

**PART - B**  
**URBAN LOCAL BODIES**



# **CHAPTER III**

**AN OVERVIEW OF THE FUNCTIONING,  
ACCOUNTABILITY MECHANISM AND FINANCIAL  
REPORTING ISSUES OF URBAN LOCAL BODIES**



## CHAPTER III

### AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF URBAN LOCAL BODIES

#### An Overview of the functioning of the Urban Local Bodies in the State

##### 3.1 Introduction

The 74<sup>th</sup> amendment to Constitution accorded 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 powers, functions and responsibilities so as to enable them to function as institutions of local self-government.

Accordingly, the State Legislature 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.

Tamil Nadu is one of the most urbanised States in India. As per the 2011 census, the urban population of the State was 3.49 crore constituting 48.40 *per cent* of the total population of 7.21 crore. Important statistics of the State regarding population and ULBs are given in **Table 3.1**.

**Table 3.1: Important statistics of the State**

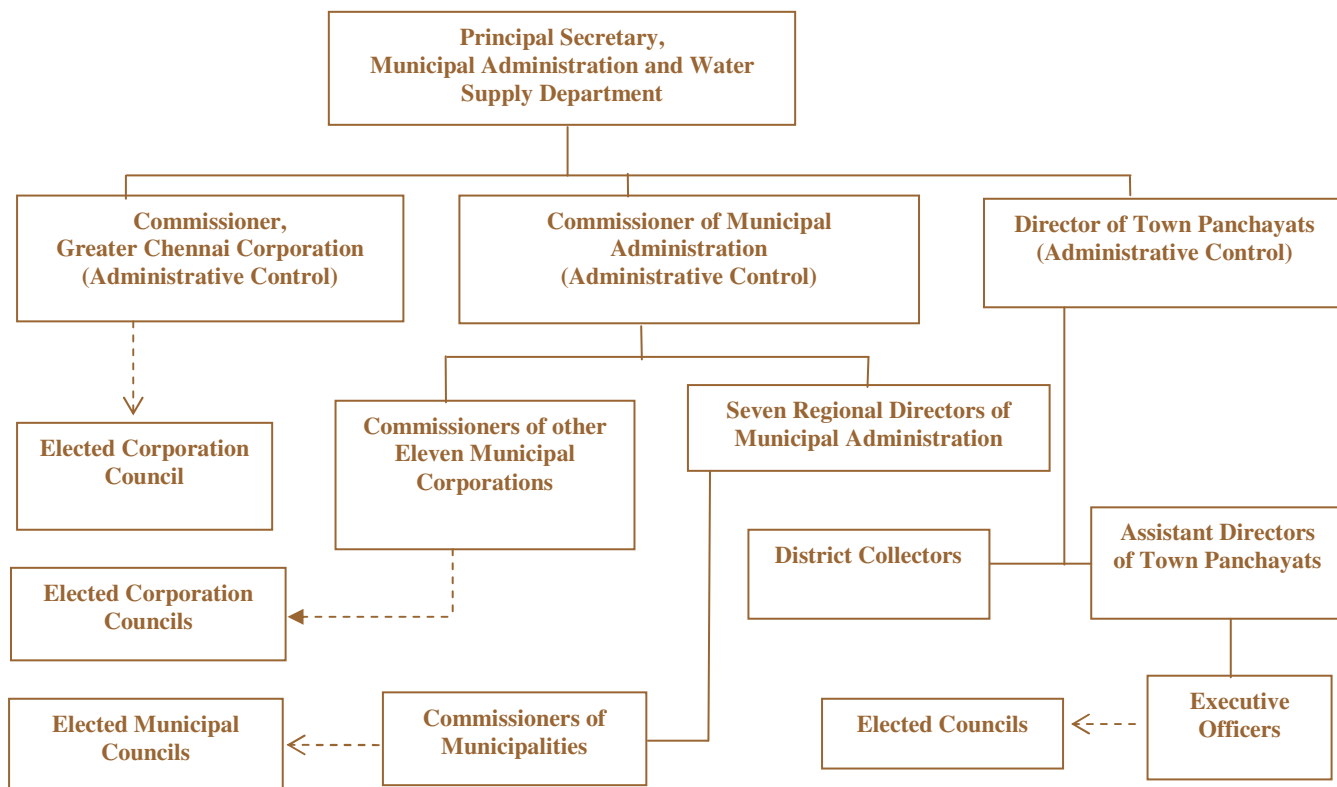
Population	7.21 crore
Population density	555 persons per Sq.Km.
Gender ratio	996 females per 1,000 males
Urban population	48.40 <i>per cent</i>
Literacy	80.09 <i>per cent</i>
Number of ULBs	664
- Municipal Corporations	12 <sup>1</sup>
- Municipalities	124
- Town Panchayats	528

