
Part – B
Urban Local Bodies

Chapter – III
**An Overview of the functioning and
financial reporting issues of
Urban Local Bodies**

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) 74th amendment 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. Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965⁸¹. The profile of ULBs in the State is given in Table 3.1:

Table 3.1

Indicator	Unit	State Statistics
Urban population	Crore	1.36
Male	Lakh	69.07
Female	Lakh	67.02
Urban sex ratio	Females per 1000 Males	970
Urban literacy rate	Percentage	81.09
Municipal Corporations	Number	6
Municipalities	Number	42
Nagar Panchayats	Number	25

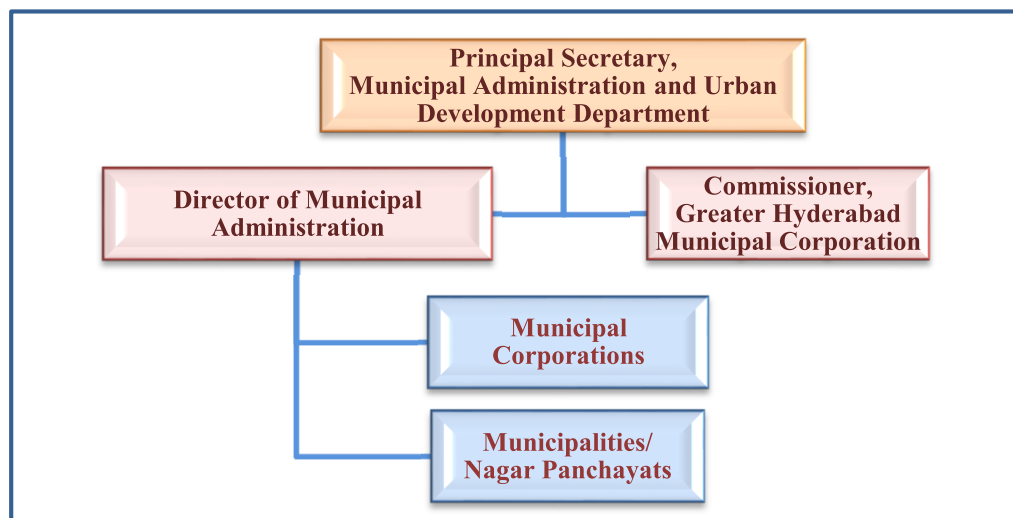
Source: Records of Director Municipal Administration (DMA) and 'Telangana at a glance'

⁸¹ Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

3.2 Organisational set-up of ULBs

Organisational arrangements for the ULBs are as follows:

Chart 3.1



The ULBs were under the administrative control of the Director of Municipal Administration (DMA). The Municipalities/Nagar Panchayats and Corporations transact their business as per the provisions of the Acts concerned. Day-to-day administration of all the ULBs rests with the Commissioners concerned.

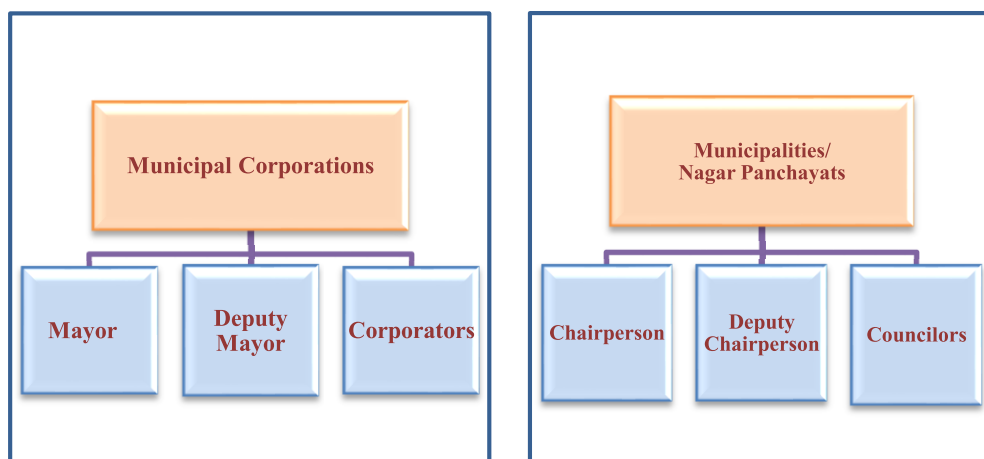
3.3 Functioning of ULBs

The 74th Constitutional Amendment Act, 1992 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'.

3.4 Formation of various committees

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

Chart 3.2



In respect of the Corporations, 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. Director, Municipal Administration stated (November 2017) that out of 72 ULBs (excluding GHMC), Ward Committees were constituted only in 28 ULBs. In remaining 44 ULBs, Municipal Councils concerned were discharging their roles and responsibilities.

