

CHAPTER-III

AN OVERVIEW OF ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

3.1 Introduction

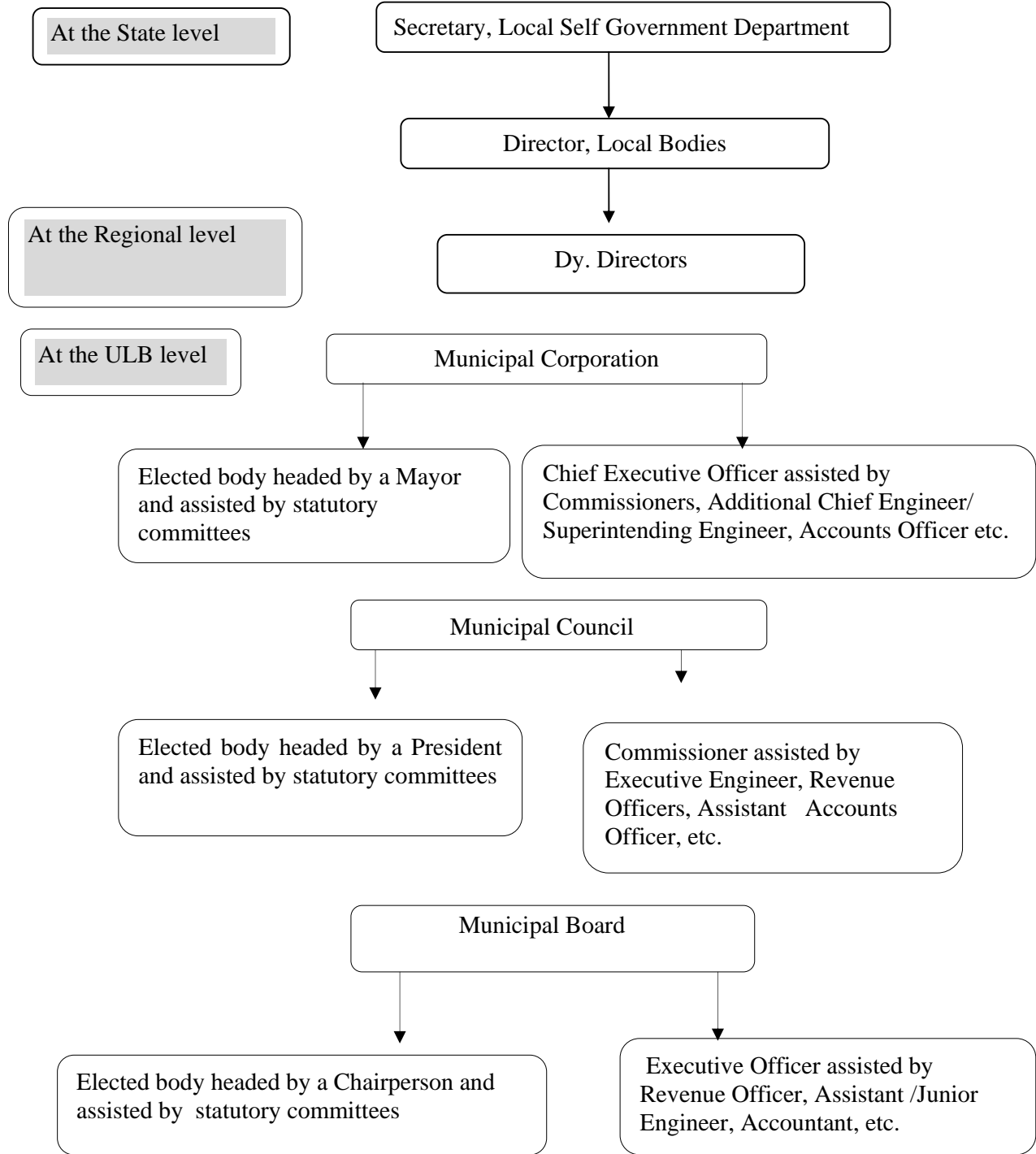
The Rajasthan Municipalities Act, 1959 was enacted by repealing all the prevailing municipal laws and enactments¹. Consequent upon the Seventy-fourth Constitutional Amendment in 1992, new Articles 243-P to 243-ZG were inserted whereby the legislatures could endow certain powers and duties to the Municipalities in order to enable them to function as institutions of Self-Government and to carry out the responsibilities conferred upon them, including those listed in the Twelfth Schedule of the Constitution. Accordingly, the Rajasthan Municipalities Act was suitably amended (vide Raj. Act No.19 of 1994) to incorporate the provisions of the new articles.

