

Chapter-II

An Overview of Municipal Administration in the State

A: Functioning of Urban Local Bodies

2.1 Introduction

The 74th Constitutional amendment enacted in 1992 envisaged creation of local self-governments for urban areas. The amendment sought to empower Urban Local Bodies (ULBs) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 subjects listed in the Twelfth Schedule of the Constitution. In Karnataka, the ULBs are categorized according to their population⁷.

City Corporations (CC) are governed by the Karnataka Municipal Corporations Act, 1976, (KMC Act) and other ULBs are governed by the Karnataka Municipalities Act, 1964 (KM Act). Each Corporation/Municipal area has been divided into a number of wards, which are determined and notified by the State Government considering the population, geographical features, economic status, *etc.*, of the respective area. Some important basic information relating to ULBs are given in **Table 2.1:**

Table 2.1: Basic information of the State

Indicators	Unit	State	National
Population	In lakhs	610.95	12105.69
Urban Population	In lakhs	236.26	3771.06
Urban Population	Percentage of population	38.7	31.2
Population density	Persons/Sq. Kms	319	382
Urban Sex Ratio	Per Thousand	963	929
Urban Literacy rate	Percentage (2011 census)	85.80	84.10
City Corporations	Numbers	11	
City Municipal Councils	Numbers	59	
Town Municipal Councils	Numbers	114	
Town Panchayats	Numbers	92	
Notified Area	Numbers	4	

Source: Annual Administration Report 2018-19 of UDD and information by KSAAD

Karnataka is the seventh most urbanised state with 38.7 *per cent* of population living in urban areas. Urban literacy of the state (85.80 *per cent*) is better than the National literacy rate (84.10 *per cent*).

⁷ City Corporation (CC)- 3,00,000 and above, City Municipal Council (CMC)-50,000 to below 3,00,000, Town Municipal Council (TMC)-20,000 to below 50,000 and Town Panchayat (TP) 10,000 to below 20,000 and Notified Area Committees are administered separately by a Committee.

2.2 Municipal Administration Organisation in the State

The Urban Development Department (UDD), headed by the Additional Chief Secretary to Government, is the nodal department. The Directorate of Municipal Administration (DMA) established in December 1984 is the nodal agency which is responsible for the administrative, development and financial activities of all ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP), which functions directly under UDD.

All ULBs except Notified Area Committees (NACs) have a body comprising of Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected by the Corporators/Councillors presides over the meetings of the Council. NACs are administered separately by a Committee under the control of Deputy Commissioner. The Commissioner/Chief Officer is the executive head of ULBs. The organisational structure of ULBs is as shown in **Appendix 2.1**.

2.3 Devolution of functions

Rule 58 & 59 of Chapter V of KMC Act 1976 and Rule 87 & 91 of Chapter V of KM Act 1964 empower Corporations and Municipal Councils to make adequate provisions to carry out obligatory and discretionary functions. The 74th Constitutional amendment envisaged devolution of 18 functions listed in the Twelfth Schedule of the Constitution to ULBs. The list of 18 functions is shown in **Appendix 2.2**. Among the 18 functions, the State Government transferred 17 functions to ULBs, the exception being “Fire Services”.

2.4 Formation of Committees

As per the provisions of KMC and KM Acts, the Corporations and Municipalities shall constitute different committees like Standing Committee, Ward Committee, District Planning Committee.

2.4.1 Standing Committees in ULBs

All ULBs other than BBMP have four⁸ Standing Committees whereas BBMP has twelve⁹ Standing Committees. The Mayor / Deputy Mayor and the President /Vice-President of ULBs are *ex-officio* members of all the Standing Committees. The details of few committees are shown in **Table 2.2**:

⁸ Taxation, finance and appeals; public health, education and social justice; town planning and improvement; and accounts.

⁹ Taxation and finance; public health; town planning and improvement; major public works; ward level public works; accounts; education; social justice; appeals; horticulture; markets; and establishment and administrative reforms.

Table 2.2: List of Committees

Sl. No	Committee Name	Members	Purpose/powers
1.	Taxation Committee	11 in BBMP 7 for others	Shall deal with all matters relating to finance and taxation and all matters not specifically assigned to any other standing committee.
2.	Accounts Committee	11 in BBMP 7 for others	Shall deal with all matters relating to accounts and audit.
3	Town planning and improvement Committee	11 in BBMP 7 for others	Shall deal with all matters relating to Public works, town planning and improvement.
4.	Works Committee	11 (only for BBMP)	Shall deal with all major works in the jurisdiction of Bruhat Bangalore Mahanagara Palike like Flyovers, Underpasses, Subways, Road Widening, Ring Roads, Elevated Roads and all works incidental thereto including land acquisition.
5.	Public Health Committee	11 in BBMP 7 for others	The standing committee for public health, education and social justice shall deal with all matters relating to public health and education and securing the social justice to persons belonging to the Scheduled Castes, Scheduled Tribes and other weaker sections of the society and women.

