

PART - B
URBAN LOCAL BODIES

CHAPTER IV

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

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

4.1 Introduction

The 74th amendment to the Constitution gave 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 State in India. As per the 2011 census, the 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 4.1**.

Table 4.1: Important statistics of the State

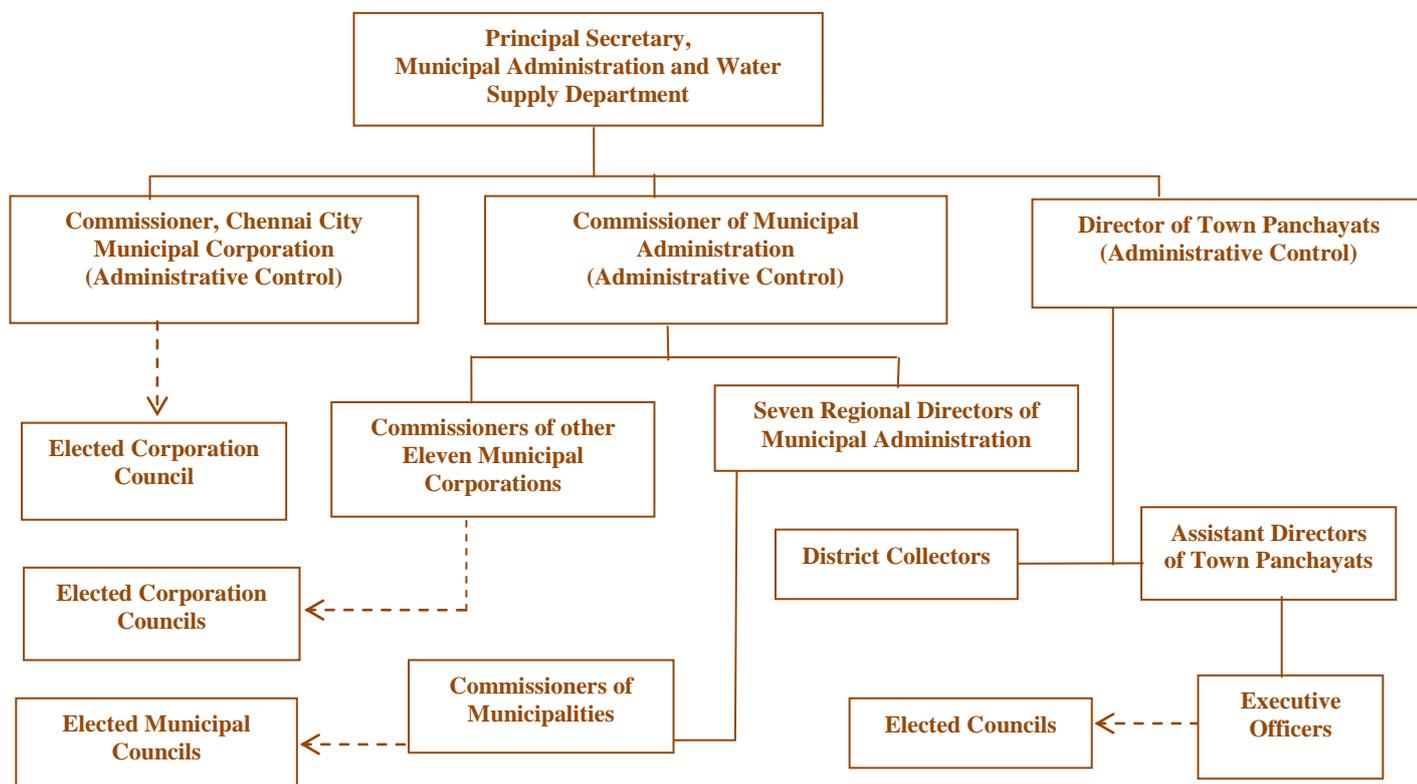
Population	7.21 crore
Population density	555 persons per Sq.Km.
Gender ratio	996 females per 1,000 males
Urban population	48.40 <i>per cent</i>
Literacy	80.09 <i>per cent</i>
Number of ULBs	664
- Municipal Corporations	12 ¹
- Municipalities	124
- Town Panchayats	528

