

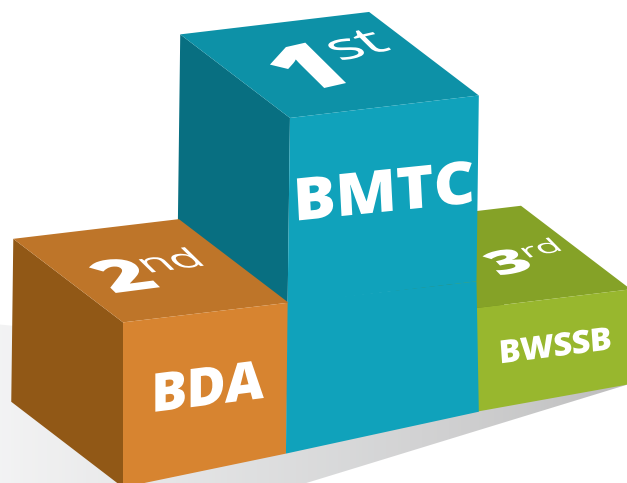
# MEASURING THE QUALITY OF FINANCIAL MANAGEMENT AT BMTC, BWSSB AND BDA

## Key Takeaway

Bengaluru's civic agencies are not financially well-governed and this is impacting their ability to raise adequate funds and use such funds efficiently to meet their service obligations. Our analysis reveals that on a scale of 0 to 15, BMTC, BWSSB and BDA score in a range of 4-6, all less than 50%.

While the BBMP's financial management has been in focus over the last several years, other civic agencies have escaped attention and appear to be as bad or worse in certain parameters. In fact, in certain areas the BBMP has improved significantly during the last year.

The State Government needs to urgently usher in financial management reforms in other civic agencies to meet the twin objectives of financial sustainability and financial accountability.



## Summary of Scores and Ranks

| Sl. No.                           | Particulars  | BMTC     | BWSSB      | BDA       |
|-----------------------------------|--|----------|------------|-----------|
| A                                 | Is there budgetary discipline in the annual budgeting process of the civic agency?                               | 1        | 2          | 1         |
| B                                 | How effective is the audit of annual accounts of the civic agency?   | 2        | 1          | 1         |
| C                                 | Does the civic agency have a robust internal audit function and adequate internal controls?                      | 2        | 1          | 1         |
| D                                 | Is the financial performance of the civic agency satisfactory?   | 0        | 0          | 2         |
| E                                 | Is there transparency, accountability and citizen participation in the financial management of the civic agency? | 1        | 0          | 0         |
| <b>Score obtained (out of 15)</b> |  | <b>6</b> | <b>4</b>   | <b>5</b>  |
| <b>Rank</b>                       |  | <b>I</b> | <b>III</b> | <b>II</b> |

