

Chapter-1

Overview of Finances of Local Bodies and their Accounting Arrangements

1.1 Finances of Local Bodies

1.1.1 Fund flow

Resource base of PRIs and ULBs consists of own revenue generated by collection of tax¹ and non-tax² revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts³. The authorities responsible for reporting the use of funds in respect of Zilla Praja Parishads (ZPPs), Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs) are the Chief Executive Officer (CEO), Mandal Parishad Development Officer (MPDO) and Panchayat Secretary respectively. The Commissioner concerned is responsible in case of Corporations and Municipalities.

1.1.2 Sources and application of funds

Summary of receipts of PRIs during 2008-13 is given below:

Table 1.1

(₹ in crore)

| S.No. | Receipts | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|-----------------------------------|---|----------------|----------------|----------------|----------------|----------------|
| Panchayat Raj Institutions | | | | | | |
| 1 | Own Revenue | 1597.79 | 928.33 | 955.77 | 1009.24 | 976.50 |
| 2 | Assigned Revenue ⁴ | 827.98 | 311.69 | 262.39 | 344.02 | 154.36 |
| 3 | State Government Grants | | 930.16 | 797.05 | 1185.85 | 343.97 |
| 4 | GoI Grants | | | | | |
| | BRGF ⁵ | 1534.07 | 3070.50 | 2245.85 | 1913.9 | 1083.15 |
| | 12 th and 13 th Finance Commissions | 518.01 | 491.31 | 393.52 | 428.29 | 117.88 |
| 5 | Other Receipts | 1147.71 | 341.4 | 362.45 | 331.68 | 84.18 |
| | Total | 5625.56 | 6073.39 | 5017.03 | 5212.98 | 2760.04 |

Source: Data furnished by Commissioner, Panchayat Raj

Own revenue as a percentage of total revenue showed a mixed pattern. Assigned revenue varied from 5 to 7 per cent, while grants ranged from 56 to 76 per cent of total revenue.

¹ House tax, advertisement fee, water tax etc.

² Rents from markets, shops and other properties, auction proceeds etc.

³ Donations, interest on deposits etc.

⁴ Seignorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to Local Bodies in the form of assigned revenue

⁵ Backward Region Grant Fund

Table 1.2 shows details of expenditure incurred by PRIs during 2009-13⁶.

Table 1.2

(₹ in crore)

| S.No. | Type of expenditure | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|-------|---------------------|----------------|----------------|----------------|----------------|
| 1 | Revenue expenditure | 3054.78 | 3314.82 | 2968.77 | 1405.49 |
| 2 | Capital expenditure | 1648.92 | 1545.84 | 1464.15 | 1033.47 |
| | Total | 4703.70 | 4860.66 | 4432.92 | 2438.96 |

Source: Data furnished by Commissioner, Panchayat Raj

It is seen from the table that both revenue and capital expenditure dropped abruptly in 2012-13, the reasons for which could not be provided to audit despite repeated requests and reminders.

Summary of receipts of ULBs during 2008-13 is given below:

Table 1.3

(₹ in crore)

| S.No. | Receipts | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---------------------------|---|----------------|----------------|----------------|----------------|----------------|
| Urban Local Bodies | | | | | | |
| 1 | Own Revenue | 2039.96 | 1809.72 | 2013.74 | 2297.17 | 2898.52 |
| 2 | Assigned Revenue | 442.62 | 377.8 | 684.00 | 795.70 | 819.28 |
| 3 | State Government Grants | 313.60 | 350.00 | 430.00 | 608.00 | 921.00 |
| 4 | GoI Grants | | | | | |
| | Scheme Funds | 998.92 | 1093.40 | 734.27 | 704.24 | 378.36 |
| | 12 th and 13 th Finance Commissions | 74.80 | 74.80 | 177.78 | 111.85 | Nil |
| 5 | Other Receipts | Nil | Nil | Nil | Nil | Nil |
| | Total | 3869.90 | 3705.72 | 4039.79 | 4516.96 | 5017.16 |

Source: Data furnished by Commissioner and Director of Municipal Administration

Though own revenue has increased over the years since 2009-10, it showed a declining trend in terms of its percentage to total revenue. State Government grants showed steady increase during 2009-13. Government replied that 13th Finance Commission grants were not received from GoI during 2012-13 due to non-conducting of elections.

Table 1.4 below shows details of expenditure incurred by ULBs during 2008-13.