3.5 Sources of funds

Resource base of ULBs consisted of own revenue generated by collection of tax⁸², non-tax⁸³ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts⁸⁴.

Summary of receipts of ULBs for the years 2012-17 is given in the 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 state of Telangana.

⁸² Property tax, advertisement fee etc.,

⁸³ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

⁸⁴ Donations, interest on deposits etc.,

Table 3.2

(₹ in crore)

S.No.	Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
1	Own Revenue	2,898.52	3,183.43	371.28	1,616.50	2,575.67
2	Assigned Revenue ⁸⁵	819.28	695.66	65.97	418.36	254.84
3	State Government Grants	921.00	1,358.60 ⁸⁶	NA**	NA**	813.04
4	Government of India Grants					
	Scheme funds	378.36	-	NA**	NA**	807.31
	14 th Finance Commission	Nil	-	-	25.66	
5	Other Receipts*	Nil	275.60	20.32	203.37 [#]	318.01
Total		5,017.16	5,513.29	457.57	2,263.89	4,768.87

Source: Data furnished by Director of Municipal Administration and Greater Hyderabad Municipal Corporation

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

**Data not made available

Data pertains to only GHMC, as the information of other ULBs was not furnished by DMA

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 ULBs⁸⁷ is given below:

Table 3.3

(₹ in crore)

Details	2012-13	2013-14	2014-15	2015-16*	2016-17	Total
Budget	177.45	483.45	287.49	547.18	2,178.07	3,673.64
Actual Release	90.57	441.37	249.86	12.06	857.32	1,651.18

Source: Data furnished by Director of Municipal Administration

* Information furnished by GHMC alone

⁸⁵ 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

⁸⁶ This includes grants received from GoI

⁸⁷ for the years 2012-14, pertaining to the composite state of Andhra Pradesh and for the period 2014-17 pertaining to the state of Telangana

3.5.2 Application of funds

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

Table 3.4

(₹ in crore)

S.No.	Type of expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
1	Revenue expenditure	3,153.33	3,418.10	253.82	1,819.62	2,675.64
2	Capital expenditure	1,166.59	1,573.30	148.51	1,233.82	1,182.03
Total		4,319.92	4,991.40	402.33	3,053.44	3,857.67

Source: Data furnished by Director of Municipal Administration and Greater Hyderabad Municipal Corporation

3.5.3 Recommendations of the State Finance Commission

As per Article 243Y of the Constitution, State Government has to constitute State Finance Commission (SFC) once in five years to recommend devolution of funds from the State Government to Local bodies. Third SFC was constituted in January 2003 and submitted its report in 2008. State Government issued orders for implementation of the recommendations of the SFC only in December 2013. Against ₹ 489.38 crore recommended by the SFC for devolution of funds to ULBs every year, Government agreed to release only ₹ 123.12 crore per annum.

State Government did not constitute SFC after 2013. Hence, the committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period 2011-2016 also. During the year 2016-17, Government released⁸⁸ ₹ 47.97 crore to ULBs.

3.5.4 Recommendations of Central Finance Commissions

The Fourteenth Finance Commission (FFC) recommended that local bodies be assured transfers for planning and delivering services⁸⁹ under their charge. Grants were released under two components, *i.e.*, Basic grant and Performance grant in the ratio of 80:20. GoI released ₹ 538.68 crore during 2016-17.

⁸⁸ For Development works, Office building, Electricity charges, etc.,

⁸⁹ 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

3.6 Audit Mandate

3.6.1 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 had two Regional Offices and nine District offices in Telangana 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 authority. Such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

As per the information furnished (November 2017) by DSA, audit of 5 ULBs⁹⁰ accounts was in arrears from 2001-02. DSA attributed the delay in audit to non-production of records by Municipalities and Nagar Panchayats. As per the information furnished (November 2017) by DSA, one surcharge certificate⁹¹ amounting to ₹ 7,228 was issued during 2016-17 in Khammam.

The Consolidated Audit and Accounts Report for 2011-12 was tabled in the State Legislature on 31 March 2016. DSA stated (December 2017) that consolidation of Reports for the years 2012-13 and 2013-14 were under progress. 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.

3.6.2 Audit by Comptroller and Auditor General of India

Based on the recommendations of the Eleventh Finance Commission, State Government 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 2016-17 was issued in September 2017.

Planning and conduct of audit

The Audit process commences with assessment of risk⁹², based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers, assessment of internal controls and concerns of stakeholders.

⁹⁰ GHMC, Mahabubnagar-1, Sangareddy-2, Medak -1

⁹¹ Means the certificate by which the charge or the liability of a surchargee is communicated

⁹² of department/local body/scheme/programme etc.,

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, 6 ULBs⁹³ 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 27 March 2017.

Response to audit observations

After completion of audit, Inspection Reports (IRs) containing audit findings were issued to head of the unit 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 level by officers of the Municipal Administration and Urban Development department with officers of Principal Accountant General's office.