(Source: 2011 Census figures and Policy Note of the Municipal Administration and Water Supply Department for 2015-16)

<sup>1</sup> Chennai, Coimbatore, Dindigul, Erode, Madurai, Salem, Thanjavur, Thoothukudi, Tiruchirappalli, Tirunelveli, Tiruppur and Vellore

### 3.2 Organisational setup of ULBs

The organisational structure for administration of ULBs in Tamil Nadu as of March 2016 is as under:



(Source : Commissionerate of Municipal Administration)

### 3.3 Functioning of ULBs

Consequent upon the 74<sup>th</sup> amendment to the Constitution, the State Legislature amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs. Out of 18 functions enlisted in the Twelfth Schedule of the Constitution, 12 functions have been devolved to the Town Panchayats and 17 functions (except Fire Service) have been devolved to the Municipalities and Municipal Corporations by the State Government as of November 2016. In respect of Chennai City Municipal Corporation, renamed as Greater Chennai Corporation (GCC) in October 2015, 13 out of 18 functions have been devolved so far (November 2016), of which the function of water supply is handled by the Chennai Metropolitan Water Supply and Sewerage Board.

### 3.4 Formation of various Committees

Out of 32 Districts in Tamil Nadu, Government of Tamil Nadu (GoTN) constituted District Planning Committees (DPC) in 31 districts except Chennai as per Section 241(1) of the Tamil Nadu Panchayats Act, 1994. Constitution and functions of the DPC are mentioned in Paragraph 1.4 of this Report.

GCC stated (November 2016) that Standing Committees for Public Health, Town Planning, Works, Taxation and Finance, Education, Accounts and Audit and Appointment were formed. Commissioner of Municipal Administration (CMA) stated (November 2016) that Standing Committees for Public Health, Town Planning, Works, Taxation and Finance, Education, Accounts and Appointment were formed in Municipal Corporations and Standing Committees for Contracts, Town Planning, Taxation Appeal and Appointment were formed in Municipalities. Director of Town Panchayats (DTP) stated (November 2016) that Standing Committees for Contracts, Town Planning, Taxation Appeal and Appointment were formed.

### 3.5 Audit arrangement

#### 3.5.1 Primary Auditor

GoTN entrusted (August 1992) the audit of ULBs to the Director of Local Fund Audit (DLFA), who has to certify the correctness of accounts, assess internal control system and report cases of loss, theft and fraud to the audited entities and to GoTN. Position regarding placing of Audit Report of DLFA on the table of the Legislative Assembly is mentioned in Paragraph 1.5.1 of this Report.

#### Arrears in submission of accounts

ULBs should finalise their annual accounts within three months after the end of the financial year. Number of ULBs who did not submit their accounts to DLFA, as of September 2016, for the years 2013-14, 2014-15 and 2015-16 are given in **Table 3.2**.

**Table 3.2: Position of non-submission of accounts by the ULBs to DLFA**

Category of ULB	Total number of ULBs	Number of ULBs not submitted their accounts relating to		
		2013-14	2014-15	2015-16
Corporations	10 (2013-14) 12 (2014-15 and 2015-16)	Nil	Nil	9
Municipalities	126 (2013-14) 124 (2014-15 and 2015-16)	2	10	63
Town Panchayats	528	Nil	Nil	60

(Source: Details furnished by DLFA)

#### Arrears in Audit by DLFA

The position of arrears in audit of ULBs, as of September 2016, is given in **Table 3.3**.

**Table 3.3: Position of non-completion of audit of ULBs by DLFA**

Category of ULB	Total number	2014-15			2015-16		
		Accounts submitted to DLFA (A)	Audit completed out of (A) (B)	Audit pending (A)-(B) (C)	(A)	(B)	(C)
Corporations	12	12	6	6	3	Nil	3
Municipalities	124	114	98	16	61	Nil	61
Town Panchayats	528	528	450	78	468	21	447

(Source: Details furnished by DLFA)

DLFA reported (October 2016) that 2,78,844 paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats included in their Inspection Reports relating to period upto 2014-15 were pending settlement as of September 2016. Audit analysis of the data revealed that out of 1,04,768, 1,09,610 and 64,466 paragraphs pending upto 2014-15 in respect of Municipal Corporations, Municipalities and Town Panchayats respectively, 96,314 paragraphs (92 per cent – Municipal Corporations), 96,589 (88 per cent – Municipalities) and 29,233 (45 per cent – Town Panchayats) related to the period upto 2011-12. This indicated that sufficient attention was not being given to settle the long pending paragraphs.

