

Part – B
Urban Local Bodies

Chapter – III

An overview of the functioning and financial reporting issues of Urban Local Bodies

Chapter III

Section-A

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

3.1 Introduction

Government of India (GoI) enacted (1992) the 74th amendment¹ to the Constitution to empower Urban Local Bodies (ULBs) as local self-governing institutions in the country to perform effectively. Accordingly, State Government 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 governed by the Andhra Pradesh Municipalities Act, 1965. The profile of ULBs in the State is given in Table 3.1:

Table 3.1

Indicator	Unit	State statistics
Urban population	Crore	1.46
Male	Lakh	72.92
Female	Lakh	73.18
Urban sex ratio	Females per 1000 Males	1,004
Urban literacy rate	Percentage	79.17
Municipal Corporations	Number	14
Municipalities	Number	71
Nagar Panchayats	Number	25

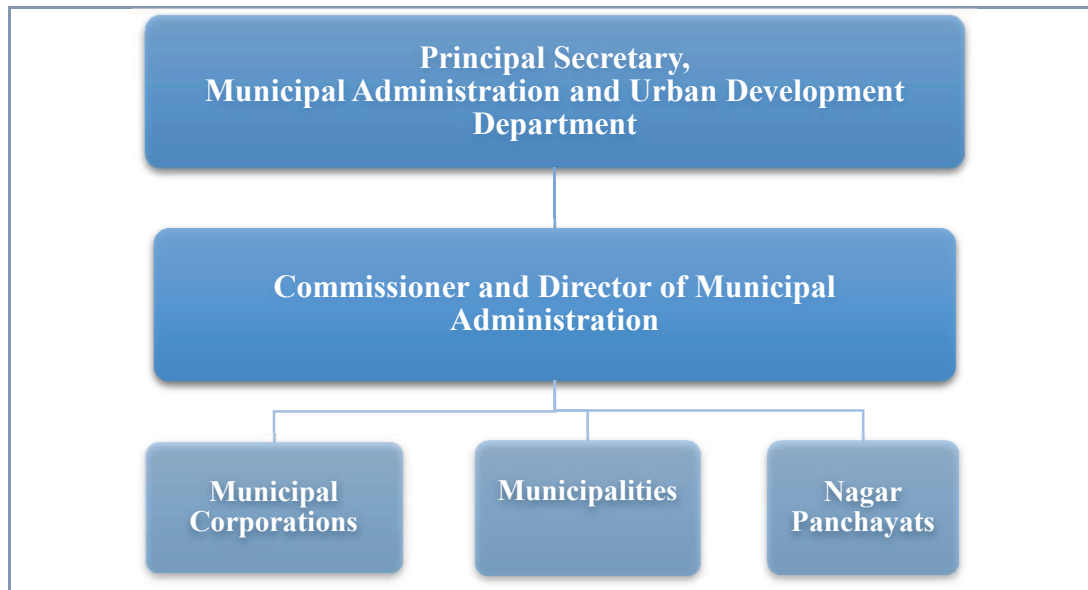
Source: Information furnished by Commissioner and Director of Municipal Administration (CDMA) and Andhra Pradesh at a Glance (2016-17) published by Directorate of Economics and Statistics, Government of Andhra Pradesh

¹ For implementation of various socio-economic development schemes including those enumerated in the Twelfth Schedule to the Constitution

3.2 Organisational setup of ULBs

Organisational arrangements for the ULBs are as follows:

Chart 3.1



The ULBs are under the administrative control of the Commissioner and Director of Municipal Administration (CDMA). Day-to-day administration of all the ULBs rests with the Commissioner concerned.

