

**PART - B**  
**URBAN LOCAL BODIES**



# **CHAPTER III**

**AN OVERVIEW OF THE FUNCTIONING,  
ACCOUNTABILITY MECHANISM AND  
FINANCIAL REPORTING ISSUES OF  
URBAN LOCAL BODIES**



## CHAPTER III

### AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF URBAN LOCAL BODIES

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

##### 3.1 Introduction

The 74<sup>th</sup> amendment to the Constitution accorded constitutional status to Urban Local Bodies (ULBs) and established a system of uniform structure, regular election, regular flow of funds through Finance Commission etc. As a follow-up, the States are required to entrust these bodies with powers, functions and responsibilities so as to enable them to function as institutions of local self-government.

Accordingly, the State Legislature amended the Tamil Nadu District Municipalities Act, 1920, for transferring the powers and responsibilities to ULBs in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

Tamil Nadu is one of the most urbanised States of India. As per the 2011 Census, urban population of the State was 3.49 crore constituting 48.40 *per cent* of the total population of 7.21 crore. Important statistics of the State regarding population and ULBs are given in **Table 3.1**.

**Table 3.1: Important statistics of the State**

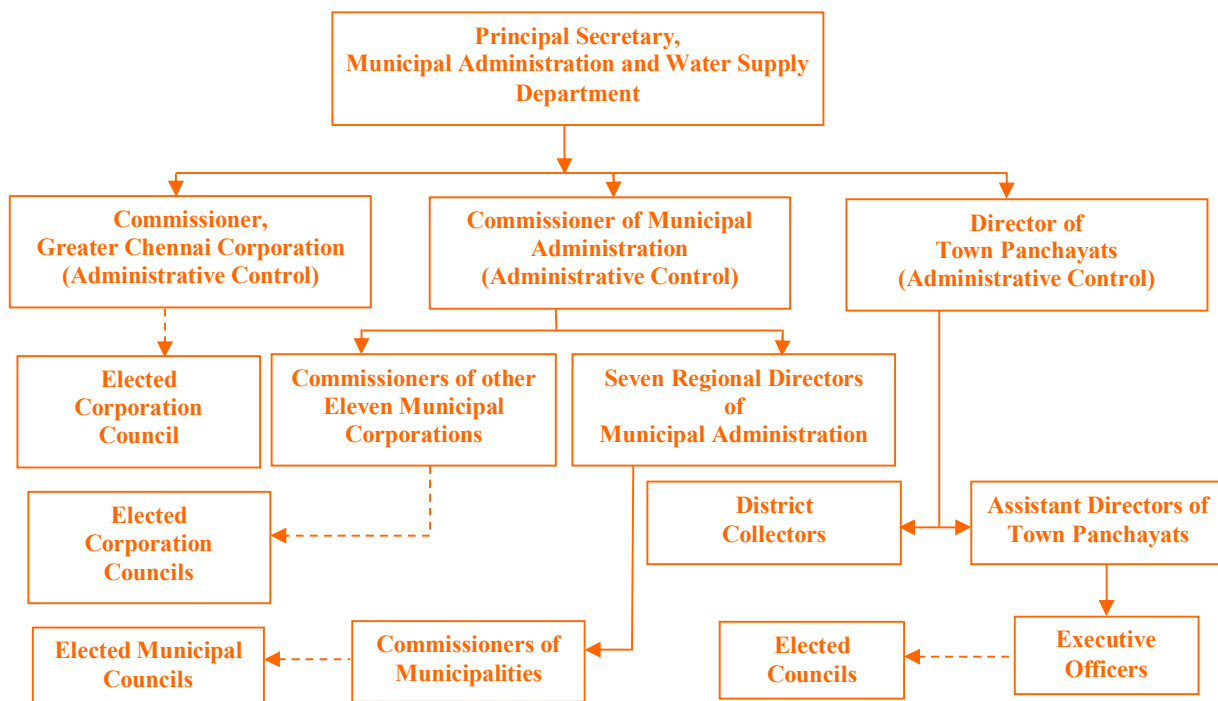
Population	7.21 crore
Population density	555 persons per square kilometre
Gender ratio	996 females per 1,000 males
Urban population	48.40 <i>per cent</i>
Literacy	80.09 <i>per cent</i>
Number of ULBs	664
- Municipal Corporations	12 <sup>1</sup>
- Municipalities	124
- Town Panchayats	528

(Source: 2011 Census figures and Policy Note of the Municipal Administration and Water Supply Department for 2016-17)

<sup>1</sup> Chennai, Coimbatore, Dindigul, Erode, Madurai, Salem, Thanjavur, Thoothukudi, Tiruchirappalli, Tirunelveli, Tiruppur and Vellore.

