

# 6 Chapter

## Financial Management

BBMP was provided with funds under various schemes like JnNURM, Nagarothana Yojane, Special Infrastructure Projects, Finance Commission Grants *etc.*, apart from its own funds for management of SWDs.

### 6.1 Allocation and expenditure towards management of SWDs

The details of allocation and expenditure for the years 2013-14 to 2017-18 towards management of SWDs was as indicated in **Table 6.1**.

**Table 6.1: Allocation and expenditure towards management of SWDs**

Year	Allocation	Expenditure	Remarks
2013-14	107.37	82.07	
2014-15	105.09	102.54	
2015-16	102.58	148.25	BBMP had incurred expenditure on ongoing works under JnNURM but funds were not received from the central government as the scheme was over by end of 2014-15. The expenditure was, therefore, met out of its own funds.
2016-17	186.88	205.90	Apart from SWD works, the State Government released funds under Nagarothana Yojane to BBMP for various other activities. While the BBMP accounted for the receipts under Nagarothana Yojane as a lump sum allocation without exhibiting breakup for different activities in its budget estimates, the expenditure was shown distinctly for each activity including SWD works. In the absence of distinct allocation for SWD, amount allocated could not be identified.
2017-18	268.46	599.58	
<b>Total</b>	<b>770.38</b>	<b>1,138.34</b>	

Source: Data furnished by CE, SWD and Annual Budget Estimates

Analysis of the BBMP budget for the audit period showed that Government grants which constituted about 38 *per cent* in 2013-14 increased to 55 *per cent* in 2017-18. This indicated the BBMP's increased dependency on Government grants for undertaking its activities. Further, the expenditure incurred on SWD constituted a meagre two to eight *per cent* of both the total receipts and the total expenditure of BBMP during the above period.

Audit observed that SWD works were not taken up under any of the other urban development schemes such as Atal Mission for Rejuvenation and Urban Transformation, Smart Cities Mission *etc.* indicating the absence of convergence with these schemes and the lack of priority towards storm water management.

## 6.2 Deficiencies in preparation of annual budget proposals

Annual financial planning is critical for proper functioning of any organisation. Annual budget proposals were to be worked out based on the cost of the works, funds received, expenditure incurred, anticipated expenditure and probable fund requirement in the ensuing year for the implementation of the works.

The CE, SWD did not furnish the annual budget proposals prepared, if any, to audit. Hence, audit compared the expenditure figures exhibited in the budget estimates of BBMP with the cash book maintained by CE, SWD and found variations as shown in **Table 6.2**.

**Table 6.2: Statement showing the variation in expenditure figures between budget estimates and cash book**

(₹ in crore)			
Year	Expenditure as per Budget estimates	Expenditure as per cash book	Difference
2013-14	86.36	82.07	(+) 4.29
2014-15	58.41	102.54	(-) 44.13
2015-16	148.56	148.25	(+) 0.31
2016-17	195.74	205.90	(-) 10.16
2017-18	570.98	599.58	(-) 28.60
<b>Total</b>		<b>1,138.34</b>	

Source: Data furnished by CE, SWD and Annual Budget Estimates

The continued discrepancy indicated the omission on the part of the authorities concerned to reconcile and report the correct expenditure figures in the budget estimates which is an essential function to ensure financial accuracy. Further, the laxity also exposes the financial indiscipline reigning in BBMP.

**Non-provision of separate budget for maintenance** - BBMP did not provide separate budget for the maintenance of SWDs, despite the recommendation by the IRMA.

The State Government endorsed (January 2019/August 2020) the reply of the Commissioner that action would be taken to reconcile the differences with concerned authorities and to ensure reporting expenditure in budget estimates as per actuals. However, the details of reconciliation or specific reasons for discrepancy was not furnished to audit (November 2019/December 2020).

## 6.3 Short-provision of funds under 14<sup>th</sup> Finance Commission

As stipulated vide recommendations of the 14<sup>th</sup> Finance Commission, the BBMP was to earmark a minimum of 10 *per cent* of basic grants received by it for implementation of SWD works. The BBMP had received ₹664.34 crore during the period 2016-18 but had released only ₹24.65 crore for SWD works resulting in short release of ₹41.78 crore.

Non-compliance to recommendations of the Finance Commission and short-release of funds for SWDs works would impact works as proposed in the master plan and diversion of funds for other purposes, leading to a situation where SWDs works do not get adequate priority.

The State Government stated (August 2020) that action would be taken to earmark 10 *per cent* of total basic grant receipts for implementation of SWD works.

#### **6.4 Continued maintenance of bank accounts for JnNURM**

The BBMP maintained four different savings bank accounts, one each for the four zones for accounting funds under JnNURM. The JnNURM cell at BBMP was implementing works and operating the funds. Scrutiny of the cashbook maintained by JnNURM cell showed that the transactions pertaining to SWDs under JnNURM came to an end by January 2015. An amount of ₹2.37 lakh was lying in these bank accounts as of May 2018. Audit further observed that ₹7.00 lakh held in term deposits had not been accounted for in the cashbook indicating improper financial management. BBMP did not initiate action to close the accounts and transfer the funds either to the main account or to the SWD account even after four years of the closure of the scheme though it was incurring expenditure out of its own funds for the balance works under JnNURM.