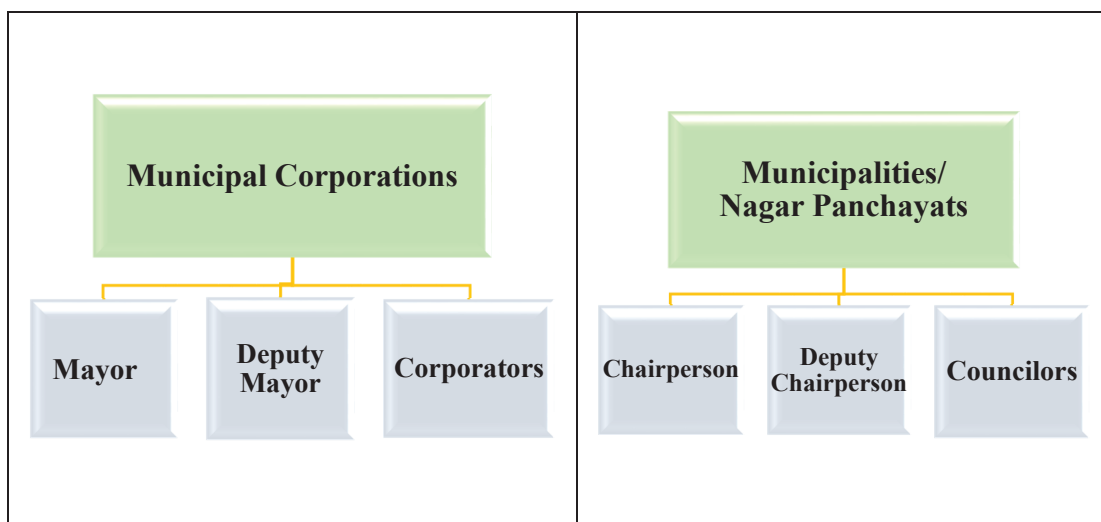
3.3 Functioning of ULBs

The 74th Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in the Twelfth Schedule to the Constitution. All the functions mentioned in this Schedule were devolved to ULBs in the State except 'Fire Services'.

3.4 Formation of various committees

The structure of the elected bodies of the ULBs is given below:

Chart 3.2



The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. In respect of 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 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 (Municipalities and 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. Commissioner and Director of Municipal Administration (CDMA) stated (September 2017) that out of 2,984 wards, 491 ward committees were constituted as of September 2017.

3.5 Sources of funds

Resource base of ULBs consists of their own revenue in the shape of tax² and non-tax³ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts⁴.

Summary of receipts of ULBs for the years 2012-17 is given in Table below. Receipts for the period 2012-14 pertain to the composite State of Andhra Pradesh whereas the receipts for the period 2014-17 pertain to the residuary State of Andhra Pradesh.

Table 3.2

(₹ in crore)

Sl. No.	Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
1	Own Revenue	2,898.52	3,183.43	840.86	946.04	2,250.58
2	Assigned Revenue⁵	819.28	695.66	181.81	156.84	372.23
3	State Government Grants	921.00	1,358.60 ⁶	NA**	118.62	1,647.22
4	GoI Grants					
	Scheme funds	378.36	-	NA**	178.29	312.20
	13 th and 14 th Finance Commission	-	-	818.28	318.31	483.14
5	Other Receipts*	-	275.60	79.66	47.36	322.88
	Total	5,017.16	5,513.29	1,920.61	1,765.46	5,388.25

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

² Property Tax, Advertisement fee etc.

³ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

⁴ Donations, interest on deposits etc.

⁵ Seigniorage 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

⁶ This includes grants received from GoI

3.5.1 Financial Assistance to ULBs

Financial assistance was provided by State Government to ULBs by way of grants and loans. Details of the financial assistance provided by the Government to ULBs are given below:

Table 3.3

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Budget	177.45	483.45	77.07	219.87	223.87
Actual Release	90.57	441.37	25.65	219.87	223.87

Source: Information furnished by CDMA

3.5.2 Application of funds

Details of expenditure incurred by ULBs for the period 2012-14 pertaining to the composite State of Andhra Pradesh and for the period 2014-17 pertaining to the State of Andhra Pradesh are given below:

Table 3.4

(₹ in crore)

Sl. No.	Type of expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
1	Revenue expenditure	3,153.33	3,418.10	836.82	884.91	2,454.99
2	Capital expenditure	1,166.59	1,573.30	410.23	451.29	1,768.83
	Total	4,319.92	4,991.40	1,247.05	1,336.20	4,223.82

Source: Data furnished by Commissioner and Director of Municipal Administration

As seen from the source of funds and expenditure particulars of ULBs during the year 2016-17, it was observed that there were savings of ₹1,164.43⁷ crore.

3.6 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. State Government had issued orders⁸ for implementation of the recommendations of SFC only in December 2013. State Government did not constitute SFC after 2013. The committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period 2010-15 also. The State

⁷ ₹5,388.25 crore-₹4,223.82 crore= ₹1,164.43 crore

⁸ G.O. Ms. No. 512, MA&UD (Budget-2) department, dated 31.12.2013

Government had released an amount of ₹133.92 crore (under State Finance Commission) during 2016-17 and the entire amount was expended.