### 3.2 Organisational structure of ULBs

The organisational structure for administration of ULBs in Tamil Nadu as of March 2017 was as under:



(Source: Commissionerate of Municipal Administration)

### 3.3 Functioning of ULBs

Consequent upon the 74<sup>th</sup> amendment to the Constitution, the State Legislature amended the Tamil Nadu District Municipalities Act, 1920, for transferring the powers and responsibilities to ULBs. Out of 18 functions (**Appendix 3.1**) enlisted in the Twelfth Schedule of the Constitution, 12 functions (Serial Numbers 1 to 12 of **Appendix 3.1**) were devolved to the Town Panchayats (TPs) and 17 functions (except Fire Services) were devolved to the Municipalities and Municipal Corporations by the State Government as of November 2017. In respect of Greater Chennai Corporation (GCC), 13 (Serial Numbers 1 to 12 and 17 of **Appendix 3.1**) out of 18 functions were devolved so far (September 2017), of which, the function of water supply is handled by the Chennai Metropolitan Water Supply and Sewerage Board.

### 3.4 Formation of various Committees

Out of 32 Districts in Tamil Nadu, Government of Tamil Nadu (GoTN) constituted District Planning Committees (DPC) in 31 districts except Chennai as per Section 241(1) of the Tamil Nadu Panchayats Act, 1994. Constitution and functions of the DPC are mentioned in Paragraph 1.4 of this Report.

GCC stated (October 2017) that Standing Committees for Health, Town Planning, Works, Taxation and Finance, Education, Accounts and Audit and Appointment were in place. GCC further stated that the Committees met once in a month and perused the respective department/subject schemes and projects; on approval of the schemes/projects, they were forwarded to the Council for approval. Commissioner of Municipal Administration (CMA) stated (December 2017) that Standing Committees for Public Health, Town Planning, Works, Taxation and Finance, Education, Accounts and Appointment were formed in Municipal Corporations and Standing Committees for Contracts, Town Planning, Taxation Appeal and Appointment were formed in Municipalities. Director of Town Panchayats (DTP) stated (November 2017) that Standing Committees for Contracts, Town Planning, Taxation Appeal and Appointment were formed in TPs.

### 3.5 Audit arrangement

#### 3.5.1 Primary Auditor

GoTN entrusted (August 1992) the audit of ULBs to the Director of Local Fund Audit (DLFA), who has to certify the correctness of accounts, assess internal control system and report cases of loss, theft and fraud to the audited entities and to GoTN. Position regarding placing of Audit Report of DLFA on the table of the Legislative Assembly is mentioned in Paragraph 1.5.1 of this Report.

#### *Arrears in submission of accounts*

ULBs should finalise their annual accounts within three months after the end of the financial year. DLFA stated (December 2017) that all the 12 Municipal Corporations, 7 (out of 124) Municipalities and 36 (out of 528) Town Panchayats did not submit their accounts for the year 2016-17 to DLFA as of August 2017.

#### *Arrears in audit by DLFA*

(a) The position of arrears in audit of ULBs by DLFA, as of August 2017, is given in **Table 3.2**.

**Table 3.2: Position of arrears in audit of ULBs by DLFA**

(in numbers)

Category of ULB	Total number	2014-15			2015-16			2016-17		
		Accounts submitted to DLFA (A)	Audit completed out of (A) (B)	Audit pending (A)-(B) (C)	(A)	(B)	(C)	(A)	(B)	(C)
Corporations	12	12	12	Nil	12	12	Nil	Nil	Not Applicable	
Municipalities	124	124	123	1	124	124	Nil	117	1	116
Town Panchayats	528	528	527	1	528	526	2	492	22	470

(Source: Details furnished by DLFA)

(b) As of August 2017, 2,22,870 paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats included in their Inspection Reports (IRs) relating to period upto 2016-17 were pending settlement as given in **Table 3.3**.

**Table 3.3: Year-wise pendency of paragraphs of DLFA**

Year of IR	Number of paragraphs pending in respect of		
	Municipal Corporations	Municipalities	Town Panchayats
Upto 2011-12	56,393	42,293	24,127
2012-13	3,823	6,515	5,833
2013-14	4,916	8,087	7,929
2014-15	4,597	9,401	12,278
2015-16	1,761	13,680	20,452
2016-17	Not Applicable*	94	691
<b>Total</b>	<b>71,490</b>	<b>80,070</b>	<b>71,310</b>

\* All the 12 Municipal Corporations were yet to submit their accounts to DLFA.