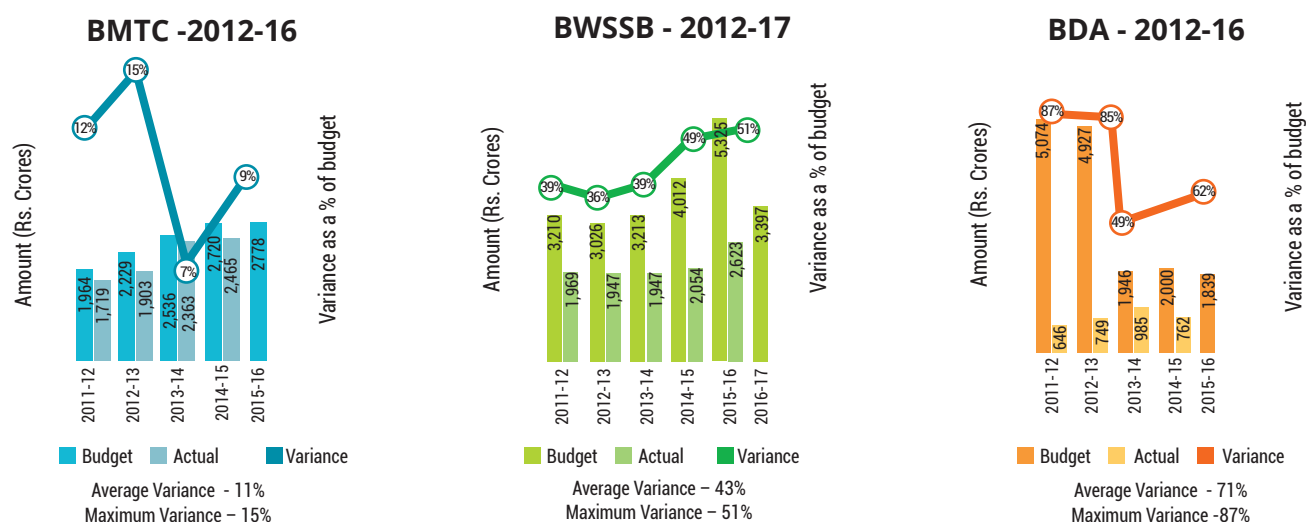
Note : Detailed scorecard on page 4

## Key Recommendations

1. Mandate a 5 year Medium term Fiscal Plan for ALL civic agencies, as the basis for annual budgets and operating plans
2. Penalise delays in budget presentation, disincentivise variances in budget vs actuals > 15%
3. Empanel independent Chartered Accountants to audit annual accounts in all civic agencies, and independent Chartered Accountants as internal auditors; both within pre-defined timelines
4. Publish key financial and operational performance indicators every quarter
5. Mandate with consequences disclosure of budgets, audited annual accounts, extensive details of civic works and capital expenditure on agency websites, and wide dissemination of the same;
6. Legally provide for systematic citizen participation in both annual budgeting and intra-year resource allocation, for neighbourhood-level projects

**We believe a robust Fiscal Responsibility and Budget Management legislation covering all civic agencies of Bengaluru can best address the above crucial reforms, and deliver high quality financial governance to the city**

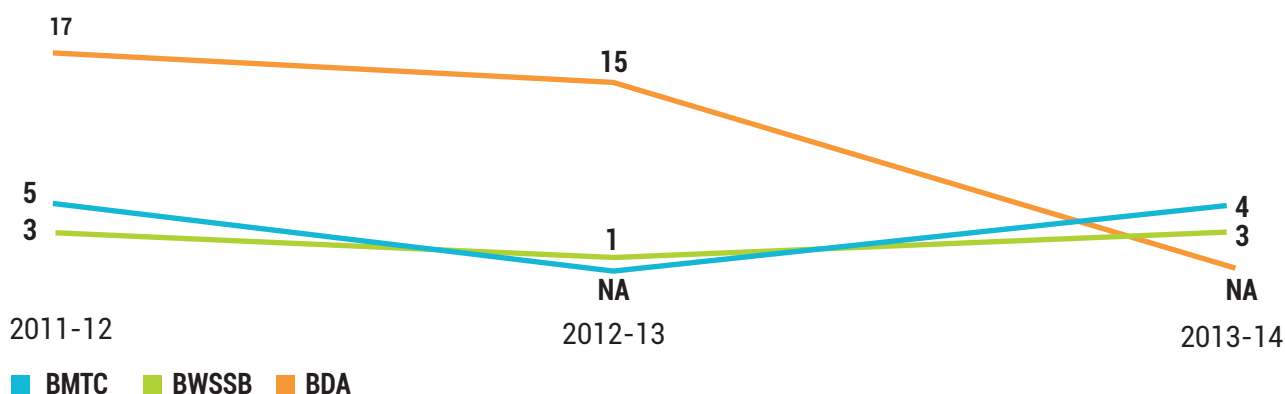
**BWSSB and BDA have presented unrealistic budgets over successive years. During 2012-2016, BWSSB's budgets have recorded variances of 36%-51% and BDA's budgets a whopping 49%-87%**



Source: Respective budget books of the civic agencies, BMTC refused to provide the budget book for 2016-17 (Based on our discussion with CAO); BDA - Budget books are yet to be printed for 2016-17 (Based on our enquiry with FA)

BMTC - 2014-15 is Revised Estimate from the budget book; BWSSB - 2015-16 is Revised Estimate from the budget book; BDA - 2014-15 is Revised Estimate from the budget book

**There are several adverse audit observations in the audit reports of civic agencies; BWSSB has not completed the audit of annual accounts for 2014-15; BDA has not completed its audit of annual accounts for 2013-14 and 2014-15**