Source: KMC and KM Acts

2.4.2 Ward Committee

The Constitution provides for Ward Committees in all Municipalities with a population of three lakh or more. As per section 13H of KMC Act, Ward Committee shall be constituted by all the Corporations. The term of these bodies will be co-terminus with the council. The Ward committees were to act as a bridge between the municipal government and citizens and function as institutions of neighbourhood governance and increase proximity between elected representatives and citizens and provide a space for citizen participation at the local level planning. They were to perform duties such as preparation and submission of ward development schemes for allotment of funds, ensure proper utilisation of allotted funds, and maintenance of public utilities and safeguarding the assets of the corporation.

Ward Committees were not constituted in any of the CCs except BBMP (October 2019).

2.4.3 District Planning Committee

Article 243ZD of the Constitution of India provides for the constitution of a District Planning Committee (DPC) for consolidation of plans prepared by the panchayats and the municipalities. The DPC was to prepare a comprehensive District Development Plan (DDP) with regard to matters of common interest between the panchayats and the municipalities including spatial planning; sharing of water and other physical and natural resources; integrated

development of infrastructure and environment conservation and extent and type of available resources, whether financial or otherwise. The DDP was to be forwarded to the State Government through the Decentralised Planning and Development Committee (DPDC)¹⁰ for integration into the State plan. Further, in accordance with the circular issued (April 2001) by the State Government, the DPC was to conduct meetings regularly. Funds for the DPCs were to be mobilised through annual contribution from the rural and urban local bodies.

The DPCs were constituted in all districts except Bagalkote. DPDC was reconstituted vide Government Order dated 3rd September 2020 to formulate development plans.

2.5 Delegation of Financial Powers

The delegation of financial powers is provided in Section 181 and 182 of KMC Act 1976 and Rule 6, 6A and also Rule 7 of KMC Rules 1977 as amended from time to time. Details of delegation of financial powers as provided in these rules are as follows:

2.5.1 Powers relating to works

The State Government revised (November 2016) the administrative, technical and tender approval powers relating to ULBs for undertaking basic infrastructure works. The administrative approval of powers as per the revised orders is given in **Table 2.3:**

Table 2.3: Statement showing the administrative approval of powers for ULBs

(₹ in lakh)

Category of ULB	Commissioner /Chief Officer	Standing Committee	Council	DC	DMA	Government
CC	≤50	>50 ≤ 100	>100 ≤ 200	>200 ≤ 500	>500 ≤ 1,000	≥1,000
CMC	≤15	>15 ≤ 30	>30 ≤ 100	>100 ≤ 500		
TMC	≤5	>5 ≤ 15	>15 ≤ 30	>30 ≤ 500		
TP	≤2	>2 ≤ 10	>10 ≤ 15	>15 ≤ 500		

Source: Government order No. UDD 184 MNE Bengaluru dated 11 November 2016

Further, the authorities indicated in the above table have the powers to approve tenders as per their administrative powers for tenders involving tender premium less than or equal to five *per cent*. For tender premium greater than five *per cent* but less than or equal to 10 *per cent*, the powers are vested with DMA and for tenders up to ₹1,000 lakhs and beyond 10 *per cent*, the powers are vested with the Government. As regards the powers for according technical sanction to estimates, the engineers of CCs, and CMCs have powers up to ₹500 lakhs, and ₹50 lakhs, respectively while the engineers of TMCs and TPs have ₹5 lakhs.

¹⁰ As per Section 310 B of the Karnataka Gram Swaraj and Panchayat Raj Act, the Karnataka Decentralised Planning and Development Committee has to be constituted to review the development plan and annual economic plan of local bodies. The Chief Minister is the Chairman and Ministers of Rural Development and Panchayat Raj, Urban Development, Finance Department and Planning are the members.

2.5.2 Powers relating to other expenditure

The State Government amended (February 2004) the Karnataka Municipalities (Powers of Expenditure) Rules, 1986 wherein expenditure powers are specified for town and city municipalities. Expenditure limits are prescribed for various items, a few of which are indicated in **Table 2.4**. These limits have not been revised for more than 16 years.