As of October 2017, 73 IRs containing 1,761 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 24 IRs and 894 paragraphs.

Table 3.5

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even initial replies had not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2012-13	45	813	8	246
2013-14	3	131	3	131
2014-15	9	266	1	53
2015-16	10	363	6	276
2016-17	6	188	6	188
Total	73	1761	24	894

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

⁹³ Municipal Corporation-1 (Khammam), Municipalities-2 (Janagaon, Kothagudem), Nagar Panchayats-3 (Bhupalapalli, Huzurabad, Madhira)

Section B

Accountability framework and Financial Reporting issues

3.7 Accounting framework

3.7.1 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.

3.7.2 Social Audit

Social Audit was yet to be instituted for programmes/schemes implemented by Department of Municipal Administration and Urban Development (MA&UD).

3.7.3 Property Tax Board

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

State Government had sanctioned (October 2013) 28 posts for effective functioning of the board. Post bifurcation 14 posts were allotted to Telangana. The DMA stated (November 2017) that proposal for filling up of posts was sent (November 2017) to Government. Orders were awaited. DMA was authorised to discharge the functions of Chairman.

3.7.4 Service Level Benchmark

The Thirteenth Finance Commission stipulated that State Government must notify or cause the Urban Local Bodies to notify the service standards of four⁹⁴ core sectors 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.

Out of 73 ULBs, 68 ULBs published SLB targets for 2016-17. None of the six ULBs test-checked in audit during 2016-17 furnished the details of achievements against the SLB targets set.

⁹⁴ water supply, sewerage, storm water drainage and solid waste management

3.7.5 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 has to be issued by State Government demonstrating compliance by end of March 2014. Accordingly, State Government notified (September 2014) the fire hazard response and mitigation plans to be implemented by GHMC during 2014-15. Notifications for the subsequent years were not made available to audit.

During the year 2016-17, GHMC, having population of more than one million, sanctioned ₹ 63.17 crore under fire hazard response and mitigation plan and released ₹ 20.10 crore. Of this, ₹ 13.13 crore was expended.

3.8 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. Records of six test-checked ULBs (2016-17) showed that UCs in respect of CSSs and CFCs amounting to ₹ 8.52 crore⁹⁵ for the period (2008-09 to 2016-17) were yet to be furnished by three ULBs⁹⁶ as of March 2017. DMA did not furnish the details of UCs due to be submitted to GoI.

3.9 Maintenance of Records

3.9.1 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 DMA should watch the balances of closed schemes lying in the accounts of different ULBs. Records of six ULBs during 2016-17 showed that ₹ 32.05 lakh pertaining to closed schemes such as NSDP⁹⁷ and BRGF⁹⁸ in Khammam Municipality remained unspent as of March 2017.

3.9.2 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 six ULBs during 2016-17 showed that

⁹⁵ Backward Regions Grant Fund ₹ 4.22 crore, 13th FC ₹ 3.50 crore, 14th FC ₹ 0.80 crore

⁹⁶ Municipalities-2 (Kothagudem, Janagaon), Nagar Panchayat-1(Madhira)

⁹⁷ National Slum Development Programme

⁹⁸ Backward Region Grant Fund

advances⁹⁹ amounting to ₹ 8.65 lakh remained unadjusted as of March 2017 in Huzurabad Nagar Panchayat.

3.9.3 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 treasury every month to avoid any misclassification and fraudulent drawals. Reconciliation in respect of five¹⁰⁰ out of six ULBs test checked was pending from 2012-13.

3.9.4 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants dealing with Government money, the procedure for fixing responsibility and recovery for any loss. State Government ordered (February 2004) the departmental Secretaries to review cases of misappropriations on a monthly basis. The Chief Secretary to Government was to review these cases once in six months with all the Secretaries concerned. As of March 2017, misappropriation cases noticed by Director, State Audit which were pending from 2005-06 for disposal are detailed below:

Table 3.6

(₹ in crore)

Unit	Up to 2016-17 ¹⁰¹	
	No. of cases	Amount
Municipal Corporations	80	5.50
Municipalities	204	10.13
Nagar Panchayats	30	0.07
Total	314	15.70

Source: Director, State Audit.

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

3.9.5 Maintenance of Accounts by ULBs

The ULBs adopted the software Model Accounting System developed by the Centre for Good Governance for maintenance of Accounts. DMA stated that maintenance of database format of the finances of ULBs was adopted in all 72 ULBs. Records of Janagon Municipality showed discrepancies between annual accounts maintained manually and online.

⁹⁹ to staff for various purposes during 2012-13 to 2015-16

¹⁰⁰ Bhupalapally, Huzurabad, Janagaon, Kothagudem, Madhira

¹⁰¹ No information has been provided for the misappropriation cases for the year 2016-17