

PART-B

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 (ULBs) in the State

3.1 Introduction

The Seventy-fourth Constitutional Amendment enacted in 1992 envisaged for creation of local self-governments for the urban area population wherein municipalities were provided with the constitutional status for governance. The amendment empowered Urban Local Bodies (ULBs) to deliver services for economic development and social justice with respect to 18 functions listed in the Twelfth Schedule of the Constitution. The State Government enacted Jharkhand Municipal Act (JM Act), 2011 in February 2012 and incorporated all 18 functions to empower ULBs to provide those services in the State. Jharkhand Municipal Accounts Manual (JMAM), was also approved by the State Government in October, 2012 on the basis of National Municipal Accounts Manual which prescribed the procedure of accounting in ULBs.

As per Census 2011, the urban population of Jharkhand was 79 lakh which constituted 24 *per cent* of the total population (3.30 crore, approximately) of the State. The comparative demographic and developmental picture of the State is given in **Table-3.1**.

Table-3.1: Important statistics of the State

Particulars	State	Urban
Population size	32988134	7933061
Population size (Male)	16930315	4153829
Population (Female)	16057819	3779232
Sex Ratio	949	910
Literacy Rate (7+ years) (<i>per cent</i>)	66.4	82.3
Literacy Rate (Female) (7+ years) (<i>per cent</i>)	55.4	75.5

(Source: Census 2011)

In Jharkhand, there are 44 ULBs *viz.* six Municipal Corporations (M. Corps), 19 Municipal Councils (MCs), 16 *Nagar Panchayats* (NPs), one *Nagarpalika* and two Notified Area Committees (NACs).