The State Government endorsed (January 2019) the reply of the Commissioner that the matter would be brought to the notice of higher authorities for further action and the same was reiterated in its reply of August 2020. Evidently, BBMP had not taken any action in this regard. The non-closure of bank accounts and non-accounting of the term deposits despite being pointed out by audit is fraught with the risk of the amounts in these accounts going unnoticed.

#### **6.5 Non-reconciliation of statutory recoveries remitted to departments concerned**

BBMP (SWD Division) maintained a non-interest bearing current account (bearing No.04091010005485) instead of interest bearing savings bank account since April 2012. The funds required for implementation of SWD works were released to this account from the BBMP main account till April 2015. The last transfer of funds for implementation of works was ₹20 crore on 6 April 2015. The balance as at the end of June 2015 was ₹12.21 lakh. Thereafter (July 2015 onwards), payments were directly released to the contractor's bank accounts from the BBMP main account and amounts deducted from the bills towards statutory deductions like Income tax, VAT/GST, labour cess, royalty, Contractors Benevolent Fund and further security deposit were transferred to this account for onward remittance to the authorities concerned.

The said account was converted into a flexi super current account from July 2017 wherein funds in excess of balance of ₹5.00 lakh was auto transferred to term deposits.

Audit analysed the pass sheets and observed that cheques issued towards remittance of income-tax and Contractor's Benevolent Fund deducted out of contractor's bills amounting to ₹43.86 lakh and ₹37.32 lakh respectively could not be traced to the pass sheets. Evidently these cheques could have remained uncashed. The CE, SWD had not conducted any reconciliation in this regard.

In the absence of reconciliation, audit could not ascertain the amounts under various components that formed part of the balance of ₹31.95 crore available in sweep-in deposit accounts.

The State Government endorsed (January 2019/August 2020) the reply of the Commissioner that instructions had been issued to accounts branch to reconcile the balance in bank account regularly. However, the details of reconciliation, if any, was not furnished to audit (November 2019/December 2020).

## 6.6 Weak financial control mechanism

**Non-maintenance of basic financial records** - The provisions of Karnataka Public Works Accounts Code stipulate maintenance of various records for proper accounting of transactions like Grants Register, Deposit Register/Register of Securities, Schedule of Works Expenditure, Monthly Account, Register of Advances, and other miscellaneous records. However, audit observed that none of these registers/records were maintained by the CE, SWD despite incurring significant expenditure on tendered works.

**Improper maintenance of cash book** - Audit observed that the cashbook maintained by the CE, SWD was improper as:

- The balance on hand at the beginning of each day was not brought forward on the receipt side. The closing balance was not stuck at the end of each day, the abstract of transactions at the end of the month was not recorded, the entries in the cashbook were attested by zonal EEs instead of the Head of the office (CE, SWD);
- Reconciliation between cash book balance and bank balance was not conducted and recorded; and
- A single cashbook was maintained in the office though works were approved and executed under various schemes and in different zones. As a result, scheme-wise and zone-wise expenditure could not be verified.

The State Government endorsed (August 2020) the reply of the Commissioner that instructions had been issued to the accounts branch to maintain all the records as prescribed under the codal provisions.

**Recommendation 20:** *BBMP should prepare the budget clearly indicating the scheme-wise receipts of funds and expenditure incurred thereon and for both capital and revenue activities under each function.*

## Conclusion

BBMP had a weak financial control mechanism as it did not maintain basic financial records such as grants register, deposit register, register of securities, schedule of work expenditure, register of advance etc. Further, the cash book maintained by the CE, SWD was deficient. The budget exercise was deficient and did not indicate the allocation of funds for SWD activities under Nagarothana Yojana. The expenditure incurred on SWD constituted two to eight per cent of the total expenditure of BBMP during the period 2013-14 to

2017-18. There was no separate budget for maintenance of SWDs and SWD works were not taken up under any other development schemes indicating the lack of commitment by BBMP towards effective storm water management.

## Summary of important audit findings

Para number	Audit findings
6.1	BBMP was largely depended on Government grants. The expenditure incurred on SWD constituted a meagre two to eight <i>per cent</i> of both the total receipts and the total expenditure of BBMP during the period 2013-14 to 2017-18.
6.2	There were discrepancies between the figures exhibited in the budget estimates and actual expenditure recorded in the cash book. This indicated the lack of reconciliation mechanism and correct reporting of expenditure and exposes the financial indiscipline reigning in BBMP.
6.3	BBMP short provided the funds under 14 <sup>th</sup> Finance Commission to the extent of ₹41.78 crore.
6.5	The CE, SWD had not maintained the basic records such as Schedule of works expenditure, monthly accounts, register of advances etc. The cash book maintained was improper as it did not indicate the closing balance at the end of each day and reconciliation between cash and bank balances was not carried out and recorded.

Bengaluru  
The 26 JUL 2021



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