Table 2.4: Statement showing the expenditure limits for ULBs

Sl. No.	Item of expenditure	Town Municipality	City Municipality
1	National celebrations like Independence Day, Republic day <i>etc.</i>	₹5,000 in each case	₹15,000 in each case
2	Tea and light refreshment charges at Council and Committee meetings	₹18,000 per annum	₹36,000 per annum
3	Major overhauls and repairs of vehicle and other machinery	₹10,000 in each case	₹50,000 in each case
4	Purchase of stationery	₹50,000 per annum	₹1,00,000 per annum
5	Prevention and suppression of epidemics	₹50,000 per annum	₹1,50,000 per annum
6	Alleviate distress caused by accidental fire or floods <i>etc.</i>	₹5,000 in each case	₹20,000 in each case

Source: Gazette notification dated 3 February 2004

2.6 System of Accounting

Financial reporting is a key element of accountability. On the recommendations of Eleventh Finance Commission, GoI had entrusted the responsibility of prescribing appropriate accounting formats for ULBs to CAG.

The Ministry of Urban Development, GoI had developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The State Government brought out the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), based on NMAM with effect from 1 April 2006. KMABR was introduced in a phased manner in all ULBs except BBMP. All ULBs were preparing fund-based accounts in double entry system. BBMP was maintaining Fund Based Accounting System (FBAS) based on the Bengaluru Mahanagara Palike (Accounts) Regulations, 2001 and has switched over to Integrated Financial Management System (IFMS) at present.

2.7 Internal Control Systems of ULBs

Internal control is an integral function of an organisation which helps it to govern its activities effectively and achieve its objectives. It is intended to provide reasonable assurance of proper compliance with Acts and Rules.

Some of the important internal control mechanisms to be implemented by ULBs include periodical reconciliation of cash book with bank balances, annual physical verification of fixed assets and stores and stock, preparing and passing of budget and annual accounts etc.

The department stated that action had been taken for the proper implementation of the state and centrally sponsored schemes through monitoring by District Urban Development Cell (DUDC) established at the district level. Financial Statements Audit is carried out to have control over financial transactions. Instructions have been issued to complete bank reconciliation before 31 May every year. Control checks have been incorporated in FBAS.

2.8 Functioning of Finance/Accounts Sections of ULBs

As per KMABR, every municipality shall follow the chart of Accounts, accounting and budgeting procedures and maintain or cause to maintain such books of account as prescribed in these rules to adequately record all incomes, expenditures, assets and liabilities in respect of each fund. It should also maintain or cause to maintain forms and registers prescribed in the rules to record all financial transactions.

The Finance/ Accounts section assists the Municipal Commissioner or the Chief Officer in preparation of the budget. It maintains accounts related records, prepares monthly accounts and consolidated Demand Collection & Balance statements. It also prepares annual financial statements comprising Receipt and Payment account, Income and Expenditure account, Balance Sheet and significant accounting policies followed in the presentation of the financial statements and Notes to accounts which shall disclose contingent liabilities and such other information as may be useful in understanding the financial statements clearly.

2.9 Ombudsman

As per the recommendations of the Thirteenth Finance Commission (TFC), the State Government was required to put in place a system of independent local body Ombudsman to investigate complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials. It was observed that independent ombudsman was not appointed.

The State Government replied that in Karnataka, there was no need for separate ombudsman for ULBs as Lokayukta looks into the complaints of corruption and maladministration in respect of functionaries of ULBs. However, the fact remains that the recommendations of the TFC to appoint an independent local body Ombudsman was not implemented.

2.10 Fire Hazard

As per the guidelines of the Thirteenth Finance Commission, all municipal corporations with a population of more than one million (2001 Census) must put in place a fire hazard response and mitigation plan for their respective

jurisdictions. In Karnataka, there is only one ULB with more than one million population (2011 Census), *i.e.*, BBMP. For the city of Bengaluru, a fire hazard response and mitigation plan has been uploaded on the website www.municipaladm.gov.in. However, the same has not been published in the State Gazette.