3.2 Organisational setup of ULBs

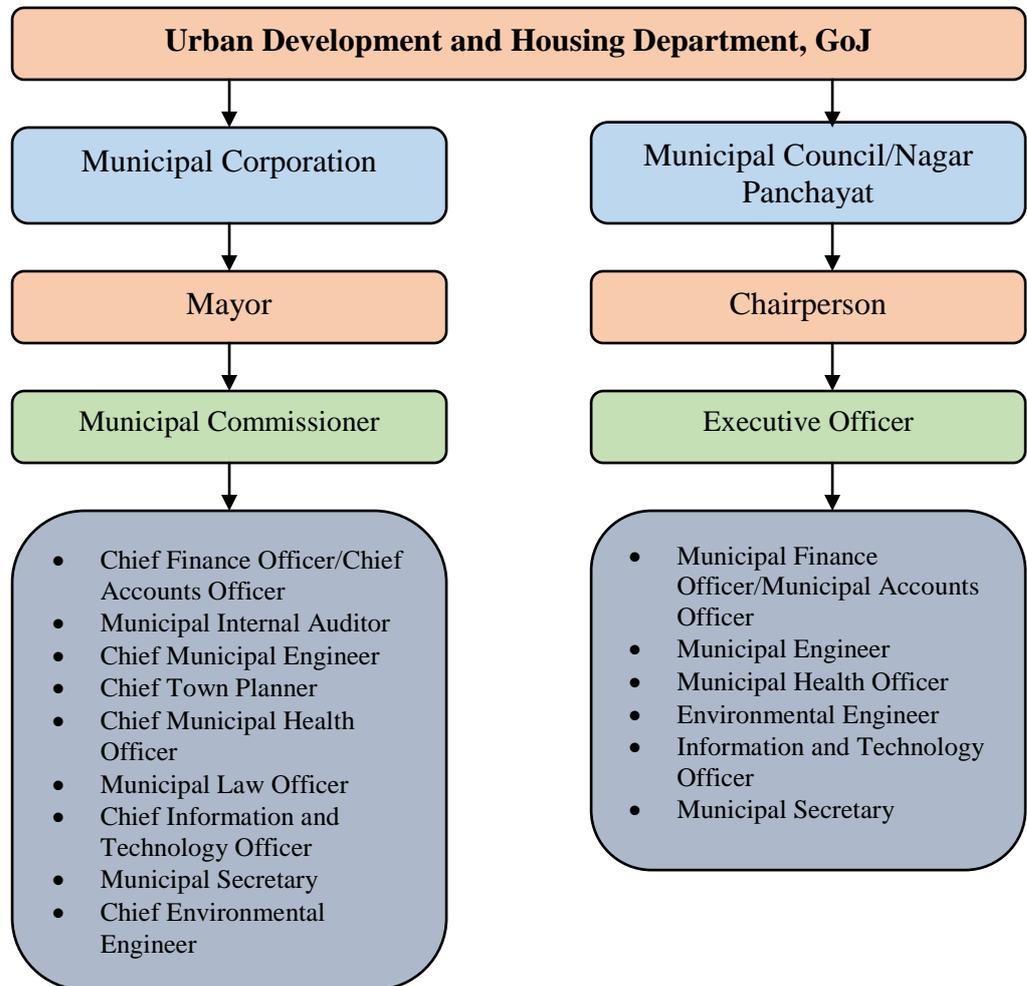
3.2.1 Organisational Structure

The ULBs are under the administrative control of Urban Development and Housing Department (UD&HD), Government of Jharkhand (GoJ). The Municipal Commissioner/Executive Officer (EO) of the M. Corp/MC/NP are appointed by the State Government and has executive powers for the purposes

of carrying out the administration of ULB, subject to the provisions of the JM Act, 2011 and of any rules made thereunder.

The Mayor/Chairperson elected by the people presides over the meeting of the Council. The members of committees/sub-committees of ULBs are elected from the elected Councilors. The organisational structure of ULBs is depicted in **Chart-3.1:**

Chart-3.1: Organisational Structure



(Source: JM Act, 2011)

3.2.2 Classification of ULBs

The State Government may after having regard to population of any local area, density of population, the percentage of employment in other than agriculture activities in such area, the economic importance of such area, etc., by notification declare any area¹ to be a larger urban area, or a smaller urban area, or a transitional area. The category-wise ULBs in the State as of December 2016 are shown in **Table-3.2:**

¹ Provided that local area having acquired urban characteristics and importance such as availability of market facilities, established industries or potentialities to attract industries or commerce or education, health care or other such infrastructures for economic and industrial growth may also be considered.

Table-3.2: Classification of ULBs

Category	Nomenclature		Population	Number
Larger Urban Area	Municipal Corporation (M. Corp.)		One lakh and fifty thousand and above	6
Smaller Urban Area	MC	Class 'A'	One lakh and above and less than one lakh and fifty thousand	19
		Class 'B'	Forty thousand and above and less than one lakh	
	Nagarpalika	Class 'B'	Forty thousand and above and less than one lakh	1
Transitional Area	Nagar Panchayat		Twelve thousand and above and less than forty thousand	16
	Notified Area Committee		Twelve thousand and above and less than forty thousand	2
Total				44

(Source: Information furnished by the UD&HD)

3.3 Functioning of ULBs

3.3.1 Power of State Government

The Act governing ULBs entrusts the State Government with powers so as to enable them to monitor proper functioning of the ULBs. Details of powers of the State Government are given in **Table-3.3**.

Table – 3.3: Powers of the State Government

Act/Rule/ Authority	Power exercised by Government
Section 91 of JM Act, 2011	Power to call for records The State Government may, at any time, require any municipal authority to produce any record, correspondence, plan or other document; to furnish any return, plan, estimate, statement of account or statistics; to furnish or obtain any report
Section 92 of JM Act, 2011	Power to conduct enquiry The State Government may depute any officer to inspect or examine any department, office, service, work or property of the municipality and to report thereon.
Section 94 of JM Act, 2011	Power to revoke or suspend resolution The State Government may cancel a resolution or decision taken by ULBs, if Government is of the opinion that it is not legally passed or in excess of the powers conferred by provisions of the Act.
Section 96 of JM Act, 2011	Power to dissolve Government may dissolve the ULBs, if the ULBs fail to perform or default in performance of any of the duties imposed on them.
Section 590 of JM Act, 2011	Power to frame rules The State Government may make rules to carry out the purposes of this Act.
Section 614 of JM Act, 2011	Removal of difficulties If any difficulty arises in giving effect to the provisions of this Act, the State Government may do or cause to be done anything which may be necessary for removing the difficulty.

3.3.2 Transfer of functions

Twelfth Schedule (Article-243W) of the Constitution of India envisages that the State Government may, by law, endow the ULBs with such powers and authority as may be necessary to enable them to function as institutions of self-government.

All the 18 functions envisaged in the Twelfth Schedule have been inserted in Section 70 of JM Act, 2011, to be performed by the ULBs to enable them to function as institutions of self-government.

However, information furnished by ULBs revealed that only eight to 17 functions were actually being executed by the test checked ULBs (**Appendix-3.1**).

3.3.3 Transfer of funds

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly for specific functions such as water supply, roads, public health, sanitation, street lighting etc., entrusted to ULBs. In addition, grants are released to the ULBs for implementation of State and Centrally Sponsored Schemes.