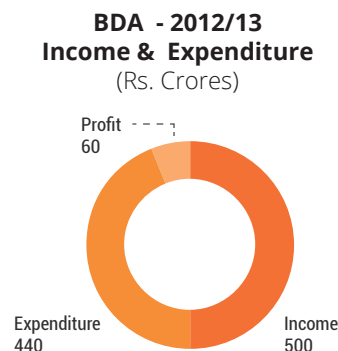
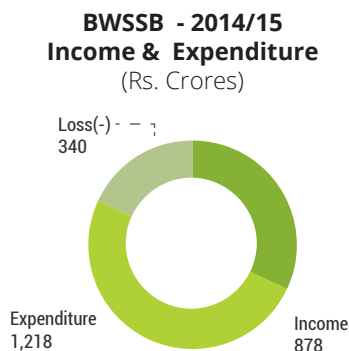
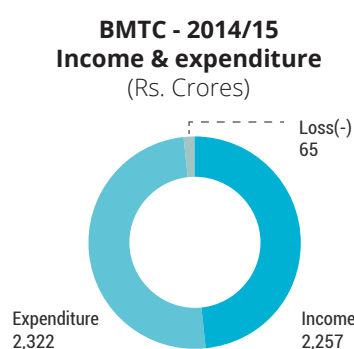
Source: Respective audited annual reports. BMTC - 2012-13 audit report is not available with us, the website has only the audited financial statements and not the audit report. We could not get a copy of the audit report of 2012-13. BWSSB - data has been taken from the audited annual accounts. BDA - 2013-14 audit is not completed, hence the audit observations could not be ascertained.

**Transparency in finances and operations emerges as a huge area of concern. None of the agencies are transparent in respect of annual budgets, audited annual accounts, and civic works /capital expenditure; BMTC provides a thin silver lining though**

| Agency  | BMTC          |                         |                          |   | BWSSB         |                         |                          |  | BDA           |                         |                          |   |
|---------|---------------|-------------------------|--------------------------|---|---------------|-------------------------|--------------------------|--|---------------|-------------------------|--------------------------|---|
|         | Annual budget | Audited annual accounts | Transparency             |   | Annual budget | Audited annual accounts | Transparency             |  | Annual budget | Audited annual accounts | Transparency             |   |
| FY      |               |                         | Key Financial Indicators | Details of civic works/ capital expenditure |               |                         | Key financial indicators | Details of civic works/capital expenditure |               |                         | Key Financial indicators | Details of civic works/ capital expenditure |
| 2010-11 | ×             | ×                       | ✓                        | ×   | ×             | ×                       | ×                        | ×  | ✓             | ✓                       | ×                        | ×   |
| 2011-12 | ×             | ×                       | ✓                        | ×   | ×             | ×                       | ×                        | ×  | ✓             | ×                       | ×                        | ×   |
| 2012-13 | ×             | ✓                       | ✓                        | ×   | ×             | ×                       | ×                        | ×  | ✓             | ×                       | ×                        | ×   |
| 2013-14 | ×             | ×                       | ✓                        | ×   | ×             | ×                       | ✓                        | ×  | ×             | ×                       | ×                        | ×   |
| 2014-15 | ×             | ×                       | ✓                        | ×   | ×             | ×                       | ✓                        | ×  | ✓             | ×                       | ×                        | ×   |
| 2015-16 | ×             | NA                      | ✓                        | ×   | ×             | NA                      | ×                        | ×  | ×             | NA                      | ×                        | ×   |
| 2016-17 | ×             | NA                      | ✓                        | ×   | ×             | NA                      | ×                        | ×  | ×             | NA                      | ×                        | ×   |