B: Public Finance Management Arrangements

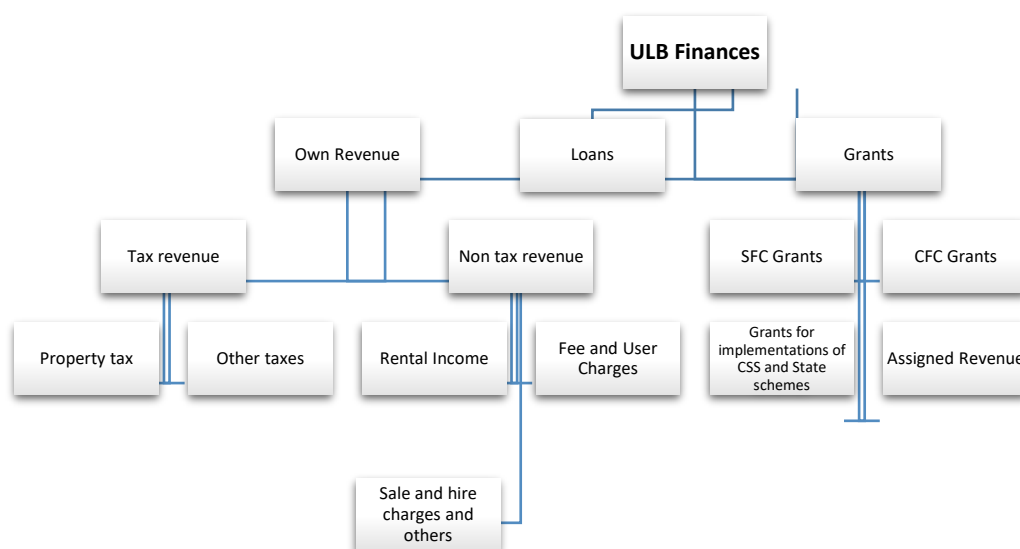
2.11 Financial Overview

2.11.1 Source of Funds

The finances of ULBs comprise receipts from own sources, grants and assistance from Government of India (GOI)/State Government and loans procured from financial institutions or nationalised banks as the State Government may approve. The property tax on land and buildings is the mainstay of ULB's own revenue and other taxes includes entertainment tax, streetlight tax, *etc.* While power to collect certain taxes is vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, *etc.*, are vested with the State Government. The own non-tax revenue of ULBs comprises fee for rental income, water charges, *etc.*

Grants and assistance released by the State Government/GOI as well as loans raised from financial institutions are utilised for developmental activities and execution of various schemes. The fund flow chart of ULBs is given in **Chart 2.1**:

Chart 2.1: A flow chart of finances of ULBs



2.11.1.1 Details of revenue of Urban Local Bodies

The details of revenue received by the ULBs (other than BBMP) and BBMP during the period 2014-15 to 2018-19 are shown in **Tables 2.5 & 2.6**:

Table 2.5: Source of Revenue of ULBs (Other than BBMP)

(₹ in crore)

Year	Grants		Own revenue	Total revenue
	GoK	GoI		
2014-15	663	1,536	1,062	3,261
2015-16	799	2,567	1,178	4,544
2016-17	1,029	2,283	1,353	4,665
2017-18	1,422	2,634	1,515	5,571
2018-19	1,125	2,467	1,543	5,135

Source: Information furnished by DMA

Table 2.6: Sources of revenue for BBMP

(₹ in crore)

Year	Grants		Own Revenue	Total Revenue
	GoK	GoI		
2014-15	115.48	1,445.76	2,029.92	3,591.16
2015-16	285.44	1,751.96	2,140.73	4,178.13
2016-17	351.63	2,877.10	2,643.44	5,872.17
2017-18	275.3	3,754.68	2,825.12	6,855.1
2018-19	301.72	3,417.28	2,688.88	6,407.88

Source: Information furnished by BBMP

As seen from Table 2.5, the capacity of ULBs (other than BBMP) to generate own revenue during the period 2014-19 was not encouraging as the proportion of own revenue to total receipts was in the range of 26 per cent to 33 per cent only. Therefore, the ULBs were more dependent on grants received from Central and State Government.

As seen from **Table 2.6**, the BBMP showed an increasing trend in generation of own revenue from 2014-15 onwards, marginally decreasing in 2018-19. However, the proportion of own revenue to total receipts was in the range of 41 per cent to 57 per cent.

2.11.2 Utilisation of funds

2.11.2.1. Details of expenditure of Urban Local Bodies

The details of expenditure of ULBs (other than BBMP) and BBMP for the period from 2014-15 to 2018-19 is as shown in **Tables 2.7 & 2.8**:

Table 2.7: Expenditure Details of ULBs (Other than BBMP)

(₹ in crore)

Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue	1,991	2,457	2,787	3,661	3,441
Capital	620	1,084	1,072	1,797	1,171

Source: Information furnished by DMA

Table 2.8: Expenditure Details of BBMP

(₹ in crore)

Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue	2,389.31	1,270.17	2,227.53	3,354.1	2,719.91
Capital	1,973.31	2,719.03	2,834.13	4,009.16	3,793.66

Source: Information furnished by BBMP

It can be seen from the above table that revenue expenditure increased only by 13.83 *per cent* while the Capital expenditure almost doubled (92.24 *per cent*) during the years 2014-15 to 2018-19.