3.3.3.1 Exclusive use of fund for particular purpose

Ministry of Urban Development (MoUD), GoI, suggested earmarking of funds for basic services to the urban poor within local body budgets as a mandatory reform under JnNURM. Accordingly, State Government made provision in section 105(2) of JM Act, 2011, for creation of a separate fund called Basic Services to the Urban Poor Fund², in every municipality for which a minimum of 25 *per cent* of the funds within the municipality's budget shall be earmarked and credited to the said fund on yearly basis. For this purpose, the municipality shall prepare a separate budget known as P-budget³ along with the municipal budget, every year depicting the details of income and expenditure of fund.

However, as of 31 March 2016 only five out of 20 test checked ULBs have created Urban Poor Fund and one (Chas Municipal Corporation) of the test checked ULB have prepared a separate budget (**Appendix 3.2**). This defeated the reform measures and intent of upliftment of urban poor as envisaged in the Act.

3.3.4 Transfer of functionaries

An efficient discharge of devolved powers and functions by local bodies requires availability of qualified and trained personnel at all levels which would include employment of staff with regard to the functions already being executed by the ULBs.

² Municipality's own sources of revenue *e.g.* taxes, fees, user charges and rent etc. sale of municipal asset, assigned revenues, allocation from Central and SFC, etc.,

³ The municipality shall prepare a separate budget along with the municipal budget, every year, which shall furnish the details of income and expenditure under fund created for the Basic Services to Urban Poor for the purposes of delivery of basic services of the urban poor, including the inhabitants of slum areas.

Audit observed in 20 test-checked ULBs that 70 *per cent* of sanctioned posts (2212) were vacant (1548) as of 31 March 2016 as detailed in **Appendix-3.3**.

Thus, ULBs had been facing acute shortage of staff resulting in failure in maintenance of basic records, short collection of revenues etc. thereby affecting the compliance to Acts/Provisions/Orders.

In the light of recommendations of the first State Finance Commission (SFC), the State Government passed a resolution in May 2010 for restructuring the staffing pattern in ULBs and accordingly created the posts. However, even after lapse of more than six years of passing the resolution, no information regarding concrete action such as process for recruitment of municipal staff etc. was furnished by the State Government (November 2016).

3.4 Formation of various committees

The JM Act, 2011 empowers authorities of ULBs to exercise powers and functions for delivery of services. The authorities and their functions are as follows:

Standing Committee

Standing Committee shall consist of (a) in the case of M. Corp, the Mayor, the Deputy Mayor and the Chairpersons of Zonal Committees (b) in the case of MC, the Chairperson, the Vice-Chairperson and five elected Councillors to be elected by the Council (c) in the case of NP, the Chairperson; the Vice-Chairperson, and three elected Councillors to be elected by the Council.

The functions of the committee are:

- It may recommend for increase, decrease, transfer and make an additional budget grant under any head during the year.
- It shall consider report of auditor along with test audit report of the CAG of India, and take action thereon, and shall also surcharge the amount of any illegal payment on the person making or authorising it, and charges against any person responsible for the amount of any deficiency or loss incurred by the negligence or misconduct of such person or any amount which ought to have been, but is not, brought into account by such person, and shall, in every such case, certify the amount due from such person.
- It may reduce the amount of holding tax on the recommendation of the Municipal Commissioner or EO.
- The Municipal Commissioner or the EO may impose a consolidated tax, at such rate as it deems fit, assessed on the annual value of holdings situated within the municipality with the previous approval of the standing committee.
- The standing committee may approve framing of regulations for markets and slaughterhouses by the Municipal Commissioner or EO.
- The standing committee shall examine the report on services provided at subsidised rate to be appended by the Municipal Commissioner or the EO with the budget estimate.

Mayor/Chairperson

- Presiding officer of the Standing Committee.

- Present the budget estimate to the Standing Committee before the fifteenth day of February in each year.

Municipal Commissioner/EO

- Implement the resolutions of the council and carrying out the functions and the administration of ULBs.

In addition to Standing Committee, ULBs may constitute other committees (**Appendix-3.4**) for discharging of functions as per provisions of the Act.

3.5 Audit arrangement

3.5.1 Primary Auditor

The Comptroller and Auditor General of India (CAG) has the right to conduct such test check of the accounts and to comment on and supplement the report of the Statutory Auditor, as he may deem fit under sub-section (1) of section 20 of the CAG's (Duties, Powers and Conditions of Service) Act 1971. Accordingly, the Office of the Accountant General (Audit) (AG) is conducting audit of ULBs under Technical Guidance and Supervision (TGS) module as notified (October 2011) by the State Government after amendment of Bihar and Orissa Local Fund Audit Act⁴, 1925 in March 2012. Further as per para 10.121 of the recommendations of Thirteenth Finance Commission, Audit Report prepared by Director of Local Fund Audit (DLFA) and the CAG shall be placed before the State Legislature. The State Government had appointed DLFA as a primary auditor of accounts of ULBs in November 2014.