Source: 2011 Census figures and Policy Note of the Municipal Administration and Water Supply Department for 2015-16)

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

4.2 Organisational set up of ULBs

The organisational structure for administration of ULBs in Tamil Nadu is as under:



Source : Commissionerate of Municipal Administration

4.3 Functioning of ULBs

Consequent upon the 74th 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 enlisted in the Twelfth Schedule of the Constitution, 12 functions have been devolved (November 2015) to the Town Panchayats and 17 functions (except Fire Service) have been devolved (December 2015) to the Municipalities and Municipal Corporations. In respect of Chennai City Municipal Corporation, only 13 functions have been devolved (June 2015) and the function of water supply is handled by the Chennai Metropolitan Water Supply and Sewerage Board.

4.4 Formation of various Committees

Out of 32 Districts in Tamil Nadu, Government of Tamil Nadu (GoTN) constituted a District Planning Committee (DPC) in each of the 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.

Corporation of Chennai stated (July 2015) that Standing Committees for Public Health, Town Planning, Works, Taxation and Finance, Education, Accounts and Appointment were formed. Director of Municipal Administration stated (January 2016) 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 (December 2015) that Standing Committees for Contracts, Town Planning, Taxation Appeal and Appointment were formed.

4.5 Audit arrangement

4.5.1 Primary Auditor

GoTN entrusted (August 1992) 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. Placing of Audit Report of DLFA to 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. Number of ULBs who did not submit their accounts to DLFA, as of August 2015, for the years 2012-13, 2013-14 and 2014-15 are given in **Table 4.2**.

Table 4.2: Position of non-submission of accounts by the ULBs to DLFA

Category of ULB	Total number of ULBs	Number of ULBs not submitted their accounts relating to		
		2012-13	2013-14	2014-15
Municipal Corporations	10 (2012-13 and 2013-14) 12 (2014-15)	1	8	12
Municipalities	125 (2012-13) 126 (2013-14) 124 (2014-15)	2	28	124
Town Panchayats	529 (2012-13) 528 (2013-14 and 2014-15)	Nil	16	516

Source: Details furnished by DLFA

Arrears in Audit by DLFA

The position of arrears in audit of ULBs by DLFA, as of August 2015, is given in **Table 4.3**.

Table 4.3: Position of non-completion of audit of ULBs by DLFA

Category of ULB	Total number	2013-14			2014-15		
		Accounts submitted to DLFA	Audit completed out of (A)	Audit pending (A) - (B)	(A)	(B)	(C)
		(A)	(B)	(C)			
Municipal Corporations	10 (2013-14) 12 (2014-15)	2	Nil	2	Nil	N.A.	Nil
Municipalities	126 (2013-14) 124 (2014-15)	98	15	83	Nil	N.A.	Nil
Town Panchayats	528	512	475	37	12	12	Nil

N.A – Not applicable

Source: Details furnished by DLFA

DLFA reported (November 2015) that 2,75,766 paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats included in their Inspection Reports (IRs) relating to the years upto 2012-13 were pending settlement as of August 2015. Audit analysis of the data revealed that out of 1,09,570, 1,16,723 and 49,473 paragraphs pending upto 2012-13 in respect of Municipal Corporations, Municipalities and Town Panchayats respectively, 94,968 paragraphs (87 per cent – Municipal Corporations), 86,131 (74 per cent - Municipalities) and 22,094 (45 per cent – Town Panchayats) related to the period prior to 2010-11. This indicates that sufficient attention was not given to settle the long pending paragraphs.

DLFA further reported (November 2015) that for settling the pending paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats, 32 meetings were held during 2014-15 wherein 11,077 paragraphs were settled.

4.5.2 Audit by Comptroller and Auditor General of India (CAG)

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

Audit Reports of CAG

CAG's Audit Reports on ULBs upto 2006-07 were discussed and recommendations were given by the Public Accounts Committee (PAC). As of December 2015, Action Taken Reports were pending from Municipal

Administration and Water Supply Department on 196 recommendations² relating to 1985-86 to 2007-08 for final settlement, which consisted of paragraphs relating to ULBs included in the Audit Reports (Civil) and (Local Bodies).