2.11.2.2 Position of Receipts and Expenditure of Major Schemes

Receipt and expenditure incurred on major schemes implemented by ULBs during the period from 2014-15 to 2018-19 is given in **Table 2.9**:

Table 2.9: Receipts and Expenditure of major schemes

(₹ in crore)

Year	Receipts				Expenditure			
	SBM	AMRUT	UIDSSMT	PK-GBY	SBM	AMRUT	UIDSSMT	PK-GBY
2014-15	—	—	52.74	10	—	—	36.23	0
2015-16	106.68	175.55	178.22	50	28.3	0	100.61	7.43
2016-17	117.48	249.23	7.74	5	62.73	125.1	296.42	39.23
2017-18	131.27	408.86	326.08	42.9	86.46	814.9	198.6	57.1
2018-19	399.71	856.34	145.97	42.9	37.61	1,012.2	111.13	17.12

Source: DMA

SBM: Swachh Bharat Mission

AMRUT = Atal Mission for Rejuvenation and Urban Transformation

UIDSSMT= Urban Infrastructure Development Scheme for Small and Medium Towns

PK-GBY = Pourakarmika Gruha Bhagya Yojane

It can be seen from the above table that the expenditure incurred on the schemes was far less compared to the receipts except in the case of AMRUT for the year 2017-18 and 2018-19 where the expenditure exceeded the receipts. The reason for the same was not forthcoming from the records.

2.11.3 Status of collection of Property Tax

The State Government had introduced the Self-Assessment Scheme (SAS) for payment of property tax applicable to all Municipalities of the State with effect from 1 April 2002. The position of property tax demanded, collected and outstanding at the end of March 2019 in respect of all ULBs (except BBMP) and targets fixed and collections against targets in respect of BBMP are shown in **Tables 2.10** and **2.11** respectively:

Table 2.10: Position of demand, collection and balance of Property Tax in ULBs

(₹ in crore)

Year	Opening balance	Current year demand	Total demand	Collection	Balance	Percentage of collection to total demand
2014-15	71.26	458.01	529.27	423.53	105.74	80
2015-16	105.75	569.68	675.43	481.36	194.07	71
2016-17	194.07	680.15	874.22	555.33	318.89	64
2017-18	318.88	794.43	1,113.31	744.86	368.45	67
2018-19	368.45	858.75	1,227.20	724.11	503.09	59

Source: Details furnished by DMA

From the above table, it can be seen that arrears of property tax had increased from ₹105.74 crore in 2014-15 to ₹503.09 crore in 2018-19 and the collection decreased from 80 per cent during 2014-15 to 59 per cent during 2018-19.

Table 2.11: Position of target and collection of property tax in BBMP

(₹ in crore)				
Year	Number of properties	Budget estimate	Actual collection	Percentage of collection
2014-15	16,36,152	2,900.00	1,810.13	62
2015-16	16,98,457	2,900.00	1,960.19	68
2016-17	17,49,811	3,000.00	1,997.24	67
2017-18	18,11,178	3,300.00	2,133.12	65
2018-19	19,30,423	3,300.00	2,544.56	77

Source: Budget and details furnished by BBMP

BBMP did not achieve the targets for collection of property tax during the period 2014-15 to 2018-19, however, the collection increased from 62 per cent during 2015-16 to 77 per cent during 2018-19.

2.11.4 Non/short remittance of cess

Section 108A of KMC Act provides for levy and collection of Property Tax along with the applicable cess such as health, library and beggary cess in respect of CCs including BBMP. The authority mandating the levy of cess, the rates and the head of account/institution to which the cess is to be remitted are indicated in **Table 2.12**:

Table 2.12: Table showing the details of cesses to be levied on property tax by ULBs

Sl. No	Type of cess	Authority mandating levy of cess	Effective from	Rate	Purpose	Remitted to
1	Health Cess	The Karnataka Health Cess Act, 1962	September 1962	15%	Improve primary/basic health care infrastructure	0045-00-109-0-01 (State Fund)
2	Library Cess	The Karnataka Public Libraries Act, 1965	April 1966	6%	Improvement and development of library services	District Central/City Library
3	Beggary Cess	The Karnataka Prohibition of Beggary Act, 1975	April 1976	3%	Provide relief and rehabilitation to the beggars	Central Relief Fund

Source: KMC Act

Scrutiny of the information furnished by DMA and BBMP showed that huge balances of cess collected during the period 2014-15 to 2018-19 were not remitted to the departments concerned as detailed in the **Table 2.13** and **Table 2.14** respectively:

Table 2.13: Details of Collection, remittance and balance of cesses in ULBs (other than BBMP)

(₹ in crore)