3.5.2 Audit by Comptroller and Auditor General of India

During 2015-16, four M. Corps, 12 MCs, four NPs and one NAC were audited. Annual Technical Inspection Report (ATIR) for the year 2012-13, 2013-14 and Audit Report (Report of the CAG) on Local Bodies for the year 2014-15 have been placed before State Legislature but the State Government has not formed (August 2016) any committee in the line with the Public Accounts Committee or otherwise for discussion of the ATIRs and Audit Report.

3.5.3 Technical Guidance and Supervision

Under Regulation 152 of Regulations on Audit and Accounts, 2007 read with State Government Notification dated March 2012, CAG may provide suitable TGS to primary auditor of ULBs viz., the DLFA for the purpose of strengthening Public Finance Management and Accountability in Urban Local Bodies. The parameters of such TGS as given in Regulation 152 are following:

- The Local Fund Auditor shall prepare an annual audit plan for the next financial year by the end of March every year;
- The audit methodology and procedure for the audit of ULBs by the DLFA shall be as per various Acts and Statutes enacted by the State Government and guidelines prescribed by the CAG of India;

⁴ Prior to TGS, Local Bodies were audited under the Act.

- Copies of Inspection Reports (IRs) shall also be forwarded by DLFA to the AG (Audit) for advice on system improvement;
- DLFA shall furnish returns in such format as may be prescribed by the CAG for advice and monitoring;
- AG (Audit) would conduct test check of some units in order to provide technical guidance and report of the test check would be sent to the DLFA for pursuance of action;
- Irrespective of the money value, any serious irregularities shall be intimated to the AG (Audit);
- DLFA shall develop a system of internal control in its organisation in consultation with the AG (Audit);
- AG (Audit) shall also undertake training and capacity building of the Local Fund Audit staff.

The State Government created 22 posts⁵ (March 2013) and appointed DLFA (November 2014) for constitution of the office of the DLFA to perform the duties of the primary Auditor as envisaged under the TGS arrangement. Against these posts, three Deputy Comptroller of Accounts and 14 Auditors have been appointed (August 2016). DLFA informed (September 2016) conducting audit of the accounts of 35 ULB units by eight audit parties. However, IR on the accounts of Local Bodies, format prescribed for IR, method of preparation of audit plan and other requisite information though asked for (November 2016 and January 2017) in pursuit of the task of providing TGS was not responded to by DLFA as of February 2017.

3.6 Response to Audit observations

3.6.1 Status of Inspection Reports (IRs)

The AG (Audit), Jharkhand conducts periodical inspection of ULB units by test-check of transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed by issue of IRs. When important irregularities, etc., detected during inspection are not settled during audit period, these are included in IRs and issued to the head of the office inspected and a copy of the same is sent to the next higher authorities.

For early settlement of audit observations, Administrative Departments were required to take effective steps to adequately address issues and irregularities brought to their notice during the course of audit and/or pointed out through IRs. Details of outstanding paragraphs for the period 2011-16 against ULBs of the state as of March 2016 are shown in **Table 3.4**.

⁵ Director-1, Joint director (ULB)-1, Joint director(PRI)-1, Section officer-2, Private secretary-1, Assistant-4, Personal assistant-2, Computer operator-3, Upper division clerk-1, Lower division clerk-1, Driver-3, Peon-2

Table - 3.4: Statement showing outstanding paragraphs

			(₹ in crore)
Year	IRs	No of Paragraphs	Money Value
2011-12	25	156	40.47
2012-13	40	91	5.52
2013-14	34	480	378.59
2014-15	13	210	338.63
2015-16	26	200	608.28
Total	138	1137	1371.49

Lack of response to audit observations on the part of ULBs resulted in recurrence of the deficiencies/lapses pointed out earlier.

3.6.2 Impact of Audit

Recoveries of ₹ 7.61 lakh were made from person(s) concerned in three ULBs⁶ in course of audit conducted during 2015-16.

Accountability Mechanism and Financial Reporting issues

Accountability mechanism

3.7 Ombudsman

As per Section 63 of JM Act, 2011 the State Government may appoint one or more persons to be known as Municipal Ombudsman to carry out the functions⁷ or State Government if considers it necessary, may recommend such deeds to State Ombudsman. In lieu of appointment of Local Body Ombudsman, UDD issued notifications in January 2014 that powers and functions of Local Body Ombudsman shall be vested in State *Lokayukta*.

