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21 May, 2016

Dear Shri Chinnaswamy Avare,

Subject: Culture of Audit and Accountability Necessary before Devolution of Funds to ULBs

Urban Local Bodies are an important third layer in our 3-tier democracy. More financial resources are required in the ULBs to help revive declining cities all around the country. I have been extensively advocating for several years now the need for deep governance reforms, increased accountability and strengthening of institutions at the ULB level.

Recommendations of the 14th Finance Commission have granted more fiscal autonomy to States with the objective of ultimately benefitting the citizen. The Commission's recommendation for increased devolution of funds to 42 per cent has been accepted by the Centre. According to the increased allocation, Karnataka's share has gone up to 4.713 per cent from 4.328 per cent during the 13th FC, an addition of about Rs 8400 crore for 2015-16.

Reforms and the BBMP

The objective of the 74th Constitutional Amendment Act is to strengthen the Urban Local Bodies wherein they are to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice.

However, Urban Local Bodies are the most corrupt set-up today and an increased devolution of funds without checks and balances in the form of performance conditions for reforms will only lead to more looting of funds. The State Government and Finance Commission must ensure that ULBs are made accountable and transparent in executing their functions as trustees of public money and assets.

The Bruhat Bengaluru Mahanagara Palike (BBMP) is a statutory local government authority mandated to provide civic services and infrastructure facilities to the citizens of Bangalore. But the BBMP's record in particular spotlights rampant misuse of public resources - abuse of land; use of public money in wasteful & inflated projects and massive erosion of revenues as a further instance of corruption (**details in Annexure 1**). Thus, the question of accountability of the BBMP assumes great importance.



The BBMP in its budget for 2015-16 indicates that 37% of the revenues are from State and Central grants. Further, between financial years 2011-12 to 2014-15, the BBMP received grants of Rs 452.22 crore from the 13th Finance Commission besides Rs 3659.92 crore from State Government grants and additionally Rs 55.50 crore under JNNURM for Storm water drainage (*details in Annexure 2*).

While the city suffers from lack of basic amenities, more monies flowing to the BBMP from the State exchequer and enhanced Central devolution of funds will encourage further irregularities with the BBMP spending without any transparency and accountability.

Unless these issues are addressed, devolving enhanced funds to ULBs would be like putting more water in a leaking bucket helping people outside the bucket ie. vested interests rather than those inside the bucket ie. citizens.

Recommendations to the Commission for Laying Down Conditions for Devolution of Funds

Devolution of funds from State to local governments is largely guided by the recommendations of the State Finance Commissions. Thus it is imperative that the 4th SFC lays special emphasis on **Devolution of Funds linked to Implementation of Reform Measures and Enhanced Accountability by ULB's**.

1. Mandating Annual Audit of Finances, Tax Revenues and Expenditures of ULBs, stipulating Ward wise Annual Audit and publishing of Audit Reports within the defined timeframe. In case of BBMP, it must efficiently widen the property tax net by identifying the new areas which have merged with the Palike and due to absence of which details, thousands of crores of tax revenues have been lost.
2. Approval of Multi-Year Investment plan becoming statutory, legal and binding on ULBs including the BBMP. The Constitution's 74th amendment mandates cities to create a Metropolitan Planning Committee - a statutory body that is responsible for planning function in a transparent and consultative manner. The SFC should mandate the implementation of MPC and ULBs should be bound to execute such plans. Citizen engagement should be mandatorily given greater prominence in planning new infrastructure and service delivery level assessments.
3. Ensuring Transparency in all Contracts by ULBs and Disclosure of Contract Terms and Conditions including mandatory disclosure of use of public assets through maintenance of an Assets Register.
4. The SFC should enable an environment of devolution that generates healthy competition between each ward, zone, ULB making them constantly strive towards continual improvement.



5. ULBs must put in place a mechanism to digitise and make available all data (including historical and legacy data), information, and plans on their programs and projects such as water supply and sewerage etc such that citizens are aware of these and can assess improvements.
6. Stipulating ULBs to adopt the National Municipal Accounting Manual or the Karnataka Municipal Accounting and Budget Rules and developing online Municipal Finance Information Systems.
7. A third party verification ie.an audit by the Comptroller & Auditor General, provisioned under Section 14(2) of the C&AG Act, 1971 must be mandated and the Government of Karnataka made responsible to execute such Audit periodically.

I request the Commission to give due consideration to the aspects mentioned above. As a Member of Parliament representing Bengaluru, I would urge the Commission to recognise it owes to citizens ensuring that State Government funding and/or devolution of funds to ULBs are conditional upon the ULBs, administrative machinery and the government addressing the issue of accountability.

I look forward to adequate safeguards incorporated in your recommendations to the Government of Karnataka such that ULBs are compelled to use public funds received as grants in the most judicious manner while maintaining accountability of the highest order.

Finally, I urge you to meet all Members of Parliament from Bangalore and consult them before finalising and submitting your recommendations to the Government of Karnataka.