Table 1.4

(₹ in crore)

| S.No. | Type of expenditure | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|-------|---------------------|----------------|----------------|----------------|----------------|----------------|
| 1 | Revenue expenditure | 2165.16 | 2181.79 | 2621.40 | 2941.85 | 3153.33 |
| 2 | Capital expenditure | 1762.68 | 1313.38 | 1399.83 | 1253.08 | 1166.59 |
| | Total | 3927.84 | 3495.17 | 4021.23 | 4194.93 | 4319.92 |

Source: Data furnished by Commissioner and Director of Municipal Administration

⁶Details for 2008-09 were not furnished by Department

Revenue expenditure showed an increasing trend during 2008-13. Capital expenditure, however, showed a decreasing trend during 2010-13 indicating poor asset creation.

1.2 Devolution of Funds and Functions

Eleventh Schedule to 73rd Constitutional Amendment Act, 1992 listed 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government devolved 10⁷ functions to PRIs and thereafter no initiative was taken for devolving the remaining functions. Funds relating to devolved functions are being released through line departments concerned. While PRIs of all the districts received funds during 2011-12⁸ from Agriculture, Animal Husbandry and Fisheries Departments, only three districts received funds relating to Backward Classes and Social Welfare Departments. Details of function wise/district wise releases are shown in *Appendix-1.1*.

The 74th Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in 12th Schedule to the Constitution. Except '*Fire Services*', all the functions mentioned in this Schedule were devolved to ULBs in the State.

1.3 Accounting arrangements

PRIs maintain accounts on cash basis. Model accounting system was prescribed by GoI in consultation with the Comptroller and Auditor General of India. State Government issued orders (September 2010) for adopting this format using PRIASoft, i.e., Panchayat Raj Institutions Accounting Software developed by National Informatics Centre (NIC). All the tiers of PRIs were provided with resource persons to operate PRIASoft for online accounting. However, as of November 2013, online accounting was completed only in eight (36 per cent) out of 22 ZPPs, 438 (40 per cent) out of 1,096⁹ MPPs and 1,494 (7 per cent) out of 21,590¹⁰ GPs in the State. Current status in this regard was not furnished by Commissioner Panchayat Raj and Rural Employment (CPR&RE) despite specific request from audit.

Test check (2012-13) of accounts of selected units (two ZPPs, three MPPs¹¹ and 100 GPs) using PRIASoft revealed that there were discrepancies between PRIASoft generated accounts and manually prepared accounts. Further, as against eight standard formats, only three are being used through PRIASoft and the remaining formats relating to accrual accounting are in the process of development. Therefore implementation of PRIASoft has not been completed as envisaged.

⁷ (i) Agriculture and Agricultural extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Rural Development (v) Drinking Water and Sanitation (vi) Primary, Secondary and Adult Education (vii) Health, Sanitation, Primary Health Centres, Dispensaries and Family Welfare (viii) Social Welfare (ix) Backward Classes Welfare (x) Women and Child Development

⁸ figures of 2012-13 are awaited from Commissioner, Panchayat Raj and Rural Employment (CPR&RE)

⁹ Units as of November 2013

¹⁰ Units as of November 2013

¹¹ ZPPs Anantapur and Nalgonda; MPDOs Muddanur, Patancheru and Hayathnagar

As regards ULBs, GoI in consultation with the Comptroller and Auditor General of India, had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system for greater transparency and control over finances and requested (May 2005) States to adopt it with appropriate modifications to meet the State's specific requirements. Accordingly, a Steering Committee was constituted (May 2005) by State Government and Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. State Government issued orders in August 2007 for adoption of APMAM in all the ULBs in State. Similarly, other manuals viz., Andhra Pradesh Municipal Budget Manual and Andhra Pradesh Municipal Asset Manual, were also accepted by State for implementation (August 2007) by ULBs. Though double entry book keeping system is being followed in all the ULBs, test-check (2012-13) of 34 municipalities on sample basis revealed the following major irregularities in maintenance of accounts.

- i. Financial statements were not supported by basic records like cash book, asset register, demand collection and balance (DCB) register, advances register, register of investments etc., in any of the 34 ULBs test checked.
- ii. Where details relating to demand and collection were maintained in some form (unauthenticated loose sheets), such details did not tally with the receipts and payments accounts in respect of property tax, vacant land tax, advertisement fee and water charges.

Above irregularities were communicated to Commissioner and Director of Municipal Administration (CDMA) and also Director, State Audit in March 2013. Replies are awaited (May 2014).

1.4 Audit Mandate

1.4.1 Statutory Audit

Director, State Audit (DSA) functioning under the administrative control of Finance Department is the statutory auditor for PRIs and 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 and present it to the State Legislature. The DSA has six Regional Offices, 22 District Offices, several Sub offices and Resident offices to conduct audit of all the PRIs and ULBs annually.

