

## Chapter III

### Urban Local Bodies

#### 3.1 An Overview of the functioning of the Urban Local Bodies in the State

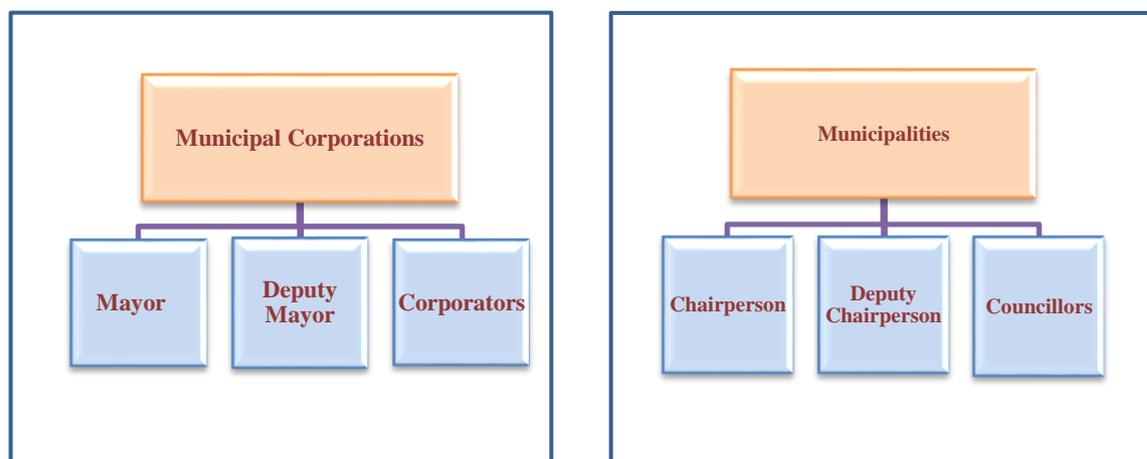
##### 3.1.1 Functioning of Urban Local Bodies

The 74<sup>th</sup> Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in Twelfth Schedule to the Constitution. Except '*Fire Services*', all the functions mentioned in this Schedule were devolved to ULBs in the State.

##### 3.1.2 Formation of various Committees

The structure of the elected bodies of the ULBs is given in **Chart-3.1**.

Chart-3.1



In Municipal Corporations/ 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 and solid waste management, public toilets, marketplaces, facilitate collection of taxes, fees and other such dues, *etc.*

The Director, Municipal Administration informed (November 2023) that Ward Committees were constituted in all the ULBs.

### 3.1.3 Sources of funds

Resource base of ULBs consists of

- i. Own revenue generated by collection of tax<sup>35</sup>,
- ii. Non-tax<sup>36</sup> revenues
- iii. Devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes
- iv. Other receipts<sup>37</sup>

Summary of receipts in GHMC for the years 2017-18 to 2021-22 is given in **Table-3.1**.

**Table-3.1: Summary of receipts of GHMC for the years 2017-18 to 2021-22**

(₹ in crore)						
Sl. No.	Receipts	2017-18	2018-19	2019-20	2020-21	2021-22
1	Own Revenue	2,293.7	2,532.33	2,728.65	2,560.03	2,759.09
2	Assigned Revenue <sup>38</sup>	273.54	342.11	498.62	0.00	0.00
3	State Government Grants including Finance Commission Grants	578.14	12.10	2.52	377.42	379.19
4	Government of India Grants including Finance Commission Grants	186.45	93.18	207.78	455.50	239.00
5	Other Receipts	207.35	243.97	154.12	5.71	68.48
<b>Total</b>		<b>3,539.18</b>	<b>3,223.69</b>	<b>3,591.69</b>	<b>3,398.66</b>	<b>3,445.76</b>

Source: Information furnished by GHMC

Summary of receipts in the remaining 141 ULBs for the years 2017-18 to 2021-22 is given in **Table-3.2**.

**Table-3.2: Summary of receipts of the remaining 141 ULBs for the years 2017-18 to 2021-22**

(₹ in crore)						
Sl. No.	Receipts	2017-18	2018-19	2019-20	2020-21	2021-22
1	Own Revenue	327.45	414.80	530.61	681.65	636.34
2	Assigned Revenue <sup>39</sup>	100.23	153.75	136.13	2.81	0.07
3	State Government Grants	337.79	474.40	738.67	1,132.83	806.16
4	Government of India Grant	142.62	298.35	409.52	660.84	188.11
5	Other Receipts	450.96	537.10	688.21	720.07	780.13
<b>Total</b>		<b>1,359.05</b>	<b>1,878.4</b>	<b>2,503.14</b>	<b>3,198.2</b>	<b>2,410.81</b>

Source: Information furnished by CDMA

<sup>35</sup> Property tax, advertisement fee, etc.