Yours Sincerely,

RAJEEV CHANDRASEKHAR

Shri CG Chinnaswamy
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Annexure 1: Example of Financial Irregularities by ULB's – BBMP's case in point

- 1.1 Fake Bills Scam during 2007 to 2010: Contractors, officials from BBMP, BWSSB and BDA took up works across city that involved all three agencies and made claims from all agencies for the same bill. In many cases were not even carried out. This scam was exposed in Malleshwaram, Gandhinagar and Rajarajeshwarinagar assembly constituencies. The investigation was handed over to BMTF, but the BMTF office that handled the related files caught fire. Right now the CID is handling the case. There have been calls for CBI investigation to be done in the matter.
- 1.2 Storm water Drain Scam during 2007 to 2011: SWDs leading to the Koramangala-Challaghatta, Vrushabhavathi and Hebbal Valley received JNNURM funds for remodelling and revival. The money was diverted for works such as renovating the office of the Chief Engineer - SWD.
- 1.3 Garbage Bills Scam during 2007 to 2015: Bills were made for work that was not carried out. Bogus vehicle registration numbers were used, some even belonged to two-wheelers.
- 1.4 TDR Scam in 2014: Owners of properties of roads not demarcated for widening, old roads and properties outside BBMP limits have been issued TDR certificates. Officials in the ring included Joint Commissioners, Executive Engineers, Contractors and Surveyors. 19 officials have been charged with forgery, cheating and tampering with records.
- 1.5 Advertisement Scam in 2015: Officials were bribed to overlook revenue generating 20,000 hoardings across the city. The civic body has decided not to probe the matter and the Assistant Commissioner who brought out the discrepancies earned himself another transfer.
- 1.6 Khata Scam in 2015: 14.1 acres of government land meant for public amenities in Hosakere Halli area was auctioned for Rs 18 Crore. The land was then converted into non-agriculture, has been issued a khatha and building plans for a 48-storey skyscraper have been sanctioned. The loss to the exchequer was estimated at about Rs 500 Crore.
- 1.7 Financial Irregularities Pointed by Comptroller and Auditor General of India (CAG) in 2014- and 2015 to the Karnataka State Legislature stated that BBMP had submitted the Annual Accounts for the years 2008-13 to the SAD for scrutiny, which are yet to be certified (February 2015). In the same report, it observed that BBMP had diverted Rs. 44.20 Crore received under the Thirteen Finance Commission (TFC) grant towards work not covered under the TFC grants. This was illegal and done through irregularly transferring the funds from TFC grants to the general fund bank account of BBMP.

Annexure 2: Actual Receipts of Allocations by BBMP from Financial Year 2011-12 to 2014-15

Details of Government (GoK and Gol) Grants Received from FY 2011 /12 to 2014/15

Government of Karnataka Grants

SI NO	Grant Name	FY 2011 - 12		FY 2012 - 13		FY 2013 - 14		FY 2014 - 15	
		Allocation	Actual Receipts	Allocation	Actual Receipts	Allocation	Actual Receipts	Allocation	Actual Receipts
1	SFC Grants	428.38	401.76	462.87	387.10	492.33	369.59	526.00	529.26
2	SFC Grants (Tied)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3	SFC Grants (Untied)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	Family Welfare Programme	1.22	0.00	3.00	0.00	1.20	0.00	0.00	0.00
5	High & Primary Schools	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6	Census	0.00	0.00	6.50	0.00	0.00	0.00	0.00	0.00
7	Special Grants to BBMP	0.00	0.00	751.00	610.21	0.00	0.00	0.00	0.00
8	Nagarothana	0.00	0.00	0.00	0.00	900.00	461.00	1,000.00	611.00
9	110 Villages	0.00	0.00	0.00	0.00	0.00	0.00	250.00	250.00
10	SWM	0.00	0.00	0.00	0.00	0.00	0.00	500.00	0.00
11	Electrical	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	Lakes	0.00	0.00	0.00	0.00	0.00	0.00	40.00	40.00
Total		429.61	401.76	1,223.37	997.31	1,393.53	830.59	2,316.00	1,430.26

Government of India Grants

SI NO	Grant Name	FY 2011 - 12		FY 2012 - 13		FY 2013 - 14		FY 2014 - 15	
		Allocation	Actual Receipts	Allocation	Actual Receipts	Allocation	Actual Receipts	Allocation	Actual Receipts
1	13th Finance	173.95	101.75	484.00	114.64	196.56	64.85	100.00	115.48
2	14th Finance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3	SWD (JnNURM)	0.00	0.00	0.00	0.00	0.00	0.00	250.00	55.50
Total		173.95	101.75	484.00	114.64	196.56	64.85	350.00	170.98

Summary - Allocation / Actual Receipts from GoK & Gol

SI NO	Grants	Allocation	Actual Receipts
1	Government of Karnataka	5,362.51	3,659.92
2	Government of India	1,204.51	452.22