1.4.1.1 Arrears in audit

Certification of accounts gives an assurance that funds have been utilised for the purpose for which these have been authorised. However, it was noticed from the information furnished (May 2013) by DSA, that audit of 59 accounts of ULBs was pending as the accounts were yet to be compiled by the ULBs. In case of GPs, audit of 3,510 accounts were in arrears as of May 2013. DSA did not furnish specific reasons for delay in audit of GPs.

1.4.1.2 Submission of Consolidated State Audit and Review Reports

DSA has prepared and submitted Consolidated State Audit and Review Reports up to the year 2010-11 to Finance department and the Government tabled (February 2014) the Report in the State Legislature. Some of the major findings are on excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of dues, advances pending adjustments, violation of rules, wasteful expenditure etc.

1.4.1.3 Issue of surcharge certificates

As per Section 10 of Act, DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of local authorities or other authorities and such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act. As of March 2013, there were 2,460 cases where surcharge certificates were issued but requisite amount was not recovered. The amount involved in this regard is ₹2.37 crore¹².

1.4.2 Audit by CAG

CAG conducts audit of Local Bodies (PRIs and ULBs) under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of the Eleventh Finance Commission, State Government has 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.

CAG conducts only a test check and provides a consolidated report (TGS Note) at the end of each financial year to the DSA for improving the quality of their reports. TGS note for the year 2012-13 was issued in November 2013.

1.4.2.1 Planning and conduct of audit

Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and 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 is formulated to conduct audit. During 2012-13, 265 PRIs and ULBs falling under the departments of PR & RD and MA & UD were subjected to performance and compliance audit.

1.4.2.2 Response of departments to Audit findings

After completion of audit, Inspection Reports (IRs) containing audit findings are issued to 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

¹² 16 cases involving ₹0.03 crore in MPPs and 2,444 cases involving ₹2.34 crore in GPs

discussed in meetings at district level by officers of the departments with officers of Principal Accountant General's office.

As of 31 March 2014, 518 IRs containing 6,245 paragraphs pertaining to the period up to 2012-13 were pending settlement as detailed in Table 1.5. Of these, first replies have not been received in respect of 133 IRs and 2,224 paragraphs.

Table 1.5

| Year | Number of IRs/Paragraphs as of 30 September 2013 | | | | IRs/Paragraphs where even first replies have not been received | | | |
|---------------|--|------------|-------------|-------------|--|-----------|------------|-------------|
| | IRs | | Paragraphs | | IRs | | Paragraphs | |
| | PRIs | ULBs | PRIs | ULBs | PRIs | ULBs | PRIs | ULBs |
| Up to 2008-09 | 181 | 82 | 1159 | 1577 | 19 | 5 | 152 | 113 |
| 2009-10 | 87 | 21 | 701 | 475 | 23 | 15 | 260 | 397 |
| 2010-11 | 87 | 14 | 677 | 408 | 40 | 14 | 412 | 408 |
| 2011-12 | 9 | 3 | 103 | 53 | 3 | 0 | 36 | 0 |
| 2012-13 | 0 | 34 | 0 | 1092 | 0 | 14 | 0 | 446 |
| Total | 364 | 154 | 2640 | 3605 | 85 | 48 | 860 | 1364 |

1.5 Financial Reporting

Best practices in matters relating to different elements of financial reporting like drawal of funds, form of bills, incurring of expenditure, maintenance of accounts, rendering of accounts by PRIs and ULBs are governed by the provisions of APPR Act, 1994 and HMC Act, 1955 respectively, rules framed by State Government from time to time, Andhra Pradesh Treasury Code, Financial Code, Public Works Accounts Code, Public Works Departmental Code, Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

Significant issues relating to financial reporting by PRIs and ULBs are detailed below:

1.5.1 Creation of database of PRIs

State Government released (2002-10) Eleventh and Twelfth Finance Commission grants amounting to ₹57.80 crore¹³ to Commissioner, Panchayat Raj and Rural Employment (CPR&RE) for creation of database on finances of PRIs. CPR&RE kept these funds with CEO, ZPP Rangareddy district and the latter parked these funds in fixed deposits with various banks. However, based on instructions of CPR&RE, CEO, ZPP, Rangareddy returned ₹67.37 crore (including interest) during January-February 2013 for which no reasons were on record.

On this being pointed out, CPR&RE stated (March 2013) that funds were again placed in fixed deposits and flexi savings accounts and did not furnish specific reply for non-utilisation of funds for creation of database of PRIs. Thus database was not created despite provision of funds by the GoI and thereby, objective of consolidating finances of PRIs remained unachieved for more than 12 years.