<sup>36</sup> Water tax, rents from markets, shops and other properties, auction proceeds, etc.

<sup>37</sup> Donations, interest on deposits, etc.

<sup>38</sup> 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

<sup>39</sup> 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

### 3.1.3.1 Financial Assistance to Urban Local Bodies

Financial assistance was provided by the State Government to ULBs by way of grants. Details of the financial assistance provided by the Government to GHMC during the years 2017-18 to 2021-22 is given in **Table-3.3**.

**Table-3.3: Financial assistance provided by State Government to GHMC by way of grants for the years 2017-18 to 2021-22**

(₹ in crore)						
Details	2017-18	2018-19	2019-20	2020-21	2021-22	Total
<b>Budget</b>	62.23	65.11	20.10	17.60	17.60	<b>182.64</b>
<b>Actual Release</b>	9.34	0.34	-	-	-	<b>9.68</b>
<b>Expenditure</b>	9.34	0.34	-	-	-	<b>9.68</b>

Source: Information furnished by GHMC

Details of the financial assistance provided by the Government to remaining 141 ULBs during the years 2017-18 to 2021-22 is given in **Table-3.4**.

**Table-3.4: Financial assistance provided by the State Government to the remaining 141 ULBs by way of grants for the years 2017-18 to 2021-22**

(₹ in crore)						
Details	2017-18	2018-19	2019-20	2020-21	2021-22	
<b>Budget</b>	1,581.08	2,054.73	1,067.15	906.17		2,895.24
<b>Actual Release</b>	569.78	296.81	429.27	1,309.60		1,269.16
<b>Expenditure</b>	193.59	289.08	406.52	1,309.60		1,269.16

Source: Information furnished by CDMA

### 3.1.3.2 Application of funds

Details of expenditure incurred by GHMC for the years 2017-18 to 2021-22 are given in **Table-3.5**:

**Table-3.5: Details of expenditure incurred by GHMC for the years 2017-18 to 2021-22**

(₹ in crore)						
Sl. No.	Type of expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
1	Revenue expenditure	1,939.51	2,044.02	1,910.26	2,176.00	2,555.74
2	Capital expenditure	1,118.62	1,804.06	1,266.41	2,175.34	3,091.06
	<b>Total</b>	<b>3,058.13</b>	<b>3,848.08</b>	<b>3,176.67</b>	<b>4,351.34</b>	<b>5,646.80</b>

Source: Data furnished by GHMC

Details of expenditure incurred by the remaining 141 ULBs for the years 2017-18 to 2021-22 are given in **Table-3.6**:

**Table-3.6: Details of expenditure incurred by the remaining 141 ULBs for the years 2017-18 to 2021-22**

(₹ in crore)						
Sl. No.	Type of expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
1	Revenue expenditure	542.32	719.97	1,098.10	1,349.33	1,476.93
2	Capital expenditure	564.42	661.86	893.49	1,336.62	1,362.02
	<b>Total</b>	<b>1,106.74</b>	<b>1,381.83</b>	<b>1,991.59</b>	<b>2,685.95</b>	<b>2,838.95</b>

Source: Data furnished by CDMA

### 3.1.4 Recommendations of the State Finance Commission

As per Article 243-I of the Constitution and Section 244 of TPR Act, 2018, the State Finance Commission (SFC) has to be constituted once in five years to recommend devolution of funds from the State Government to Local bodies. Government of Telangana issued orders for constitution of the first SFC in March 2015<sup>40</sup>. However, Chairman and Members of the first SFC were appointed<sup>41</sup> in January 2018 *i.e.*, after two years of constitution of first SFC.

The First SFC submitted its report to the State Government in October 2020 and the recommendations are yet to be accepted by the Government (March 2023).

The term of the First SFC has been completed by March 2020 and the Second SFC was not constituted as of March 2023.

During 2021-22, SFC released grants of ₹3,742.83 crore to 141 ULBs (excluding GHMC) and against this, expenditure was ₹3,304.41 crore.

### 3.1.5 Recommendations of Central Finance Commissions

#### 3.1.5.1 Fourteenth Finance Commission

The Fourteenth Finance Commission recommended assured transfer of funds to the local bodies for planning and delivering basic services<sup>42</sup>. Grants are released under two components, *i.e.*, Basic grant and Performance grant in the ratio of 90:10.

The Director of Municipal Administration informed (January 2023) that the Government of India released ₹1,785.04 crore during 2017-20 to the State. The entire amount was released by the State Government to the ULBs and was spent.