DLFA further reported (October 2016) that for settling the pending paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats, 67 meetings were held during 2015-16 as a result of which 16,994 paragraphs were settled.

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

The CAG also audits the ULBs under Section 14(2) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Technical Guidance and Support (TGS) is provided by the CAG to DLFA.

#### **Audit Reports of CAG**

CAG's Audit Reports on ULBs upto 2006-07 were discussed and recommendations were made by the Public Accounts Committee (PAC). As of October 2016, Action Taken Reports were pending from Municipal Administration and Water Supply Department on 198 recommendations<sup>2</sup> relating to 1985-86 to 2007-08 for final settlement, which consisted of paragraphs relating to ULBs included in the Audit Reports (Civil) and (Local Bodies).

<sup>2</sup> 1985-86 (1), 1990-91 (5), 1992-93 (15), 1993-94 (2), 1997-98 (1), 1999-2000 (10), 2000-2001 (1), 2001-02 (9), 2002-03 (2), 2003-04 (28), 2004-05 (33), 2005-06 (55), 2006-07 (30) and 2007-08 (6)



### **3.6 Response to audit observations**

Audit of ULBs by test checking of records is followed-up through Inspection Reports issued to the Commissioner, GCC (in respect of Greater Chennai Corporation), CMA, DTP and to the ULBs concerned. As of October 2016, 4,305 paragraphs contained in 795 Inspection Reports issued during the period from 2005-06 to 2015-16 were pending settlement for want of satisfactory replies.

## **Accountability Mechanism and Financial Reporting Issues**

### **Accountability Mechanism**

#### **3.7 Ombudsman**

As per Paragraph No.10.161(iii) of the recommendations of the Thirteenth Central Finance Commission (TCFC), the State Government must put in place a system of independent local body Ombudsman who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials and recommend suitable action and the system should be made applicable to all elected functionaries and officials in all Municipal Corporations, Municipalities and Zilla Parishads at least.

Subsequent to the enactment (December 2014) of Tamil Nadu Local Bodies Ombudsman Act, 2014, Ombudsman for the Municipal Corporations, Municipalities, Town Panchayats and District Panchayats in Tamil Nadu was established. Tamil Nadu Local Bodies Ombudsman stated (November 2016) that 190 complaints were received during 2015-16 against the ULBs and its public servants from various Municipal Corporations, Municipalities and Town Panchayats, out of which 156 have been disposed of and the remaining cases were under process.

#### **3.8 Property Tax Board**

The State Legislature enacted (May 2013) the Tamil Nadu State Property Tax Board Act, 2013 and GoTN framed (October 2014) the Tamil Nadu State Property Tax Board Rules, 2014. Though the State Legislature had enacted the Tamil Nadu State Property Tax Board Act, 2013 in May 2013, the Board had not been constituted so far (November 2016).

#### **3.9 Service Level Benchmark**

As per para 10.161 (viii) of the TCFC recommendations, State Governments must notify or cause all the Municipal Corporations and Municipalities to notify the service standards for four service sectors *viz.*, water supply, sewerage, storm water drainage and solid waste management proposed to be achieved by them by the end of the succeeding fiscal year. CMA stated (November 2016) that all the ULBs in the State had notified the service standards in the District Gazette.

### **3.10 Fire hazard response**

As per para 10.161 (ix) of the TCFC recommendations, all Municipal Corporations with a population of more than one million must put in place a fire hazard response and mitigation plan for their respective jurisdictions. Notification accepting this recommendation of CFC was issued by GoTN in November 2013.

Municipal Corporations of Chennai, Coimbatore and Madurai released a sum of ₹ 2.68 crore, ₹ 0.51 crore and ₹ 0.49 crore respectively for the period 2011-15 and an amount of ₹ 1.53 crore, ₹ 0.17 crore and ₹ 0.19 crore was utilised by the Fire and Rescue Services Department from the amount released by the respective Corporations as of May 2016 for purchase of vehicles and equipment. However, the expenditure incurred during the period 2011-15 was only 57 per cent, 33 per cent and 39 per cent respectively. Director, Tamil Nadu Fire and Rescue Services stated (October 2016) that necessary steps were being taken to procure the balance items during the year 2016-17.