3.8 Social Audit

Social Audit setup has not been constituted for programmes/schemes implemented by the State Government under the ULBs.

3.9 Property Tax Board

The 13 FC recommended setting up of a State Level Property Tax Board to assist the ULBs to put in place an independent and transparent procedure for assessing property tax. The commission also recommended that the board shall enumerate, or cause to enumerate, all properties in the ULBs in the State and develop a data base, review the property tax system and suggest suitable basis for valuation of properties, design and formulate transparent procedure for valuation of properties, inspection for verification in ULBs in the State.

Though constitution of Jharkhand Property Tax Board and Appeal Rules, 2013 was notified (May 2014) by the UD & HD, GoJ, the Board was not constituted as of November 2016 for which no reasons were on record.

⁶ Adityapur (₹ 6.31 lakh), Medininagar (₹ 0.05 lakh), Mihijam (₹ 1.25 lakh),

⁷ Receive complaints from any person relating to the provisions of municipal services, consider the complaints and facilitate their settlement or satisfactory by agreement through conciliation and mediation between the municipality and the aggrieved person by passing an award in this behalf and look into complaints of corruption of officials and Mayor, Deputy Mayor, Chairperson or Sub-Chairperson and councillors.

3.10 Service Level Benchmark

Thirteenth Finance Commission (13 FC) stipulated that State Government must notify or cause the ULB to notify the service standards of four core sectors such as water supply, sewerage, storm water drainage and solid waste management to be achieved by them by the end of fiscal year. The State Government notified the Service Level Benchmark for only three years (2011-12 to 2013-14). Status of notification and implementation of Service Level Benchmark during 2015-16 could not be ascertained as information called (January 2017) from department was awaited (February 2017).

3.11 Fire hazard response

As per guidelines for release and utilisation of the 13 FC grants, all M Corps with population of more than ten lakh (Census 2001) must put in place a fire hazard response and mitigation plan for their respective jurisdictions. Publication of these plans in the respective State Government Gazette will demonstrate compliance with this condition.

The State Government notified (May 2014) Fire Hazard Response and Mitigation Plan for Dhanbad, Jamshedpur and Ranchi which have population of more than 10 lakh.

3.12 Submission of Utilisation Certificates

As per Jharkhand Financial Rules, in case of an annual or a non-recurring conditional grant, the Departmental officer on whose signature or counter-signature Grant-in-aid bill is drawn, shall furnish the Utilisation Certificates (UCs) to the AG within one year from the date of the sanction of the grant.

Information received (February 2017) from AG (Accounts and Entitlements), Jharkhand revealed that against grants valued ₹ 733.93 crore paid during 2011-12 to 2014-15 under Major Head 2215 and 2217⁸, UCs amounting to ₹ 242.38 crore only was received in the office of the AG (Accounts and Entitlements) as of December 2016. Failure in submission of UCs of ₹ 491.55 crore for such a long period indicate weak internal control and possible misutilisation of funds.

3.13 Internal Audit and internal Control System of ULBs

3.13.1 Internal Audit

As per Section 123 of JM Act, 2011 State Government or the Municipal Authorities provide for Internal Audit of day to day accounts of ULBs. None of the 20 test-checked ULBs had system of Internal Audit for keeping a regular check on the functioning of the ULBs.

3.13.2 Internal Control

Internal controls provide reasonable assurance to the management that financial interests and resources of the organisation are safeguard and reliable information is available.

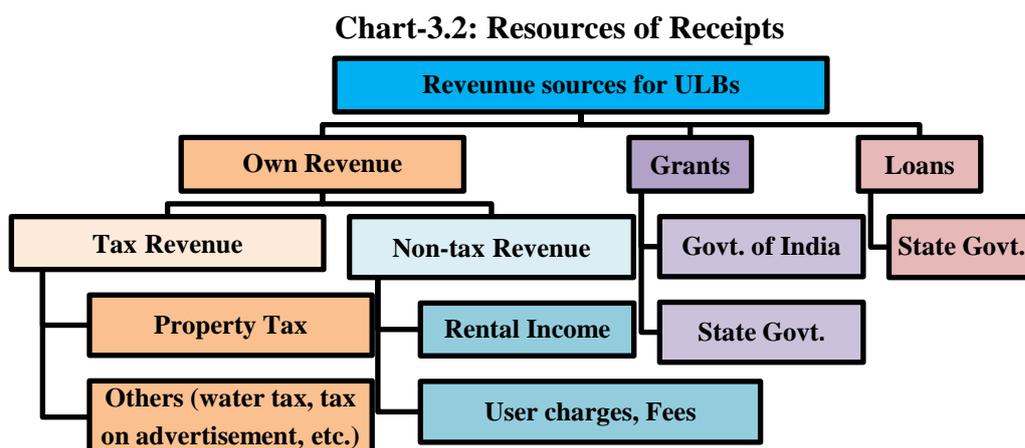
⁸ Minor head 191, 192, 193-Assistance to M. Corp., MC and *Nagar Panchayat*

