollution by switching to public transport or constructing facilities for non-motorized transport (e.g. walking and cycling). As stated in the Mission guidelines, “All these outcomes are valued by citizens, particularly women, and indicators and standards have been prescribed by the Ministry of Urban Development (MoUD) in the form of Service Level Benchmarks (SLBs)”.</p> <p>An amount of ₹382 crore was released during 2015-16, out of which ₹6 crore was expended leaving a balance of ₹376 crore.</p>

3.14.3 Application of funds

Details of expenditure incurred by ULBs for the years 2011-14 pertaining to the composite State of Andhra Pradesh and 2014-16 pertaining to the State of Andhra Pradesh are given below.

Table 3.5

(₹ in crore)

Sl. No.	Type of expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue expenditure	2,941.85	3,153.33	3,418.10	836.82	884.91
2	Capital expenditure	1,253.08	1,166.59	1,573.30	410.23	451.29
	Total	4,194.93	4,319.92	4,991.40	1,247.05	1,336.20

Source: Data furnished by Commissioner and Director of Municipal Administration

3.15 Recommendations of the State Finance Commission (SFC)

As per Article 243Y of the Constitution, the State Government has to constitute SFC once in five years to recommend devolution of funds from the State Government to Local bodies. The Third SFC was constituted in January 2003 and submitted its report in 2008.

However, State Government had issued orders for implementation of the recommendations of SFC only in December 2013. The Fourth SFC was constituted in January 2015 and its report was yet to be submitted (October 2016) by the commission. The State Government had released an amount of ₹1,027.72 crore during the period 2011-12 to 2015-16. However, only an amount of ₹810.68 crore was expended. Thus, ₹217.04 crore remained unspent.

3.16 Recommendations of the Central Finance Commission

3.16.1 Thirteenth Finance Commission

Based on the recommendations of the Thirteenth Finance Commission, GoI releases funds to State Government for distributing among the Municipal Corporations and Municipalities in the State. The grant is released under two components (basic component and performance based component). During 2011-15, ₹876.25 crore was released to ULBs of Andhra Pradesh State and the total amount was expended. There were no releases during 2015-16

3.16.2 Fourteenth Finance Commission

The Fourteenth Finance Commission (FFC) has recommended assured transfers to the local bodies for planning and delivering basic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting, burial and cremation grounds and any other services smoothly and effectively within the functions assigned to them under relevant legislation. Grants are released under two components i.e., Basic grant and Performance grant. The division of grants between Basic and Performance Grant is in the ratio of 80:20.

An amount of ₹331.47 crore was released by GoI in the year 2015-16. However, no amount was expended as of October 2016

3.17 Maintenance of Records

As per SR 3–TR 10 and SR 2–TR 11, every Drawing and Disbursing Officer should maintain a Cash Book in APTC Form No.5. Test check of 14 ULBs during 2015-16 showed that in seven ULBs cash book was not maintained as stipulated in the rules.

3.17.1 Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. On scrutiny of records of 14 ULBs during 2015-16, it was seen that in respect of seven ULBs¹¹ advances paid to staff for various purposes to a tune of ₹1.62 crore during 1998-99 to 2015-16 remained unadjusted as of March 2016.

3.17.2 Non-reconciliation of departmental figures with treasury

As per Andhra Pradesh Budget Manual (Para 19.6), DDOs are required to reconcile departmental receipts and expenditure with those booked in the treasury every month to avoid any misclassification and fraudulent drawals. On scrutiny of records of 14 ULBs during 2015-16, it was seen that in respect of five ULBs¹² reconciliation was pending from 2011-12 onwards.

3.17.3 Unspent balances in bank accounts of closed schemes

Scheme guidelines stipulate surrender of unspent amount into Government account in respect of closed schemes. State level authorities of the schemes concerned and CDMA should watch the balances of closed schemes lying in the accounts of different ULBs. On scrutiny of records of 14 ULBs during 2015-16, it was seen that in respect of Ongole Municipal Corporation, an amount of ₹1.17 crore remained unspent and parked in Fixed Deposits in the accounts of closed schemes.

3.17.4 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, the procedure for fixing responsibility for any loss sustained by Government and the action to be initiated for recovery. State Government had ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis and the Chief Secretary to Government to review these cases once in six months with all the Secretaries concerned.

Misappropriation cases noticed by Director, State Audit up to 2015-16, yet to be disposed off as of March 2016, are detailed below.

Urgent action needs to be taken by government in this regard.

¹¹ Ongole, Nellore, Machilipatnam, Nandigama, Jangareddygudem, Rajampeta and Vuyyuru

¹² Addanki, Nayudupet, Nellore, Ongole and Vuyyuru

Table 3.6

(₹ in lakhs)

Unit	As of 31 st March 2016	
	No. of cases	Amount
Municipal Corporations	381	1,579.97
Municipalities & Nagar Panchayats	667	3,046.91
Total	1,048	4,626.88

Source: Information furnished by Director, State Audit

3.18 Maintenance of Accounts by ULBs

GoI, in consultation with the Comptroller and Auditor General of India, had formulated (December 2004) the National Municipal Accounts Manual (NMAM) with double entry system for greater transparency and control over finances and requested (May 2005) the States to adopt it with appropriate modifications to meet their specific requirements. Accordingly, a Steering Committee was constituted (May 2005) by the State Government and the Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. State Government had issued orders in August 2007 for adoption of APMAM in all the ULBs in the State. Similarly, other manuals viz., Andhra Pradesh Municipal Budget Manual and Andhra Pradesh Municipal Asset Manual, were also accepted by State for implementation (August 2007) by ULBs. However, finalisation of Annual Accounts by 25 ULBs was in arrears as of April 2016.

State Government stated (September 2016) that the Double Entry Accrual Based Accounting System (DEABAS) was being adopted in all the 110 ULBs and that the State Audit Department had successfully audited the annual accounts of the 110 ULBs up to 2014-15.

3.19 Maintenance of Database and the formats therein on the finances of ULBs

The ULBs have adopted the software developed by the Centre for Good Governance of Model Accounting System for maintenance of accounts. The Department stated (August 2015) that the staff was not fully trained in preparation and maintenance of accounts as per these formats. Chartered Accountant (CA) firms were requested to prepare accounts for the period 2009-13. Based on the guidelines from CA firms to the staff, accounts from 2013-14 onwards were proposed to be maintained by the ULBs staff. However, as of September 2016 no ULB was maintaining any kind of database on the financial position of ULBs.

3.20 Conclusion

Constitution of various committees as envisaged was not made. The Property Tax Board, though constituted, has not been functioning with full sanctioned strength. Service Level Benchmarks for 2015-16 were not fixed. There were delays in compilation of accounts by ULBs, delays in the audits by the Director, State Audit.

Maintenance of database formats was not implemented as planned. Accountability framework and financial reporting in ULBs were inadequate as evidenced by absence of social audit for scheme evaluation in the department for fixing accountability and non-furnishing of utilisation certificates, non-maintenance of any kind of database on the finances of the ULBs and improper maintenance of cash books.