#### 3.1.5.2 Fifteenth Finance Commission

The Fifteenth Finance Commission in its report for the period from 2021-26 has divided the Urban Local Bodies into two categories: (a) Million-Plus urban agglomerations/cities (excluding Delhi and Srinagar), and (b) all other cities and towns with less than one million population (Non-Million Plus cities). The Fifteenth Finance Commission has recommended separate grants for them. Out of the total grants recommended by the Commission for *Non-Million Plus cities*, 40 *per cent* is basic (**untied**) grant and the remaining 60 *per cent* is tied grant. Basic grants (**untied**) are utilised for location specific felt needs, except for payment of salary and other establishment expenditure.

On the other hand, tied grants for the *Non-Million Plus cities* are released for supporting and strengthening the delivery of basic services. Out of the total tied grant, 50 *per cent* is earmarked for 'Sanitation, Solid Waste Management and attainment of star ratings as developed by the Ministry of Housing & Urban Affairs (MOH&UA). The remaining

<sup>40</sup> G.O.Ms.No.31 PR&RD (Pts.III) Department dated 16 March 2015

<sup>41</sup> G.O.No.1 PR&RD (Pts.III) Department dated 03 January 2018

<sup>42</sup> including 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

50 per cent is tied to ‘Drinking water, Rainwater harvesting and Water recycling’.

During 2021-22, GoI released ₹ 672 crore to the State Government and the entire amount released to the ULBs was spent.

### 3.1.6 Audit Mandate

#### 3.1.6.1 Primary Auditor

The Director, State Audit, functioning under the administrative control of Finance Department, is the statutory auditor for the ULBs under the Telangana State Audit Act, 1989<sup>43</sup>. The DSA has two Regional Offices and thirty-three district offices in the State. As per Section 10 of the Act, the DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of local authorities. Such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

#### (A) Preparation of Annual Consolidated Audit and Review Report

Section 11(2) of the Act mandates that the DSA shall prepare an annual Consolidated Audit and Review Report (CARR) for presentation to the State Legislature.

The Director, State Audit informed (December 2022) that audit of accounts of all the ULBs for the years up to 2020-21 were completed. The CARR for the years 2017-18 and 2018-19 were submitted (March 2022) to the State Government and were placed in the State Legislature on 15 February 2024. The CARR for the years 2019-20 and 2020-21 are yet to be submitted to the State Government. It was also informed that regarding CARR for 2021-22, the PRIs audit was completed and after completion of audit of ULBs, the CARR for 2021-22 would be prepared.

The Director, State Audit furnished (December 2022) information on 140 ULBs (including GHMC) (Municipalities: 127 and Municipal Corporations: 13), stating that audit was completed in all ULBs except two municipalities<sup>44</sup> due to non-production of records.

#### (B) Levy and recovery of surcharge

As per Section 10 of the Act, the DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of local authorities. Such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

Director, State Audit informed (December 2022) that one Surcharge Certificate<sup>45</sup> amounting to ₹ 0.09 crore issued prior to 2021-22 was pending as of March 2022 and stated that as per the provisions contained in State Audit Manual, the District Collectors has been addressed to arrange for the recovery of the amounts. No Surcharge Certificate was issued during 2021-22.

<sup>43</sup> The Andhra Pradesh State Audit Act, 1989 received the assent of the Governor on the 19th April, 1989. The said Act in force in the combined State, as on 02 June 2014, has been adapted to the State of Telangana, under section 101 of the Andhra Pradesh Reorganisation Act, 2014 (Central Act 6 of 2014) in accordance with The Telangana Adaptation of Laws Order, issued in GO.Ms.No.45, Law(F) Department dated 01 June 2016

<sup>44</sup> Ramayampet Municipality (2021-22) and Cherial Municipality (2019-20 to 2021-22)

<sup>45</sup> Means the certificate by which the charge or the liability of a surchargee is communicated

### 3.1.6.2 Audit by Comptroller and Auditor General of India

Based on the recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) CAG with the responsibility of 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 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 2021-22 was issued in August 2023.

#### Planning and Conduct of Audit

The Audit process commences with assessment of risk<sup>46</sup>, 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.

Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an Annual Audit Plan was formulated. During 2021-22, 14 ULBs<sup>47</sup>, falling under Municipal Administration and Urban Development Department, were covered in audit.

### 3.1.7 Response to Audit Observations

After completion of audit, Inspection Reports (IRs) containing audit findings are issued to the head of the unit concerned. Heads of offices and next higher authorities are required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs are also discussed in meetings at district level by officers of the Municipal Administration and Urban Development department with officers of Accountant General's office.

As of August 2023, 164 IRs containing 2,811 paragraphs from 2014-15 to the period up to 2021-22 were pending settlement as given in **Table-3.7**. Of these, initial replies had not been received in respect of 41 IRs and 776 paragraphs.