Audit observed weakness in the internal control mechanism as the executives of ULBs did not follow the rules, acts, orders etc., which resulted in failure in maintenance of important records, register, annual accounts and budget estimates.

3.14 Financial Reporting Issues

3.14.1 Resources of ULBs

The finances of ULBs comprise receipts from own sources, grants and loans from State Government and financial assistance from Government of India (GoI). The property tax on land and buildings is the mainstay of ULBs' revenues. The own non-tax revenue of ULBs comprise fee for sanction of plans/mutations, user charges, etc., Grants and assistance released by the State Government/GoI are utilised for development activities and execution of various schemes. Flow chart of finances of ULBs is shown in **Chart 3.2**:



(Source: JM Act, 2011)

3.14.2 Releases to ULBs

The details of grants (both Central and State Government) released by the State Government to ULBs during the period from 2011-12 to 2015-16 are shown in **Table 3.5**:

Table-3.5: Statement showing release of grants to ULBs

(₹ in crore)

Year	Particulars	Name of schemes	Budget	Grant released
2011-12	Plan	Earmarked Scheme/ CSS/CS	190.98	150.42
		State Plan Scheme/ others	304.96	250.36
	Non-plan	Grant/Loan for Salary, Honorarium, 13FC Grant, etc.	97.31	97.31
		Total	593.25	498.09
2012-13	Plan	Earmarked Scheme/ CSS/CS	497.00	135.59
		State Plan Scheme/ others	501.00	382.57
	Non-plan	Grant/Loan for Salary, Honorarium, 13FC Grant, etc.	135.95	72.12
		Total	1133.95	590.28
2013-14	Plan	Earmarked Scheme/ CSS/CS	668.15	150.73
		State Plan Scheme/ others	420.80	255.05
	Non-plan	Grant/Loan for Salary, Honorarium, 13FC Grant, etc.	182.41	104.15
		Total	1271.36	509.93

Year	Particulars	Name of schemes	Budget	Grant released
2014-15	Plan	Earmarked Scheme/ CSS/CS	668.56	464.13
		State Plan Scheme/ others	370.00	316.42
	Non-plan	Grant/Loan for Salary, Honorarium, 13FC Grant, etc.	757.12	531.15
		Total	1795.68	1311.70
2015-16	Plan	Earmarked Scheme/ CSS/CS	201.90	99.14
		State Plan Scheme/ others	1155.00	1120.08
	Non-Plan	Grant/Loan for Salary, Honorarium, 13FC Grant, etc.	289.28	278.03
		Total	1646.18	1497.25
Grand Total			6440.42	4407.25

(Source: State Budget Estimates)

It could be observed from the table above that percentage of release of grants was 52 per cent and 40 per cent during the fiscal years 2012-13 and 2013-14 respectively. It was increased to 73 per cent and 91 per cent during 2014-15 and 2015-16 respectively.

The reasons for such variance, although called for from the State Government had not been furnished (January 2017).

3.14.3 Receipts and expenditure of test- checked ULBs

The details of receipts and expenditure of the test checked ULBs during the years 2011-12 to 2015-16 are shown in the **Table-3.6**.

Table- 3.6: Statement of receipts and expenditure of test checked ULBs

Year	Opening Balance	Grants		Loan	Own Source	Total	Expenditure		Total	Closing Balance
		Plan	Non-Plan				Non-Plan	Plan		
2011-12	200.37	137.56	7.62	3.60	14.94	364.09	17.25	113.14	130.39	233.70
2012-13	233.70	214.96	17.77	5.61	26.04	498.08	18.03	104.95	122.98	375.10
2013-14	375.10	155.13	28.26	4.75	29.84	593.08	30.97	176.30	207.27	385.81
2014-15	385.81	302.59	28.88	4.65	32.35	754.28	33.28	207.46	240.74	513.54
2015-16	513.54	234.21	38.39	6.14	42.73	835.01	45.73	218.84	264.57	570.44

(Source: Information provided by the test checked ULBs)

Audit noticed that the revenue of ULBs through own sources against total receipts excluding opening balance during 2011-12 to 2015-16 ranged from nine to 14 per cent which indicated that ULBs were dependent mainly on grants and loan from the Central Government and the State Government.