### **3.11 Submission of Utilisation Certificates**

The GCC stated (November 2016) that the Utilisation Certificates (UCs) were issued after actual utilisation of the amount received from Government of India (GoI). CMA stated (November 2016) that the UCs were sent to GoI for the amount utilised out of the sanctioned grant for the specific period as prescribed in the sanctions. DTP stated (November 2016) that in case of some projects, UCs were sent directly to GoI and in respect of some projects these were sent through the nodal agencies.

### **3.12 Internal Audit and Internal Control System of ULBs**

In GCC, the Financial Advisor was the overall controller for verification of audit and accounts and the Chief Accounts Officers were doing internal audit in their respective zones. DLFA was conducting concurrent Audit of 11 Municipal Corporations and 18 Special Grade Municipalities, having income of more than ₹ 10 crore.

### **3.13 Financial Reporting Issues**

#### **3.13.1 Source of funds**

The resource base of ULBs consists of

- (i) Own revenue,
- (ii) Assigned revenue<sup>3</sup>,
- (iii) Grants from GoI and GoTN and
- (iv) Loans from GoI/GoTN/financial institutions.

**Table 3.4** shows the details of receipts and expenditure of the ULBs for the period from 2011-12 to 2015-16.

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<sup>3</sup> Ninety per cent of the Entertainment Tax and 50 per cent of the Surcharge on Stamp Duty collected within the jurisdiction of the local body were assigned to the concerned local body

**Table 3.4: Receipts and expenditure of ULBs**

	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Own revenue	2,148	2,467	2,957	3,133	3,607
Assigned revenue	780	1,084	1,211	1,255	1,964
Grants	3,220	4,020	4,391	4,232	5,650
Loans	225	323	903	850	1,319
<b>Total receipts</b>	<b>6,373</b>	<b>7,894</b>	<b>9,462</b>	<b>9,470</b>	<b>12,540</b>
Revenue expenditure	2,559	3,461	4,985	5,383	7,085
Capital expenditure	2,221	3,117	5,107	5,241	6,788
<b>Total expenditure</b>	<b>4,780</b>	<b>6,578</b>	<b>10,092</b>	<b>10,624</b>	<b>13,873</b>

(Source: Details furnished by GCC, CMA and DTP)

The percentage of expenditure and savings to the total receipts during 2011-12 to 2015-16 is given in **Table 3.5**.

**Table 3.5: Percentage of expenditure and savings**

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue expenditure	40	44	53	57	56
Capital expenditure	35	39	54	55	54
Savings(-)/Excess expenditure(+)	(-) 25	(-) 17	7	12	10

While Capital expenditure over the years ranged between 35 and 55 *per cent* of the total receipts, Revenue expenditure ranged between 40 and 57 *per cent* of the total receipts during 2011-16.

### **3.13.2 State Finance Commission (SFC) Grant**

Fourth SFC, constituted in December 2009, recommended (September 2011) a vertical sharing ratio of 56:44 between rural and urban local bodies. GoTN accepted (June 2013) the recommendations with modifications to adopt the vertical sharing ratio between rural and urban local bodies at 58:42 and the horizontal sharing ratio of SFC devolution funds at 40:31:29 among Municipal Corporations, Municipalities and Town Panchayats respectively.

### **3.13.3 Central Finance Commission (CFC) Grant**

A sum of ₹ 790.04 crore was sanctioned by GoI as Fourteenth CFC grant to the ULBs for the year 2015-16 in Tamil Nadu and the same was released by GoTN to the ULBs.

**3.13.4 Maintenance of accounts by ULBs**

Accrual-based accounting system is being followed in all the ULBs. The GCC stated (November 2016) that in conformity with the National Municipal Accounting Manual (NMAM), the chart of accounts was revised and accounts upto 2014-15 were finalised. CMA stated (November 2016) that consequent to the introduction of NMAM, GoTN initiated action to prepare a new Accounting Manual incorporating the principles laid down in NMAM, to suit the requirement of ULBs in Tamil Nadu on the principles of need base and not merely to coincide with NMAM. CMA further stated that accounts from 2014-15 were compiled based on this newly updated Municipal Accounting Manual adopting new accounting software.