4.6 Response to audit observations

Audit of ULBs by test check of records are followed-up through IRs issued to the Commissioner, Corporation of Chennai (in respect of Chennai City Municipal Corporation), Commissioner of Municipal Administration (CMA), DTP and to the ULBs concerned. As of December 2015, 3,807 paragraphs contained in 732 IRs issued during the period from 2009-10 to 2014-15 were pending settlement for want of satisfactory replies.

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

4.7 Ombudsman

As per Paragraph No.10.161(iii) of the recommendations of the Thirteenth Finance Commission (TFC), 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. Tamil Nadu Local Bodies Ombudsman stated (January 2016) that 352 complaints were received till December 2015 against the ULBs and its public servants from various Municipal Corporations, Municipalities and Town Panchayats, out of which 282 have been disposed of and the remaining cases were in final stage.

4.8 Social Audit

ULBs are not covered by Social Audit in the State.

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

4.9 Property Tax Board

GoTN enacted (May 2013) Tamil Nadu State Property Tax Board Act, 2013 and framed (October 2014) Tamil Nadu State Property Tax Board Rules, 2014. However, Property Tax Board has not yet (December 2015) been constituted in the State.

4.10 Service Level Benchmark

As per paragraph 10.161(viii) of the TFC 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. District-wise Notifications covering all ULBs were issued by GoTN in April 2012.

Audit scrutiny of the service level benchmarks fixed for Corporation of Chennai in respect of solid waste management revealed that the achievement relating to the main component of segregation of solid waste into bio-degradable and non-bio-degradable waste was nine *per cent* as against the benchmark of 100 *per cent*. In respect of other Municipal Corporations, Municipalities and Town Panchayats, details of achievement of service level benchmarks were not furnished by CMA.

4.11 Fire hazard response

As per paragraph 10.161(ix) of the TFC 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 TFC was issued by GoTN in November 2013.

Municipal Corporations of Chennai, Coimbatore and Madurai released a sum of ₹ 267.70 lakh, ₹ 51.10 lakh and ₹ 48.50 lakh respectively for the period 2011-15 and an amount of ₹ 107.82 lakh, ₹ 3.28 lakh and ₹ 3.28 lakh was utilised by the Fire and Rescue Services Department from the amount released by the respective corporations during the period for purchase of vehicles and equipments. However, the expenditure incurred during the period 2011-15 was only 40 *per cent*, six *per cent* and seven *per cent* respectively.

4.12 Submission of Utilisation Certificates

Corporation of Chennai stated ((July 2015) that Utilisation Certificates (UCs) were issued after utilising the actual amount received from GoI. CMA stated (January 2016) that the UCs were sent to GoI by booking the release of grants as expenditure. DTP stated (December 2015) that in some projects UCs were sent directly to GoI and in some projects through the nodal agencies.

4.13 Internal Audit and Internal Control System of ULBs

Corporation of Chennai stated (July 2015) that as the Financial Advisor was the overall controller for verification of audit and accounts of Corporation of Chennai, the Chief Accounts Officers were doing internal audit in their respective zones. CMA stated (January 2016) that in respect of 11 Municipal Corporations and Special Grade Municipalities, DLFA was conducting concurrent Audit.

4.14 Financial Reporting Issues

4.14.1 Source of funds

The resource base of ULBs consists of

- (i) own revenue,
- (ii) assigned revenue,
- (iii) grants from GoI and GoTN and
- (iv) loans from GoI/GoTN/financial institutions.

Table 4.4 below shows the details of receipts and expenditure of the ULBs for the period from 2010-11 to 2014-15.

Table 4.4: Receipts and expenditure of ULBs

	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Own revenue	2,033	2,148	2,467	2,957	3,133
Assigned revenue	661	780	1,084	1,211	1,255
Grants	3,542	3,220	4,020	4,391	4,232
Loans	626	225	323	903	850
Total receipts	6,862	6,373	7,894	9,462	9,470
Revenue expenditure	3,244	2,559	3,461	4,985	5,383
Capital expenditure	2,807	2,221	3,117	5,107	5,241
Total expenditure	6,051	4,780	6,578	10,092	10,624

Source: Details furnished by the Commissioner, Corporation of Chennai, CMA and DTP

The percentage of expenditure and savings to the total receipts during 2010-11 to 2014-15 is given in **Table 4.5**.