(Source: Details furnished by DLFA)

Audit analysis revealed that in respect of Municipal Corporations, Municipalities and Town Panchayats 69,729 (98 *per cent*) out of 71,490, 66,296 (83 *per cent*) out of 80,070 and 50,167 (70 *per cent*) out of 71,310 pending paragraphs respectively pertaining to period upto 2014-15. This indicated that adequate attention was not given to settle the long pending paragraphs.

DLFA further reported (October 2017) that for settling the pending paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats, 79 meetings were held during 2016-17 as a result of which, 10,345 paragraphs were settled.

### **3.5.2 Audit by Comptroller and Auditor General of India (CAG)**

The CAG audits the ULBs under Section 14(2) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Technical Guidance and Support is provided by the CAG to DLFA.

#### ***Audit Reports of CAG***

CAG's Audit Reports on ULBs upto 2006-07 were discussed and recommendations were made by the Public Accounts Committee. As of November 2017, Action Taken Reports were pending from Municipal Administration and Water Supply Department on 198 recommendations<sup>2</sup> relating to 1985-86 to 2007-08 for final settlement, which consisted of

<sup>2</sup> 1985-86 (1), 1990-91 (5), 1992-93 (15), 1993-94 (2), 1997-98 (1), 1999-2000 (10), 2000-01 (1), 2001-02 (9), 2002-03 (2), 2003-04 (28), 2004-05 (33), 2005-06 (55), 2006-07 (30) and 2007-08 (6).



paragraphs relating to ULBs included in the Audit Report (Civil) and Audit Report (Local Bodies).

### **3.6 Response to audit observations of CAG**

Audit of ULBs by test checking of records is followed-up through IRs issued to the Commissioner of GCC, CMA, DTP and to the ULBs concerned. As of November 2017, 4,038 paragraphs contained in 807 IRs issued upto 2016-17 were pending settlement for want of satisfactory replies.

## **Accountability Mechanism and Financial Reporting Issues**

### **Accountability Mechanism**

#### **3.7 Ombudsman**

As per Paragraph 10.161(iii) of the recommendations of the Thirteenth Central Finance Commission (TCFC), the State Government must put in place a system of independent local body Ombudsman, who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials and recommend suitable action and the system should be made applicable to all elected functionaries and officials in all Municipal Corporations, Municipalities and Zilla Parishads at least.

Subsequent to the enactment (December 2014) of Tamil Nadu Local Bodies Ombudsman Act, 2014, Ombudsman for the Municipal Corporations, Municipalities, Town Panchayats and District Panchayats in Tamil Nadu was established (March 2015). The Tamil Nadu Local Bodies Ombudsman stated (September 2017) that 378 complaints were received during 2016-17 against the ULBs and its public servants, out of which, 215 were disposed of and the remaining complaints were in enquiry stage.

#### **3.8 Property Tax Board**

The State Legislature enacted (May 2013) the Tamil Nadu State Property Tax Board Act, 2013 and GoTN framed (October 2014) the Tamil Nadu State Property Tax Board Rules, 2014. Though the State Legislature enacted the Tamil Nadu State Property Tax Board Act, 2013 in May 2013, the Board was not constituted so far (November 2017).

#### **3.9 Service Level Benchmark**

As per Paragraph 10.161(viii) of the TCFC recommendations, State Governments must notify or cause all the Municipal Corporations and Municipalities to notify the service standards for four service sectors *viz.*, water supply, sewerage, storm water drainage and solid waste management proposed to be achieved by them by the end of the succeeding fiscal year.

### **3.10 Fire hazard response**

As per Paragraph 10.161(ix) of the TCFC recommendations, all Municipal Corporations with a population of more than one million must put in place a fire hazard response and mitigation plan for their respective jurisdictions. Notification accepting this recommendation of TCFC was issued by GoTN in November 2013.

Municipal Corporations of Chennai, Coimbatore and Madurai released ₹ 2.68 crore, ₹ 0.51 crore and ₹ 0.49 crore respectively for the period 2011-15; of this, ₹ 2.21 crore, ₹ 0.40 crore and ₹ 0.43 crore was utilised by Fire and Rescue Services Department as of November 2017 for purchase of vehicles and equipment. The Director, Tamil Nadu Fire and Rescue Services stated (November 2017) that action is being taken to utilise the balance amount for purchase of balance items during 2017-18.