3.7 Recommendations of the Central Finance Commission (CFC)

The Fourteenth Finance Commission (FFC) recommended assured transfer of funds to the local bodies for planning and delivering basic services⁹ under their charge. Grants were released under two components, i.e., Basic grant and Performance grant. The division of grants between Basic Grant and Performance Grant is in the ratio of 80:20.

During the year 2016-17, GoI released ₹483.14 crore. However, no amount was expended as of November 2017.

3.8 Audit Mandate

3.8.1 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 Audit and Review Report for presentation to the State Legislature. DSA has four Regional Offices and 13 District offices in the 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. The executive authority concerned shall recover such amounts under Revenue Recovery (RR) Act.

As per the information furnished (October 2017) by DSA, audit of annual accounts of 90 ULBs pertaining to earlier years was in arrears. DSA attributed delay in audit to non-production of records by ULBs. DSA further stated that surcharge certificates for ₹21,106 in respect of two cases were issued during the year 2016-17.

The consolidated Audit and Review Report for the year 2011-12 was tabled in the State Legislature on 30 March 2016. Some of the major findings observed in 2011-12 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustment etc. DSA stated (October 2017) that consolidation of the Reports for the years 2012-13 to 2016-17 was under progress.

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

Based on recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) to CAG, the responsibility for providing Technical Guidance and Supervision (TGS) in connection with the accounts and audit of Local Bodies under section 20(1) of the Act.

⁹ 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

Based on the 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 2016-17 was issued in August 2017.

Planning and conduct of audit

The Audit process commences with assessment of risks¹⁰, based on expenditure incurred, criticality/complexity of activities and priority accorded to the activity by Government. It is also based on level of delegated financial powers and assessment of internal controls and concerns of stakeholders.

Previous audit findings were also considered in this exercise. Based on this risk assessment, frequency and extent of audit was decided and an annual audit plan was formulated to conduct audit. During 2016-17, 13 ULBs (two Municipal Corporations¹¹, seven Municipalities¹² and four Nagar Panchayats¹³), falling under the department of Municipal Administration and Urban Development, were covered in audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2016 was tabled in the State Legislature on 31 March 2017.

Response to audit observations

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

As of November 2017, 150 IRs containing 3,820 paragraphs pertaining to the period up to 2016-17 were pending settlement as given below. Of these, initial replies had not been received in respect of 71 IRs and 2,146 paragraphs.

Table 3.5

Year	Number of IRs /Paragraphs pending settlement		IRs/Paragraphs where even initial replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2015-16	137	3,475	58	1,801
2016-17	13	345	13	345
Total	150	3,820	71	2,146

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

¹⁰ of departments/local bodies/schemes/programmes, etc.

¹¹ Kakinada and Srikakulam Municipal Corporations

¹² Amalapuram, Jaggayyapeta, Kandukur, Markapur, Pullivendula, Sullurpet and Tuni Municipalities

¹³ Nellimarla, Palakonda, Puttaparthi and Rajam Nagar Panchayats

Section B

Accountability framework and Financial reporting issues

3.9 Accounting framework

3.9.1 Ombudsman

The Thirteenth Finance Commission recommended establishment of an independent Local Body Ombudsman System. Independent Ombudsman System was not adopted in the State. However amendments were made to the existing AP Lokayukta Act, 1983 to cover all the elected members of the Municipal bodies.

3.9.2 Social Audit

Social Audit setup was yet to be constituted for programmes/schemes implemented by Department of Municipal Administration & Urban Development (MA&UD) as of November 2017.

3.9.3 Property Tax Board

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

State Government sanctioned (October 2013) 28 posts for effective functioning of the PTB. Against the sanctioned 28 posts, 24 posts were lying vacant (as of May 2017).

3.9.4 Service Level Benchmark

The Thirteenth Finance Commission had stipulated that State Government must notify or cause the ULBs to notify the service standards of four core sectors¹⁴ to be achieved by them by the end of fiscal year. State Government fixed the targets for the year 2014-15 (March 2014). From 2015-16 onwards, ULBs were directed to publicise the Service Level Benchmarks by themselves. All the ULBs in the State have fixed the targets for the year 2016-17 in respect of four core sectors. None of the test-checked ULBs furnished the details of achievements against the SLB targets set.

3.9.5 Fire hazard response

Guidelines of the 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. A gazette notification to this effect was to be issued by the State Government demonstrating compliance. Accordingly, State Government notified annually, the fire hazard response and mitigation plans to be implemented upto 2014-15. State Government did not issue notifications for the subsequent years.