Table 4.5: Percentage of expenditure and savings

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue expenditure	47	40	44	53	57
Capital expenditure	41	35	39	54	55
Savings(-)/Excess expenditure(+)	(-)12	(-)25	(-)17	7	12

While Capital expenditure over the years ranged between 35 and 55 *per cent* of the total receipts, Revenue expenditure ranged between 40 and 57 *per cent* of the total receipts during 2010-15.

4.14.2 Recommendations of State Finance Commission (SFC)

Out of 130 recommendations given by Fourth SFC, GoTN accepted 112 recommendations. GoTN accepted (June 2013) the recommendations of Fourth SFC regarding devolution of grants to local bodies 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.

4.14.3 Recommendations of Thirteenth Finance Commission

(a) The details of TFC grants released by GoI and released by GoTN to the Municipal Corporations, Municipalities and Town Panchayats during 2010-15 is given in **Table 4.6**.

Table 4.6: Release of TFC grants by GoI and GoTN

(₹ in crore)

Year	Earmarked TFC grant by GoI	Total release by GoI to GoTN	Total release by GoTN to ULBs		Total
			Municipal Corporations and Municipalities	Town Panchayats	
2010-11	133.91	220.84	158.98	62.02	221.00
2011-12	343.69	276.84	199.15	82.46	281.61
2012-13	504.77	314.48	226.24	88.71	314.95
2013-14	596.99	362.79	260.99	101.81	362.80
2014-15	705.77	396.54	281.55	130.00	411.55
Total	2,285.13	1,571.49	1,126.91	465.00	1,591.91

Source: Details furnished by CMA and DTP

(b) A sum of ₹ 1.03 crore released by GoI as Twelfth Finance Commission Grant for implementing Solid Waste Management scheme in Idappadi Municipality remained unutilised since March 2010. The amount has been invested in short term deposit in December 2015 for a period of six months with a maturity value of ₹ 1.21 crore.

4.14.4 Maintenance of records

Asset Register

According to Chapter 9 of Accounting Manual for ULBs, all assets namely land, buildings, etc. have to be entered in the Asset Register at the original cost as arrived at in the Fixed Asset Journal Voucher and the original cost will remain as such in the Register. However, it was noticed that out of 48 municipalities audited during 2014-15, Asset Registers were either not maintained or entries were not made as and when assets were created in two municipalities (Pammal and Kangeyam).

Road Register

A scrutiny of Road Register maintained by the ULBs revealed that entries in respect of improvements carried out on existing roads as Black Topped/Water Bound Macadam/Cement Concrete roads during the periods from 2000-01 to 2014-15 were not made by Madambakkam (190 road works) and Uthiramerur (95 road works) Town Panchayats. It was also noticed that Jayankondam Municipality did not maintain the Road Register and Thiruverkadu Municipality did not update the register after April 2010. As a result, the current status of the roads could not be verified. As improvement works of roads were taken up with reference to the present status of roads, non-updation of road register may lead to incurring of expenditure on the same roads frequently.

4.14.5 Maintenance of accounts by ULBs

Accrual-based system of accounting is being followed in all the ULBs. Corporation of Chennai stated (July 2015) that in conformity with the National Municipal Accounting Manual, the chart of accounts was revised and accounts upto 2013-14 were finalised. CMA stated (January 2016) that at present the annual accounts of ULBs have not been compiled as per the newly updated Accounting Manual due to non-availability of software. CMA further stated that in order to implement a centralised web enabled software application for ULBs, a e-governance project has been taken up under Tamil Nadu Sustainable Urban Development Project (TNSUDP) at a cost of ₹ 18.31 crore and software for 29 modules (including accounting software) had been completed and validation process was in progress.

4.14.6 Issues related to AC/DC Bills

The practice of preparing abstract contingent bills and detailed contingent bills for managing Temporary advances is not in vogue in Tamil Nadu State including ULBs.

4.14.7 Maintenance of database and the formats therein on the finances of ULBs

The annual accounts of ULBs were not compiled as per the newly updated accounting manual due to non-availability of software.