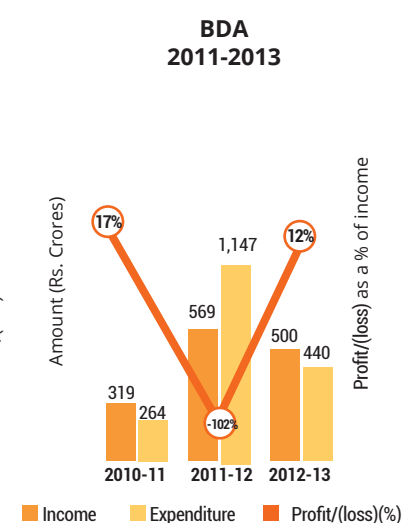
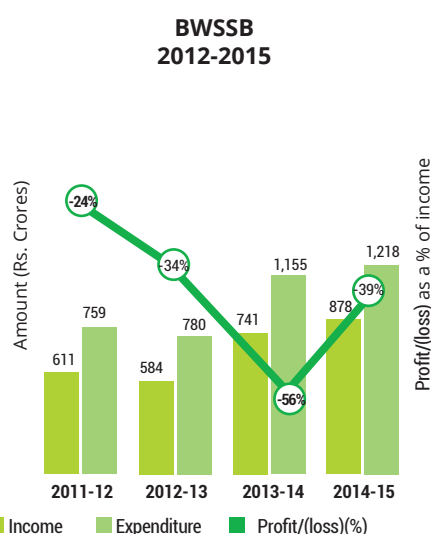
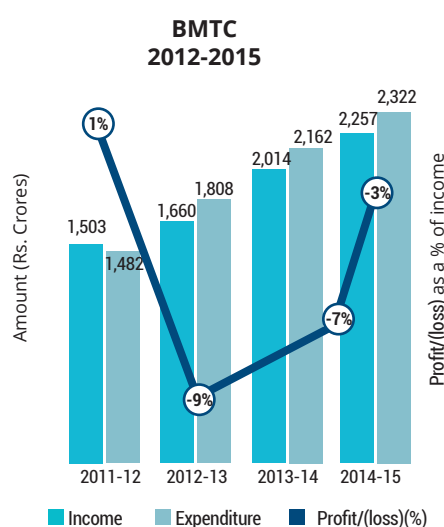
Source: Respective Websites. BWSSB - the website has details of Income & expenditure account for 2013-14 & 2014-15, considered as Key financial indicator for above purpose

**BMTC and BWSSB recorded losses in 2014-15, with the BWSSB's loss exceeding Rs 340 Cr on an income base of Rs 878 Cr. Given the scale of water supply and sewerage challenges in Bengaluru, BWSSB's financial performance is worrisome**



Source: BMTC & BWSSB figures have been taken from the respective websites and BDA from the Audited annual accounts

## Financial sustainability of civic agencies needs to be reviewed regularly



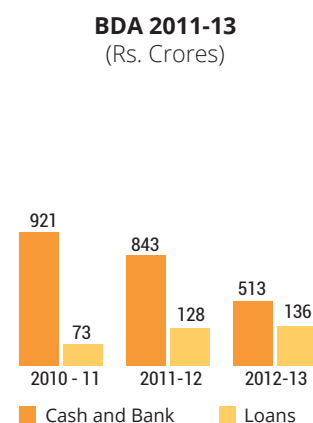
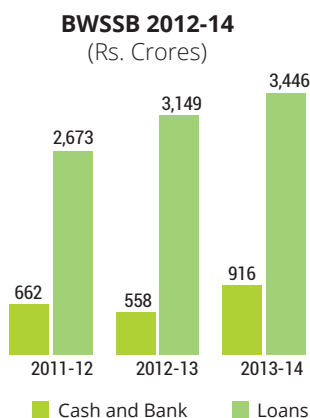
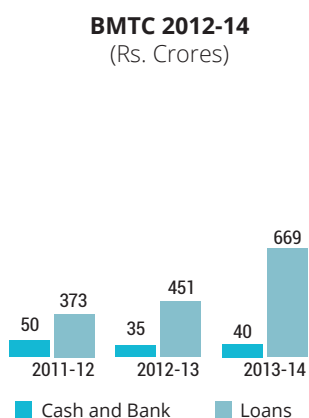
Source: Audited annual accounts of the respective agencies, BMTC & BWSSB – 2014-15 total income and expenditure has been taken from their respective websites

BWSSB: Significant interest costs of Rs. 308 Cr, in 2014- 15; Rs.300 Cr in 2013-14; outstanding loans amount to Rs.3,446 Cr as on 31st March 2014  
Income has grown by 10 % during 2012-2014 whereas costs have grown by 23 % during the same period

BDA: High level of financial indiscipline with respect to accounting as evidenced by 15 adverse audit observations amounting to Rs 6 Cr.