Further, the percentage of expenditure against total funds⁹ available during 2011-2016 ranged between 25 and 36 which reflects sub-optimal utilisation of available funds thereby preventing the fulfillment of the intended objectives towards the citizens.

3.14.4 Short realisation of own revenue

Section 152 of JM Act, 2011 empowers ULBs to levy, assess and collect taxes, user charges, advertisement tax (other than advertisement published in newspaper) etc. While power to collect certain taxes is vested with the ULBs, power pertaining to the rates and revision thereof is vested with the State

⁹ Funds include total receipts and opening balances of the respective years.

Government. The status of collection of own revenue against outstanding dues of taxes/rent in 20 test-checked ULBs¹⁰ is given in **Table 3.7**:

Table– 3.7: Collection of own revenue against outstanding demand

(₹ in lakh)

Year	Property Tax		Tax on Offensive & Dangerous Trade		Shop Rent	
	Target	Collection (percentage of target)	Target	Collection (percentage of target)	Target	Collection (percentage of target)
2011-12	1487.71	615.06 (41.34)	4.67	0.58(12.42)	80.85	44.06(54.49)
2012-13	1983.41	471.01 (23.75)	10.39	2.92(28.10)	124.07	91.79(73.98)
2013-14	2097.90	643.66 (30.68)	10.68	2.12(19.85)	232.94	91.79(39.40)
2014-15	1910.81	627.72 (32.85)	9.27	3.97(42.83)	236.81	89.20(37.67)
2015-16	2645.91	848.46 (32.07)	11.27	3.90(34.60)	305.68	113.44(37.11)

(Source: Information furnished by test checked ULBs)

The above position indicates that:

- The ULBs failed to achieve the recommendation of Tenth five-year plan of Planning Commission that collection efficiency for property tax should reach at least 85 per cent for all ULBs as the percentage of collection of property tax ranged from 24 (2012-13) to 41 (2011-12).
- Poor percentage of collection of tax on offensive and dangerous trade and shop rent ranging from 12 to 43 per cent and 37 to 74 per cent respectively was noticed against the target in the respective years.

The acute shortfall in realisation of taxes reduced the revenues of ULBs. Further due to above mentioned outstanding municipal dues, primary duties of providing sanitation and other facilities entrusted to Local Bodies were hampered badly as discussed in Chapter IV of the report.

3.14.5 Revision of rate of tax on holdings

As per section 106 of Bihar and Orissa Municipal Act, 1922 (which was in force prior to framing of JM Act, 2011) and section 152 (8) of JM Act, 2011 ULBs are required to revise the rate of taxes¹¹ on Annual Rental Value every five years or earlier with prior approval of the State Government. However as on March 2016, none of the test-checked ULBs had revised the rate of taxes for last several years, ranging from 8 to 44 years (**Appendix-3.5**). Failure to revise the rate of tax on holdings in time resulted in loss of revenue to the ULBs.

3.14.6 Recommendation of the State Finance Commission

The 73rd Constitutional amendment provides for appointment of a Finance Commission by the State Government to review the financial position of the *Panchayats* and to make recommendations to the Governor.

Article 243Y stipulates that the Finance Commission constituted under article 243I shall also review the financial position of the Municipalities and make recommendations to the Governor as to-

¹⁰ Adityapur, Chaibasa, Chas, Chatra, Chirkunda, Deoghar, Dumka, Garhwa, Godda, Giridih, Gumla, Jamshedpur, Jhumritilaiya, Jugsalai, Madhupur, Mango NAC, Medininagar, Pakur, Sahibganj, Simdega.

¹¹ Holding tax, water tax, latrine tax etc.,

- (a) The principles which should govern-
- (i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Municipalities at all levels of their respective share of such proceeds;
 - (ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities;
 - (iii) the grants-in-aid to the Municipalities from the Consolidated Fund of the State.
- (b) the measures needed to improve the financial position of the Municipalities.