### **3.11 Submission of Utilisation Certificates**

The GCC stated (October 2017) that the Utilisation Certificates (UCs) were being sent to Government of India (GoI) after utilising the actual amount received. CMA stated (December 2017) that the UCs were sent to GoI for the amount utilised out of the sanctioned grant for the specific period as prescribed in the sanctions. DTP stated (November 2017) that in case of some projects, UCs were sent directly to GoI and in respect of some projects these were sent through the nodal agencies.

### **3.12 Internal Audit and Internal Control System of ULBs**

Commissioner, GCC stated (October 2017) that the Financial Advisor was the overall controller for verification of audit and accounts, Chief Accounts Officers were doing internal audit in their respective zones and DLFA was doing the concurrent audit. CMA stated (December 2017) that DLFA was conducting concurrent audit of 11 Municipal Corporations and Special Grade Municipalities. DTP stated (November 2017) that DLFA was conducting annual audit and financial loss and irregularity paragraphs were intimated to concerned Executive Officers and Assistant Directors of Town Panchayats.

### **3.13 Financial Reporting Issues**

#### **3.13.1 Source of funds**

The details of receipts and expenditure of the ULBs for the period from 2012-13 to 2016-17 are given in **Table 3.4**.

**Table 3.4: Receipts and expenditure of ULBs**

(₹ in crore)

	2012-13	2013-14	2014-15*	2015-16*	2016-17
Own revenue	2,467	2,957	2,875	3,364	3,776
Assigned revenue <sup>3</sup>	1,084	1,211	1,047	1,717	1,469
Grants	4,020	4,391	4,073	5,033	5,468
Loans	323	903	772	724	1,964
<b>Total receipts</b>	<b>7,894</b>	<b>9,462</b>	<b>8,767</b>	<b>10,838</b>	<b>12,677</b>
Revenue expenditure	3,461	4,985	5,331	6,704	6,895
Capital expenditure	3,117	5,107	4,954	6,750	6,406
<b>Total expenditure</b>	<b>6,578</b>	<b>10,092</b>	<b>10,285</b>	<b>13,454</b>	<b>13,301</b>

\* Figures differ from the figures of Audit Report 2015-16 due to furnishing of revised figures by GCC.

(Source: Details furnished by GCC, CMA and DTP)

The percentage of expenditure and savings to the total receipts during 2012-13 to 2016-17 is given in **Table 3.5**.

**Table 3.5: Percentage of expenditure and savings**

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue expenditure	44	53	61	62	54
Capital expenditure	39	54	57	62	51
Savings (-)/Excess (+)	(-) 17	7	18	24	5

While Capital expenditure during 2012-17 ranged between 39 and 62 *per cent* of the total receipts, Revenue expenditure ranged between 44 and 62 *per cent* of the total receipts.

### 3.13.2 State Finance Commission (SFC) Grant

Fourth SFC, constituted in December 2009, recommended (September 2011) a vertical sharing ratio of 56:44 between rural and urban local bodies. GoTN accepted (June 2013) the recommendations with modifications to adopt the vertical sharing ratio between rural and urban local bodies at 58:42 and the horizontal sharing ratio of SFC devolution funds at 40:31:29 among Municipal Corporations, Municipalities and Town Panchayats respectively. The amount of SFC grants released to the ULBs during 2016-17 was ₹ 3,075.35 crore.

<sup>3</sup> Ninety *per cent* of Entertainment Tax and 50 *per cent* of Surcharge on Stamp Duty collected within the jurisdiction of the local body were assigned to the concerned local body.

### **3.13.3 Central Finance Commission (CFC) Grant**

A sum of ₹ 1,416.82 crore was sanctioned by GoI as Fourteenth CFC grant to the ULBs in Tamil Nadu for the year 2016-17 and the same was released by GoTN to the ULBs.

### **3.13.4 Maintenance of accounts by ULBs**

Accrual-based accounting system is followed in all the ULBs. GCC stated (October 2017) that in conformity with the National Municipal Accounting Manual (NMAM), the chart of accounts was revised and accounts upto 2015-16 were finalised. CMA stated (December 2017) that consequent upon the introduction of NMAM, GoTN prepared a new Municipal Accounting Manual incorporating the principles laid down in NMAM, to suit the requirement of ULBs in Tamil Nadu on the principles of need base and not merely to coincide with NMAM. CMA further stated that accounts from 2014-15 were compiled based on this newly updated Municipal Accounting Manual adopting new accounting software created on the basis of new coding structure.