**Table-3.7: Inspection Reports and Paragraphs issued for the years 2017-18 to 2021-22 and pending settlement**

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even initial replies had not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2017-18	63	1,106	4	56
2018-19	45	656	2	15
2019-20	30	522	15	263
2020-21	11	206	8	165
2021-22	15	321	12	277
<b>Total</b>	<b>164</b>	<b>2,811</b>	<b>41</b>	<b>776</b>

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

<sup>46</sup> of department/local body/scheme/programme etc.

<sup>47</sup> Municipal Corporation-4 (Karimnagar, Nizamabad, Ramagundem and Warangal), Municipalities-10 (Bhongir, Bodhan, Devarakonda, Jangaon, Madhira, Medak, Miryalaguda, Nalgonda, Sadasivapet and Wanaparthy)

## 3.2 Accountability framework and Financial Reporting issues

### 3.2.1 Accounting framework

#### 3.2.1.1 Ombudsman

The Thirteenth Finance Commission had 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 Lokayukta Act, 1983 to cover all the elected members<sup>48</sup> of the Municipal bodies.

#### 3.2.1.2 Social Audit

Details of Social Audit conducted for programmes/schemes implemented by the Municipal Administration and Urban Development (MA&UD) through the ULBs were not furnished by SSAAT as of March 2024.

#### 3.2.1.3 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. Section 105 of the Telangana Municipalities Act, 2019 mandates that the State Government shall constitute Telangana Property Tax Board to provide assistance and technical guidance to all the ULBs in the State for proper assessment of Property tax on buildings and land in their respective jurisdictions.

The Government of Andhra Pradesh issued (March 2011) orders for constituting the Property Tax Board and sanctioned (October 2013) 28 posts for effective functioning of the board. Post-bifurcation of the composite State of Andhra Pradesh, 14 posts were allotted to Telangana. These posts, however, were not filled up as of September 2023.

The Director of Municipal Administration informed (August 2023) that proposals were sent (March 2022) to the State Government for filling up of nine posts (including the post of Chairman/Chairperson of the Board). However, orders of the State Government are still awaited (August 2023). The DMA is discharging the functions of Chairman of the Board pending appointment of the regular Chairman/Chairperson of the Board.

#### 3.2.1.4 Service Level Benchmark

The Thirteenth Finance Commission stipulated that the State Government must notify or cause the Urban Local Bodies to notify the service standards of four<sup>49</sup> 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 141 ULBs, 58 ULBs published SLB targets for 2018-19.

<sup>48</sup> Mayor, Deputy Mayor, elected members of Municipal Corporations, Chairperson, Vice-Chairperson and elected members of Municipal Councils (Municipalities)

<sup>49</sup> water supply, sewerage, storm water drainage and solid waste management

### 3.2.2 Maintenance of Records

#### 3.2.2.1 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 three ULBs during 2021-22 showed that ₹ 14.24 crore pertaining to closed schemes such as IHHL<sup>50</sup> and BRGF<sup>51</sup> in Medak, Devarayakonda Municipalities and Ramagundam Municipal Corporation remained unspent as of March 2022.

#### 3.2.2.2 Advances pending adjustment

As per Telangana 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 2021-22 showed that advances<sup>52</sup> amounting to ₹ 3.70 crore remained unadjusted as of March 2022 in Ramagundam, Karimnagar, Greater Warangal Municipal Corporations and Bodhan, Wanaparthi and Sadasivapet Municipalities.

### 3.2.3 Cases of misappropriation

Telangana State Financial Code stipulates responsibilities of Government servants in dealing with Government money, the procedure for fixing responsibility and recovery for any loss. As of March 2022, misappropriation cases noticed by Director, State Audit which were pending from 2014-15 for disposal are detailed in **Table-3.8**.

**Table-3.8: Details of misappropriation cases pending in ULBs**

Unit	Up to 2021-22	
	No. of cases	Amount
Municipal Corporations	133	10.07
Municipalities	339	19.39
<b>Total</b>	<b>472</b>	<b>29.46</b>

(₹ in crore)

Source: Director, State Audit

The State Government may take urgent action to investigate these issues and recover the losses from the persons responsible for it. Internal controls should also be strengthened to prevent such incidents.

### 3.2.4 Maintenance of Accounts by Urban Local Bodies

The Urban Local Bodies adopted the software Model Accounting System developed by the Centre for Good Governance for maintenance of Accounts.

The Double Entry Accrual Based Accounting System (DEABAS) is implemented in all the 142 ULBs including GHMC.

<sup>50</sup> Individual Household Latrines

<sup>51</sup> Backward Region Grant Fund

<sup>52</sup> Advances given to staff for various purposes during April 2015 to March 2021