Year	Health Cess				Library Cess				Beggary Cess			
	OB	C	R	CB	OB	C	R	CB	OB	C	R	CB
2014-15	195.43	47.42	20.66	222.19	35.17	19.12	13.99	40.30	9.34	9.68	6.58	12.44
2015-16	222.19	52.07	15.56	258.71	40.30	21.46	16.64	45.11	12.44	10.49	7.15	15.78
2016-17	258.71	59.51	26.98	291.24	45.11	24.61	19.59	50.13	15.78	13.49	9.03	20.24
2017-18	291.24	68.19	29.30	330.13	50.13	26.98	20.91	56.20	20.24	14.19	12.21	22.22
2018-19	330.13	67.50	19.48	378.15	56.20	26.76	22.33	60.63	22.22	14.64	12.68	24.18

Source: Information furnished by DMA C: Collected R: Remitted

It can be seen from the above table that the ULBs in the State had not remitted ₹378.15 crore of health cess, ₹60.63 crore of library cess and ₹24.18 crore of beggary cess to the departments/ heads of account concerned.

Table 2.14: Details of collection, remittance and balance of cesses in BBMP

(₹ in crore)

Year	Health Cess			Library Cess			Beggary Cess		
	C	R	B	C	R	B	C	R	B
2014-15	176.40	0	176.40	70.56	8.00	62.56	35.28	5.00	30.28
2015-16	186.74	0	186.74	74.69	58.08	16.61	37.34	12.67	24.67
2016-17	217.88	0	217.88	87.15	50.00	37.15	43.57	20.00	23.57
2017-18	232.78	0	232.78	93.11	14.00	79.11	46.56	19.22	27.34
2018-19	273.48	0	273.48	109.39	78.09	31.30	54.69	10.00	44.69
Total	1,087.28	0	1,087.28	434.90	208.17	226.73	217.44	66.89	150.55

Source: Information furnished by BBMP C: Collected R: Remitted

While BBMP had not remitted the entire health cess of ₹1087.28 crore collected to the State Government, the balance of library cess (₹226.73 crore) and beggary cess (₹150.55 crore) were not remitted to the departments concerned.

2.11.5 Release of duty on transfer of immovable properties

As per Section 140 of KMC Act, the duty on transfer of immovable property shall be levied in the form of a surcharge at the rate of two *per cent* of the duty imposed by the Karnataka Stamp Act, 1957, on instruments of sale, gift, mortgage, exchange and lease in perpetuity of immovable property situated within the limits of a larger urban area. The entire amount collected in respect of the lands and other properties situated in the urban areas shall be passed on to ULBs in the State, in proportion to the population of the ULBs by the Inspector General of Registration and Commissioner of Stamps (IGR) after deducting 10 *per cent* towards collection charges.

The duty on transfer of immovable properties of ₹27.18 crore for the years 2016-17 and 2017-18 was released to ULBs only during February 2019 and the duty on transfer of immovable properties to ULBs for the year 2018-19 was not transferred (June 2021). The Deputy IGR stated that the duty would be transferred at the earliest after receipt of complete information from all the District Registrars.

2.12 Finance Commission Recommendations Implementation status

2.12.1 State Finance Commission

The mandate of the State Finance Commission (SFC) is to review the financial position of the PRIs and ULBs and make recommendations to the Governor as regarding matters affecting their finance and devolution of funds from the State Government. The Government of Karnataka has so far constituted four SFCs¹¹. The recommendations of the Fourth SFC cover the period 2018-19 to 2022-23.

The State Government may accept the recommendations of the SFC in totality or with certain modifications. The State Government accepted few of the recommendations with modifications. The important recommendations and their modifications with reference to transfer of funds under 4th SFC are given in **Table 2.15**:

Table 2.15: Implementation Progress Tracker

FC Report Ref	Recommendations	Accepted Recommendations/ Modifications	Status Remarks
Fourth	Devolution of 12 per cent of the Non-Loan Net Own Revenue Receipts (NLNORR) of the State to be devolved to ULBs apart from BBMP.	12 per cent of NLNORR to be passed on in a phased manner i.e., 10.5 per cent to 12 per cent over a period five years i.e., increase of 0.5 per cent each year.	It was recommended in 2 nd , 3 rd and 4 th SFCs that CFC grants should not be part of devolution as it is not part of NLNORR. But the State Government has been considering these grants as a part of devolution which resulted in short release of the SFC grants to the ULBs.