¹³ Eleventh Finance Commission Grants ₹22.96 crore (2002-04) and Twelfth Finance Commission Grants ₹34.84 crore (2005-10)

1.5.2 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 the CDMA should watch the balances of closed schemes lying in the accounts of different ULBs. Scrutiny of records of 34 ULBs revealed that in 10 ULBs, an amount of ₹6.55 crore as detailed in *Appendix-1.2* remained unspent as of March 2014 in the accounts of closed schemes. No action was initiated by the executives to transfer the amount to Government account.

1.5.3 Advances pending adjustment

As per Andhra Pradesh Financial Code-1, advances paid should be adjusted without any delay and the DDOs concerned should watch their adjustment. Scrutiny of records of 34 ULBs during 2012-13 revealed that in 20 ULBs, funds amounting to ₹3.43 crore advanced to staff for various purposes during 1984-2013 remained unadjusted as of March 2014 as detailed in *Appendix-1.3*.

1.5.4 Utilisation Certificates (UCs)

Guidelines of central schemes/centrally sponsored schemes stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI (MoPR). However, in respect of 6 out of 34 ULBs test-checked during 2012-13 UCs amounting to ₹30.01 crore in respect of several schemes were pending submission to HODs from 2005-13 indicating poor monitoring not only by Drawing and Disbursing Officers (DDOs) concerned, but also by the HOD.

1.5.5 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, procedure for fixing responsibility for any loss sustained by Government and action to be initiated for recovery. State Government ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis and the Chief Secretary to Government to review these cases once in six months with all the Secretaries concerned.

Misappropriation cases in PRIs furnished by Director, State Audit during 2008-09 to 2010-11 (figures for 2011-12 to 2012-13 awaited) yet to be disposed off at the end of March 2014 are given in Table 1.6.

Table 1.6

(₹ in crore)

| PRI | No. of cases | Amount involved | No. of cases | Amount involved | No. of cases | Amount involved |
|------------------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|
| | 2008-09 | | 2009-10 | | 2010-11 | |
| Zilla Praja Parishads | 12 | 1.17 | 2 | 0.01 | 0 | 0 |
| Mandal Praja Parishads | 32 | 0.04 | 140 | 0.41 | 108 | 0.31 |
| Gram Panchayats | 288 | 0.78 | 448 | 1.13 | 672 | 2.09 |
| Total | 332 | 1.99 | 590 | 1.55 | 780 | 2.40 |

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

1.5.6 Physical verification of stores and stock

Article 143 of Andhra Pradesh Financial Code (Volume I) stipulates that all stores and stock should be verified physically once a year and a certificate to this effect be recorded by the Head of the Office in the Register concerned. Scrutiny of records of 34 ULBs during 2012-13 revealed that in respect of 20 (59 per cent) of these, annual physical verification of stock and stores was not being conducted.

1.5.7 Non-reconciliation of departmental figures with treasury

As per para 19.6 of Andhra Pradesh Budget Manual, Drawing and Disbursing Officers (DDOs) are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent draws. Scrutiny of records of 34 ULBs during 2012-13 revealed that in respect of 20 (59 per cent) of these, reconciliation was pending for two to three years.

1.5.8 Non-finalisation of accounts

According to Rule 4 of Andhra Pradesh Municipalities (Preparation and Submission of Accounts and Abstracts) Act, 1970, ULBs are to compile their Accounts annually and forward a copy to Audit not later than 15 June. However, there were arrears of more than two decades¹⁴ in compilation of accounts by some ULBs (*Appendix-1.4*).

1.6 Conclusion

As can be seen from above paragraphs, out of 29 functions listed in Eleventh Schedule to 73rd Constitutional Amendment Act, 1992, Government devolved only functions relating to 10 subjects. Model accounting system (PRIASoft) adopted by State Government is yet to be implemented by many GPs. Also, the database of finances was not created even after lapse of 12 years of releasing the funds.

As regards ULBs, there were delays in compilation of accounts by ULBs, with consequent delay in their audit by DSA. Financial reporting in test-checked ULBs during 2012-13 was inadequate as evidenced by non-remittance of unspent balances of closed schemes, non-furnishing of UCs and advances pending adjustment, non-finalisation of accounts, non-conducting of physical verification of stores and stock and non-reconciliation of departmental figures with treasury.

¹⁴ Greater Hyderabad Municipal Corporation: Accounts of 21 years; Gudur Municipality: Accounts of 28 years