3.2 Organisational set up

In Rajasthan, as per census 2001, the urban population was 1.32 crore, which constituted 23.36 *per cent* of total population (5.65 crore) of the State. There were three Municipal Corporations², 11 Municipal Councils (MCs)³ and 169 Municipal Boards (MBs)⁴ in Rajasthan as of 31 March 2005. At the State level, Secretary, Local Self Government Department is the administrative head and Director, Local Bodies (DLB) is responsible for monitoring and coordination of various activities of Urban Local Bodies (ULBs).

The organisational set up of ULBs is as shown below:

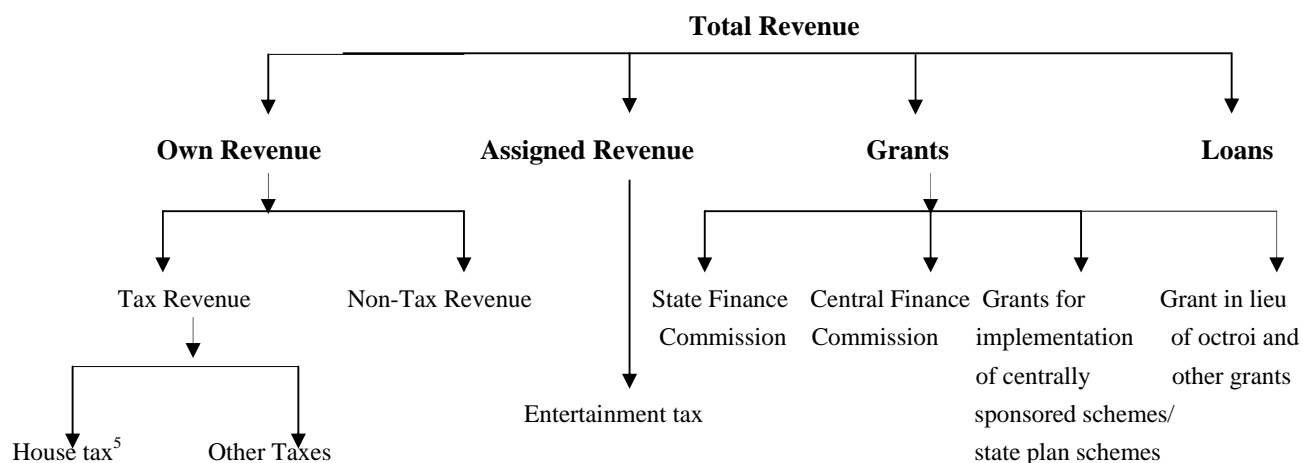
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- 1 Bikaner Municipal Act, 1923; Udaipur City Municipal Act, 1945; Alwar State Municipalities and Small Towns Act, 1934 etc.
 - 2 Municipal Corporations of Jaipur, Jodhpur and Kota.
 - 3 Ajmer, Alwar, Beawar, Bharatpur, Bhilwara, Bikaner, Pali, Sikar, Sriganganagar, Tonk and Udaipur.
 - 4 Class II-39 (with population 50,000-99,999), Class III-58 (with population 25,000-49,999) and Class IV-72 (with population less than 25,000).