Source: SFC Report and Government Order

2.12.1.1. Short release of funds under SFC

The details of funds due as per the orders of the State Government and actually released to ULBs during 2014-15 to 2018-19 is shown in **Table 2.16**:

Table 2.16: SFC Grants

(₹ in crore)

	2014-15	2015-16	2016-17	2017-18	2018-19
Allocation	7,487	8,090	8,875	9,361	10,878
Release	6,010	6,076	5,686	6,490	5,425
Short release (S/R)	1,477	2,014	3,189	2,871	5,453
Percentage of S/R	20	25	36	31	50

Source: Finance accounts

¹¹ First SFC- 1997-98 to 2001-02, second SFC-2006-07 to 2010-11, third SFC-2011-12 to 2015-16 (period extended up to 2017-18), Fourth SFC cover the period 2018-19 to 2022-23

It can be seen from the table above that the short release to ULBs during the years 2014-15 to 2018-19 ranged between 20 to 50 per cent.

2.12.2 Central Finance Commission

The details of funds received from Government of India (GoI) towards Fourteenth Finance Commission (FFC) and transferred to ULBs by State Government during 2015-19 is shown in **Table 2.17**:

Table 2.17: Details of release of 14th FC Grants to ULBs during 2015-19

(₹ in crore)

Year	Basic Grant			Performance Grant		
	Allocation	Release	Shortfall	Allocation	Release	Shortfall
2015-16	562.08	562.08	00	00	00	00
2016-17	778.29	778.29	0.00	229.70	229.70	00
2017-18	899.25	899.25	0.00	259.94	256.16	3.78
2018-19	1,040.27	1,040.27	00	295.20	0	295.20

Source: Information furnished by DMA

There was a short release of Performance Grant during the year 2017-18 amounting to ₹3.78 crore. Performance Grant was not released to ULBs during 2018-19. A reminder in this regard was sent by the Hon'ble Chief Minister to the Hon'ble Finance Minister of India on 18 September 2020.

2.13 Property Tax Board

The Thirteenth Finance Commission recommended that State Governments must put in place a state level Property Tax Board, which would assist all municipalities and municipal corporations in the State to put in place an independent and transparent procedure for assessing property tax. Further, Sections 102A to 102Y under Chapter IX-A of KMC Act provides for establishment of the Karnataka Property Tax Board by the State Government.

The Property Tax Board was not yet established in the State (July 2020).

C: Public Accountability Arrangements in States

2.14 Financial Reporting Framework

2.14.1 Financial statements certification in ULBs

According to KMABR (Rule 125), 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 Chartered Accountants (auditor) appointed by the State Government, within two months from the end of the financial year.

The auditor should complete the audit within four months (July) from the date of closure of financial year (31st March) and 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.

Financial attest audit of 145 ULBs and 136 ULBs were completed for the years 2017-18 and 2018-19 respectively out of 276 ULBs (January 2021).

2.14.2 Financial statements certification in BBMP

In terms of provision 9(2) of part II Schedule IX to KMC Act, the Commissioner, BBMP is required to prepare annual accounts every year and produce the accounts along with relevant records to the Chief Auditor for scrutiny not later than the first day of October in the year succeeding to which such account and registers relate.

However, the Principal Director, Karnataka State Audit Accounts Department (KSAAD), who is the statutory Auditor for BBMP, had audited the accounts of BBMP up to 2018-19.

2.15 Audit Arrangements

2.15.1 Internal audit

Internal Audit is an important instrument to examine and evaluate the level of compliance with rules and procedures as envisaged in the relevant Acts as well as in the Financial/Accounting Rules so as to provide independent assurance to management on the adequacy of the risk management and internal control framework in the ULBs.

The DMA stated (December 2020) that there was no exclusive internal audit wing in the Directorate. The eight additional posts in the Accounts wing had been sanctioned by the Government in August 2018 and it was proposed to utilise them for internal audit work.

2.15.2 External audit

2.15.2.1 Audit by Karnataka State Audit and Accounts Department

The Principal Director, KSAAD, is the Primary Auditor of ULBs as per Section 150 of KMC Act and Section 290 of KM Act. The Primary Auditor's duty, *inter alia*, is to certify correctness of accounts, assess internal control system and report cases of loss, theft and fraud to audit entities and to the State Government. The status of audit by KSAAD during the period 2014-15 to 2018-19 in respect of ULBs is shown in **Table 2.18**. The auditor is required to prepare a report on the accounts audited and examined and send a report to the municipal council concerned and the DMA. The Principal Director, KSAAD shall send consolidated Annual Audit Report pertaining to CMCs, TMCs, and TPs to the State Government for being placed before both Houses of the State Legislature. The Act/Rules are silent about the discussion of the consolidated annual audit report.

Table 2.18: Statement showing the details of audit of ULBs by KSAAD as of December 2020

Year	CC		CMC		TMC		TP	
	Total	Audited	Total	Audited	Total	Audited	Total	Audited
2015-16	11	11	59	59	113	113	88	88
2016-17	11	11	59	59	114	114	88	88
2017-18	11	11	59	57	114	112	91	88
2018-19	11	6	59	35	114	77	92	58

Source: Information furnished by KSAAD

As seen above, the number of units audited by the KSAAD for 2018-19 was less compared to previous years.

