

Chapter-V

Department of Urban Development

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 in 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, 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 had 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 2016, 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 Urban Local Bodies

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 the 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 (31st 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. **Table 5.1** below indicates the status of accounts prepared by ULBs and certified by the CAs during the period 2011-12 to 2015-16.

Table 5.1: Status of preparation and certification of accounts as of March 2016

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
2011-12	213	213	213	0
2012-13	213	213	213	0
2013-14	213	213	213	0
2014-15	213	213	213	0
2015-16	270	209	138	132
Total	1,122	1,061	990	132

Source: As furnished by DMA

5.1.5 Preparation and certification of accounts of Bruhat Bengaluru Mahanagara Palike

In terms of Provision 9(2) of part II of Schedule IX to the Karnataka Municipal Corporations Act, 1976 (KMC Act), the Commissioner, BBMP is required to prepare annual accounts every year and produce the same along with relevant records to the Chief Auditor for scrutiny not later than the first day of October every year. However, the accounts of BBMP for the years 2014-15 and 2015-16 had not been audited by the Principal Director, Karnataka State Audit and Accounts Department³⁸ (KSAD) who is the Statutory Auditor for BBMP.

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 each month with up-to-date figures should be obtained and adjusted against the advances paid. Two test-checked ULBs and two test-checked divisions of BBMP had paid advances/deposits to

³⁸ erstwhile Controller, Karnataka State Accounts Department

external agencies, of which ₹21.51 crore³⁹ and ₹3.20 crore⁴⁰ respectively were outstanding as at the end of March 2016. However, no action was taken by these ULBs/divisions to obtain statement of expenditure along with unspent amount, if any, and adjust it against the advances/deposits.

5.2.2 Fixed Assets

None of the test-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 2016. In the absence of this, the correctness of valuation of fixed assets and impact of depreciation exhibited in the Annual Financial Statements of test-checked ULBs could not be assessed.

5.3 Thirteenth Finance Commission grants

Out of ₹120.78 crore received by the test-checked 11 ULBs during the period 2011-12 to 2014-15, only ₹83.19 crore (ranging from 36 to 93 per cent) was utilised, as detailed in Table 5.2.

Table 5.2: Details of Thirteenth Finance Commission (TFC) grants in test-checked ULBs

Name of the ULBs	Grants received					Amount utilised	Balance	Percentage of utilisation
	2011-12	2012-13	2013-14	2014-15	Total			
CC, Davanagere	8.36	17.67	17.35	9.13	52.51	42.11	10.40	80
CMC, Kanakapura	1.33	2.04	2.35	0.93	6.65	5.69	0.96	86
CMC, Kolar	1.95	2.16	2.02	2.83	8.96	7.98	0.98	89
CMC, Nanjangud	1.38	2.02	2.90	0.00	6.30	2.94	3.36	47
CMC, Siruguppa	1.67	1.64	2.07	1.82	7.20	3.43	3.77	48
TMC, Athani	0.82	0.94	2.58	1.95	6.29	2.24	4.05	36
TMC, Bailahongal	1.25	2.09	2.65	8.70	14.69	5.27	9.42	36
TMC, Malur	0.91	1.23	2.24	0.93	5.31	4.92	0.39	93
TP, Hosadurga	0.94	1.60	2.11	0.61	5.26	3.51	1.75	67
TP, Mudigere	0.54	0.88	1.09	0.17	2.68	1.34	1.34	50
TP, Yellapura	0.99	1.24	1.27	1.43	4.93	3.76	1.17	76
Total	20.14	33.51	38.63	28.50	120.78	83.19	37.59	

CC: City Corporation; CMC: City Municipal Council; TMC: Town Municipal Council; TP: Town Panchayat
Source: As furnished by ULBs

5.4 Fourteenth Finance Commission grants

The Fourteenth Finance Commission (FFC) 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 2015-16 onwards.

The GoI released basic grants of ₹562.08 crore in two equal instalments for the year 2015-16 to ULBs.

³⁹ City Corporation, Shivamogga (₹19.58 crore) and Town Municipal Council, Sullia (₹1.93 crore)

⁴⁰ Mahadevapura (₹1.34 crore) and Sarvagnanagara (₹1.86 crore)

5.4.1 Delayed release of funds

The FFC guidelines stipulated that the funds should be transferred to the accounts of ULBs within 15 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 the instalments during July 2015 and February 2016. We observed that there were delays ranging from four to nine days in transfer of funds to ULBs. The interest payable of ₹0.57 crore for the delay in transferring of funds was not released to ULBs by State Government.

5.5 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 they had not obtained statement of expenditure from external agencies for the advances paid to them and annual accounts were not prepared and certified within the stipulated dates. 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 balanced at the end of each financial year. The bank accounts were not reconciled periodically. The 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. The deficiencies in maintenance of books of accounts and absence of internal audit system indicated that the internal control was not effective in BBMP.

5.6 Conclusion

In spite of preparation of accounts by ULBs, there was a shortfall in certification of accounts by the CAs during the year 2015-16. The annual accounts of BBMP for the years 2014-15 and 2015-16 were yet to be audited by KSAD. Statement of expenditure had not been obtained from external agencies to which ULBs had paid advances. The ULBs had not utilised the entire TFC grants during the period 2011-12 to 2015-16. The State Government had not released the interest payable of ₹0.57 crore to ULBs for delayed transfer of FFC grants. Internal control mechanism was inadequate as there was no Internal Audit Wing and there were instances of deficiencies in maintenance of books of accounts.