¹⁴ water supply, sewerage, storm water drainage and solid waste management

3.10 Submission of Utilization Certificates (UCs)

Scheme guidelines of Centrally Sponsored Schemes and Central Finance Commissions stipulate that departmental officers should obtain UCs from the grantees. The UCs should be forwarded to GoI after due verification of the same. Records of 13 test-checked ULBs showed that in respect of two¹⁵ ULBs, UCs for an amount of ₹3.68 crore (pertaining to the period 2010-11 to 2016-17) were not furnished as of March 2017.

3.11 Internal Audit and Internal Control system of ULBs

Records of 13 ULBs during 2016-17 showed that in respect of seven¹⁶ ULBs, Internal Audit was not conducted. One ULB (Tuni Municipality) stated that Internal Audit was conducted quarterly, however, records in support of the same were not furnished to audit despite specific request.

3.12 Maintenance of Records

Every Drawing and Disbursing Officer should maintain a Cash Book as prescribed in Andhra Pradesh Treasury Code (APTC). Test check of 13 ULBs during 2016-17 showed that in five¹⁷ ULBs cash book was not properly maintained¹⁸ as stipulated.

3.12.1 Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers concerned should watch their adjustment. Records of 13 ULBs audited during 2016-17, showed that advances of ₹1.66 crore, paid to staff in six ULBs¹⁹ for various purposes during the period 2000-17, remained unadjusted as of March 2017.

3.12.2 Non-reconciliation of departmental figures with treasury

As per paragraph 19.6 of Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in the treasury every month to avoid any misclassification and fraudulent drawals. Records of 13 test-checked ULBs showed that reconciliation was pending from the year 2012-13 onwards in respect of three ULBs²⁰.

3.12.3 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.

¹⁵ Tuni: ₹1.74 crore and Amalapuram: ₹1.94 crore

¹⁶ Amalapuram, Jaggaiahpetta, Kandukur, Markapur, Palakonda, Pulivendula and Puttaparthi

¹⁷ Amalapuram, Jaggaiahpetta, Srikakulam, Sullurpet and Tuni

¹⁸ Non-attestation of monthly closing, non-reconciliation by DDOs etc.

¹⁹ Kakinada: ₹84.30 lakh, Kandukur: ₹1.53 lakh, Palakonda: ₹3.68 lakh, Pulivendula: ₹1.96 lakh, Srikakulam: ₹64.70 lakh and Tuni: ₹9.33 lakh

²⁰ Markapur, Puttaparthi and Sullurpet

Records of 13 test-checked ULBs during 2016-17 showed that an amount of ₹4.33 crore pertaining to closed schemes²¹ in five²² ULBs remained unspent as of March 2017.

3.12.4 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, the procedure for fixing responsibility and recovery of any loss. State Government had ordered (February 2004) the Secretaries of all the departments to review cases of misappropriation on a monthly basis. The Chief Secretary to Government was to review these cases once in six months with all the Secretaries concerned. However, information regarding conduct of such reviews were not furnished to audit despite specific request. Hence, Audit concludes that the required reviews were not carried out. As of March 2017, misappropriation cases noticed by Director, State Audit which were pending from 1991-92 for disposal are detailed below:

Table 3.6

(₹ in lakhs)

Unit	As of 31 March 2017 ²³	
	No. of cases	Amount
Municipal Corporations	59	265.80
Municipalities	79	680.30
Nagar Panchayats	7	6.52
Total	145	952.62

Source: Information furnished by Director, State Audit

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

3.13 Maintenance of Accounts by ULBs

The ULBs adopted the software developed by the Centre for Good Governance of Model Accounting System for maintenance of accounts. CDMA stated (September 2017) that the Double Entry Accrual Based Accounting System (DEABAS) was being adopted in all the 110 ULBs. The State Audit Department had audited the annual accounts of all the ULBs for the financial year upto 2015-16. Audit of annual accounts of 2016-17 was in progress.

²¹ Swarn Jayanti Rojgar Yojana, 12th Finance Commission Grants, Paavala Vaddi etc.

²² Amalapuram: ₹2.34 crore, Kakinada: ₹1.50 crore, Rajam: ₹0.02 crore, Srikakulam: ₹0.18 crore and Tuni: ₹0.29 crore

²³ No information has been provided in respect of misappropriation cases for the year 2016-17