## Poor Cash Management and Debt Management may well be a drain on the taxpayer.

**BWSSB's huge outstanding loan balance is resulting in interest outgo of over Rs 300 Cr per annum, whereas BDA has a significant cash surplus**



Source: Audited annual accounts of the respective agencies

The KSRTC Rules, 1961 governing BMTC mandates a monthly operational review report, but neither BWSSB nor BDA are mandated to produce the same by their respective Acts.

## Detailed Scorecard

| Sl. No.  | Particulars  | BMTC      | BWSSB     | BDA       |
|----------|--|-----------|-----------|-----------|
| <b>A</b> | <b>Is there budgetary discipline in the annual budgeting process of the civic agency?</b>  | <b>1</b>  | <b>2</b>  | <b>1</b>  |
| 1        | Is the annual budget presented on time? *  | NA        | 1         | 0         |
| 2        | Does the annual budget get approved by the relevant authority on time? *   | NA        | 1         | 1         |
| 3        | Are the budget estimates realistic?  | 1         | 0         | 0         |
| <b>B</b> | <b>How effective is the audit of annual accounts of the civic agency?</b>  | <b>2</b>  | <b>1</b>  | <b>1</b>  |
| 4        | Are the audited annual accounts comprehensive? **  | 1         | 1         | 1         |
| 5        | Are the audited annual accounts free from adverse observations?  | 0         | 0         | 0         |
| 6        | Has the agency completed the audit of annual accounts for 2014-15?***  | 1         | 0         | 0         |
| <b>C</b> | <b>Does the civic agency have a robust internal audit function and adequate internal controls?</b>   | <b>2</b>  | <b>1</b>  | <b>1</b>  |
| 7        | Does the agency have an internal audit in place?   | 1         | 1         | 1         |
| 8        | Is the internal control adequate?  | 1         | 0         | 0         |
| <b>D</b> | <b>Is the financial performance of the civic agency satisfactory?</b>  | <b>0</b>  | <b>0</b>  | <b>2</b>  |
| 9        | Does the agency generate sufficient surplus to pay its annual interest cost?   | 0         | 0         | 1         |
| 10       | Are own resources sufficient to fund capital expenditure?  | 0         | 0         | 1         |
| <b>E</b> | <b>Is there transparency, accountability and citizen participation in the financial management of the civic agency?</b>  | <b>1</b>  | <b>0</b>  | <b>0</b>  |
| 11       | Are the annual budgets disclosed on the website?   | 0         | 0         | 0         |
| 12       | Do the agencies publish their annual audited accounts and internal audit reports on the website?   | 0         | 0         | 0         |
| 13       | Does the agency have a participatory budgeting process in place?   | 0         | 0         | 0         |
| 14       | Are the key performance indicators available on the website?   | 1         | 0         | 0         |
| 15       | Does the agency publish the information about the capital expenditure (incurred/estimated with the details of contractors, addresses, and timelines & stage of completion) on the website? | 0         | 0         | 0         |
|          | <b>Score</b>   | <b>6</b>  | <b>4</b>  | <b>5</b>  |
|          | <b>Total Score</b>   | <b>15</b> | <b>15</b> | <b>15</b> |

\* This data is based on our telephonic enquiry with the FA/CAO of the respective agencies. BMTC refused to give the information on date of budget presentation and its approval for 2014-15(This is based on our discussion with CAO on 16th June 2016)

\*\* Comprehensive audited annual accounts includes Auditors Report, Balance Sheet, Income & Expenditure a/c , Schedules, Significant Accounting Policies and Notes to Accounts

\*\*\* Based on our conversation with the CAO, BMTC has completed the audit of financial statements of 2014-15, but a copy of the same was not shared with us

NA If BMTC had adhered to timelines under the two unanswered questions of budgetary discipline, it would have scored 8 on 15. However, on account of lack of details provided by BMTC we have not been able to rate them on these questions.

Janaagraha Centre for Citizenship and Democracy (Janaagraha) is a Bengaluru based not-for-profit with the mission of transforming quality of life in India's cities and towns. It defines quality of life as comprising of quality of infrastructure and services and quality of citizenship. Janaagraha, along with its sister organisation - Jana Urban Space Foundation, operates 12 programs which are based on a robust City-Systems framework. To achieve its mission, Janaagraha works with both citizens and governments in advocating policy, creating platforms for citizen engagement and forging partnerships to attain scale.