In pursuance of Article 243I of the constitution, the State Government had constituted three State Finance Commissions (SFC) to assess the financial status and to determine the principles on the basis of which adequate financial resources would be ensured to local bodies. Details are given in **Table- 3.8:**

Table- 3.8: Constitution of State Finance Commissions

State Finance Commission	Date of constitution	Date of submission of report
First SFC	January 2004	April 2009
Second SFC	December 2009	Not submitted
Third SFC	April 2015	In progress

The First SFC recommended for the provision of a “Core Municipal Services Provision Grant¹²” of ₹ 375 per capita in 2009-10 with annual growth rate of 10 per cent for four subsequent years in lieu of taxes not assigned/ shared with ULBs whereas the second SFC (December 2009) had not submitted its report due to want of manpower and finally its tenure ended in January 2014. The tenure of third SFC (April 2015) is in progress and its recommendations are awaited (February 2017).

Information in respect of acceptance/implementation of the recommendations (First SFC) and devolution of funds to ULBs in accordance with the prescribed formula has not been furnished by the State Government. Further, as per the 13FC report, action taken on the recommendations of the SFC is to be laid in the Legislature but information in this regard was awaited (February 2017).

3.14.7 Annual Accounts

Preparation of Annual Accounts contributes towards ensuring accountability in the ULBs. As per section 112 of JM Act, 2011 the Municipal Commissioner or the EO shall prepare and maintain accounts of income and expenditure of the MC on Accrual Based Double Entry Accounting System.

The UD&HD does not maintain consolidated information about finalisation of Annual Accounts of ULBs. Hence, status of preparation of Annual Accounts by all the ULBs in the State could not be commented upon. However, in 20 test-checked ULBs it was observed that only eight (Adityapur, Chas,

¹² Water Supply, Sanitation, Street Lights, Primary Education, Health and Municipal Roads

Chatra, Gumla, Jamshedpur, Jugsalai, Mango and Pakur) had been preparing their Annual Accounts and of this, six¹³ ULBs had been preparing it on accrual basis while two had been preparing it on cash basis.

Thus, in absence of annual accounts of 12 ULBs and failure in maintenance of accrual based accounts of two ULBs, financial position of those ULBs along with their Assets and Liabilities could not be verified.

3.14.8 Maintenance of records by ULBs

Maintenance of records, registers and accounts is one of the important tools of the internal control mechanism to bring in transparency and accountability.

Scrutiny of the records of test-checked ULBs revealed that the following basic records were not maintained by the concerned ULBs as detailed in **Table-3.9**:

Table 3.9: Failure to maintain basic records

Sl. No.	Records/ Registers	Name of the ULBs	Implications
1	Grant Register	Adityapur, Chirkunda, Deoghar, Garhwa, Jugsalai, Madhupur	Grant received, purpose and date of receipt, appropriation made from time to time and amount lying unutilised in respect of a particular grant could not be ascertained.
2	Loan Register	Adityapur, Chirkunda, Deoghar, Garhwa, Jugsalai, Madhupur, Simdega	The date of receipt, amount, condition attached and overdue instalment of loan with interest could not be ascertained.
3	Asset Register	Adityapur, Chaibasa, Chatra, Chirkunda, Deoghar, Dumka, Garhwa, Giridih, Jamshedpur, Jhumritilaiya, Madhupur, Mango, Sahibganj	Identification and valuation of assets, proper record of all lands, sites of buildings, tanks, ponds, ferries etc. could not be ascertained.
4	Stock Register	Chirkunda, Jamshedpur, Jhumritilaiya, Mango	Position of stock could not be verified.

(Source: Information provided by the test checked ULBs)

3.14.9 Abstract Contingencies (AC)/ Detailed Contingencies (DC) Bills

As per Jharkhand Treasury Code, Contingent Charges requiring countersignature after payment are drawn on “abstract bills” which do not contain details of charges and are presented to the Treasury without any supporting vouchers. The monthly detailed bill in the case of countersigned contingent charges, shall be submitted to the controlling officer or if there is no controlling officer, to the AG with all sub-vouchers.

Information of AC/DC bills received (February 2017) from AG (Accounts and Entitlement) Jharkhand revealed that as of November 2016, DC bills in respect of 55 AC bills for an amount of ₹ 31.21 crore was pending for adjustment against UD&HD.

¹³ Adityapur, Chas, Chatra, Gumla, Jugsalai and Pakur

3.14.10 Database formats on finances of ULBs

MoUD, GoI issued (April 2011) formats on database of finances of ULBs to the State Government to be adopted by the ULBs as prescribed by the Thirteenth Finance Commission.

The State Government forwarded (January 2013) the same to all the ULBs in the State for adoption and implementation.

However, only seven¹⁴ out of 20 test checked ULBs had been maintaining data in the prescribed database formats (October 2016) while 13 other ULBs had not been maintaining it in the prescribed database formats.

¹⁴ Adityapur, Chas, Godda, Gumla, Jamshedpur NAC, Jugsalai, Mango NAC