2.15.2.2 Audit by CAG

The Government of Karnataka entrusted the audit of ULBs to CAG from the year 2008-09 under section 14(2) of Comptroller and Auditors General (Duties, Powers and Conditions) Act, 1971 [CAG's (DPC) Act]. Subsequently, KM Act 1964 amended section 290(1) as 'audit of all City Municipal Councils, Town Municipal Councils and Town Panchayats in a year shall be subjected to Technical Guidance and supervision by the Comptroller and Auditor General of India through complementary audit and submission of Annual Technical and Inspection Report'. Similarly, the amendment to KMC Act 1976 inserted sub section (2-A) under section 150 according to which 'the audit of all transactions of receipts and expenditure of Municipal Corporations shall be subject to technical guidance and supervision of the Comptroller and Auditor General of India'. With effect from 1 April 2011, Government of Karnataka entrusted Technical Guidance and Support (TGS) under section 20(1) of CAG's (DPC) Act. During the year 2018-19, this office audited 114 ULBs (includes 40 auditee units of BBMP) and during 2019-20, this office test checked 14 ULBs among the ULBs audited by KSAAD. The details are given in Chapter 3. CAG undertakes Performance Audits and Compliance Audits also in ULBs.

Performance audit

During 2019-20, this office conducted Performance Audit on Implementation of 74th Constitutional Amendment Act. Performance Audit is conducted under section 13, 14, 15,16,17,19 and 20 read with Section 23 of CAG's (DPC) Act, 1971 and regulation 45 to 52 of Regulation on Audit and Accounts-2020. The report was placed in the legislature during September 2020

Compliance audit

During 2018-19, this office conducted the Compliance Audit of 114 ULBs under section 14(2) of CAG's (DPC) Act. Significant observations during audit under 14(2) were included in the Audit Report on the General and Social Sector for the year ended 31 March 2019.

2.16 Submission of Utilisation Certificates

The details of Utilisation Certificates (UCs) relating to FFC grants submitted during 2018-19 is shown in **Table 2.19:**

Table 2.19: Details of UCs against the release of FFC grants during 2018-19

Sl. No	Particulars	Released Amount	UC No & date		(₹ in crore)
					Utilised Amount
1	FFC Basic Grant 1 st instalment	520.14	FD/25/FCC/2015 01/01/2019		520.14
2	FFC Basic Grant 2 nd instalment	520.14	FD/25/FCC/2015 05/03/2019		520.14

Source: Information furnished by Finance Department, Government of Karnataka

2.17 Audit Reports Review

The Second Administrative Reforms Commission recommended (October 2007) that audit reports on local bodies should be placed before the State Legislature and these reports should be discussed by a separate committee of the State Legislature on the same lines as the Public Accounts Committee.

The State Government constituted the Committee on Local Bodies and Panchayat Raj Institutions on 12 March 2010 for discussing the audit reports on local bodies.

The details of paragraphs that appeared in Audit Reports/Annual Technical Inspection Reports during last four years with money value and the pendency position of the discussion is given in the **Table 2.20:**

Table 2.20: Statement showing the details of paras with money value appeared in Audit Reports and pendency of discussion.

Audit Report/ ATIR	No. of Paras	Money Value	Status of discussion	(₹ in crore)
2013-14	07	58.10	Discussed	
2014-15	05	85.36	Discussed	
2015-16	07	8.28	Not Discussed	
2016-17	06	109.66	Not Discussed	
2017-18	06	32.39	Not discussed	
Total	31	293.79		

Source: CAG Audit Reports and Committee on LBs & PRIs meeting files

2.18 Responsiveness to Audit

Inspection Reports (IRs) were issued by Principal Accountant General, Karnataka to audited ULBs. Authorities were required to comply with the observations contained in the IRs and report their compliance within one month

from the date of issue of IRs. The details of outstanding paragraphs in respect of ULBs as of March 2019 are shown in **Table 2.21**:

Table 2.21: Statement showing the details of outstanding IRs and paragraphs

Year	Number of IRs	Number of Paragraphs
Up to 2014-15	192	2,485
2015-16	120	2,195
2016-17	131	3,126
2017-18	98	1,801
2018-19	67	1,144
Total	608	10,751

Source: Monthly Progress Report

Out of 608 IRs outstanding, 312 IRs (52 *per cent*) containing 4,680 paragraphs (44 *per cent*) were pending for more than four years indicating inadequate action on the part of ULBs.