3.3 Financial management

3.3.1 Source of revenue

Various sources of revenue of ULBs are depicted as under:



3.3.2 Receipts and expenditure

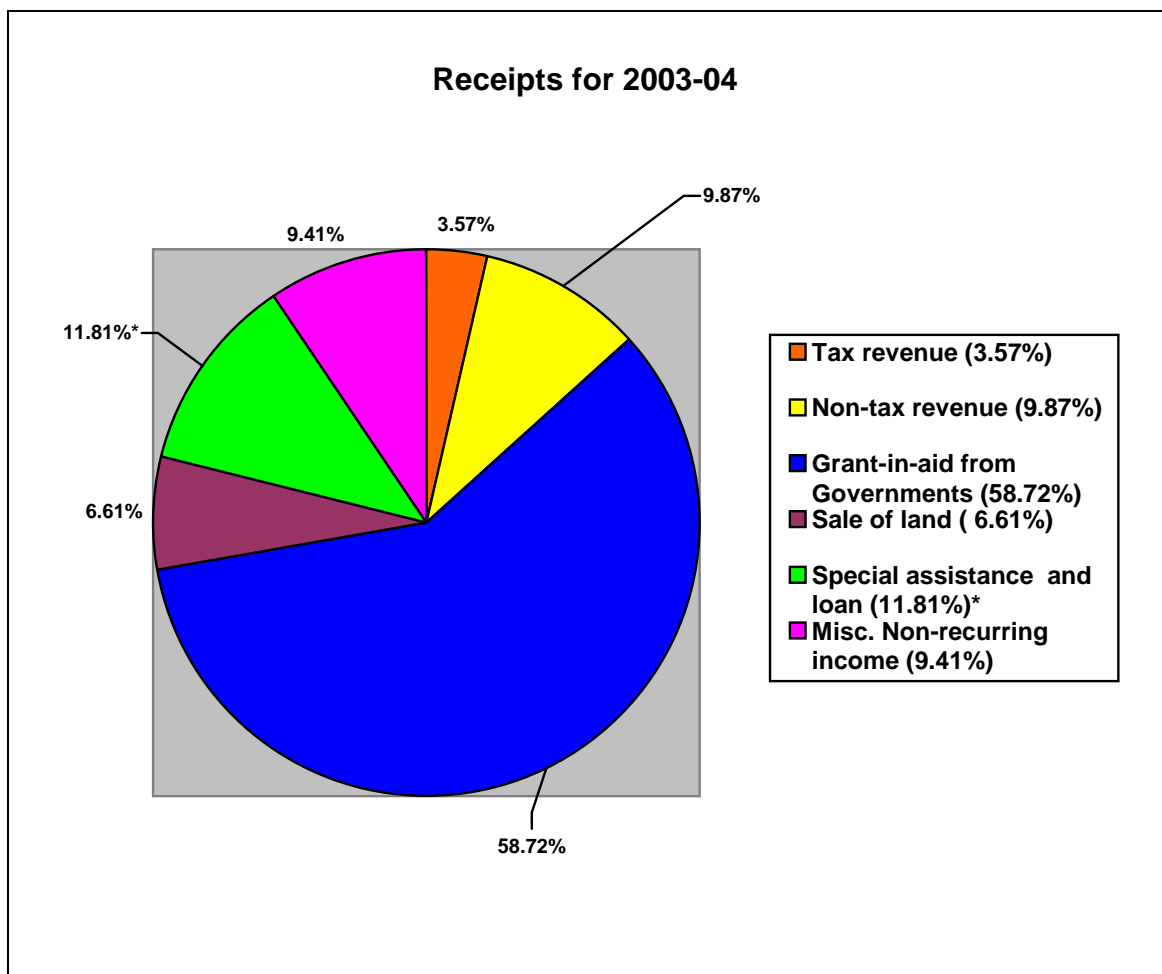
(i) The total receipts and expenditure of the ULBs during 2002-03 and 2003-04⁶ were as under:

| Receipts | (Rupees in crore) | |
|--|-------------------|---------------|
| | 2002-03 | 2003-04 |
| (a) Tax revenue | 25.73 | 26.81 |
| (b) Non-tax revenue | 84.15 | 74.22 |
| (c) Grant-in-aid from Governments | 409.92 | 441.48 |
| (d) Sale of land | 49.25 | 49.73 |
| (e) Special assistance and loan ⁷ | 73.75 | 88.83 |
| (f) Misc. non-recurring income ⁷ | 75.89 | 70.77 |
| Total | 718.69 | 751.84 |

⁵ Tax on annual letting value of building or land or both.

⁶ As intimated by the Director, Local Bodies. Figures for 2003-04 are provisional.

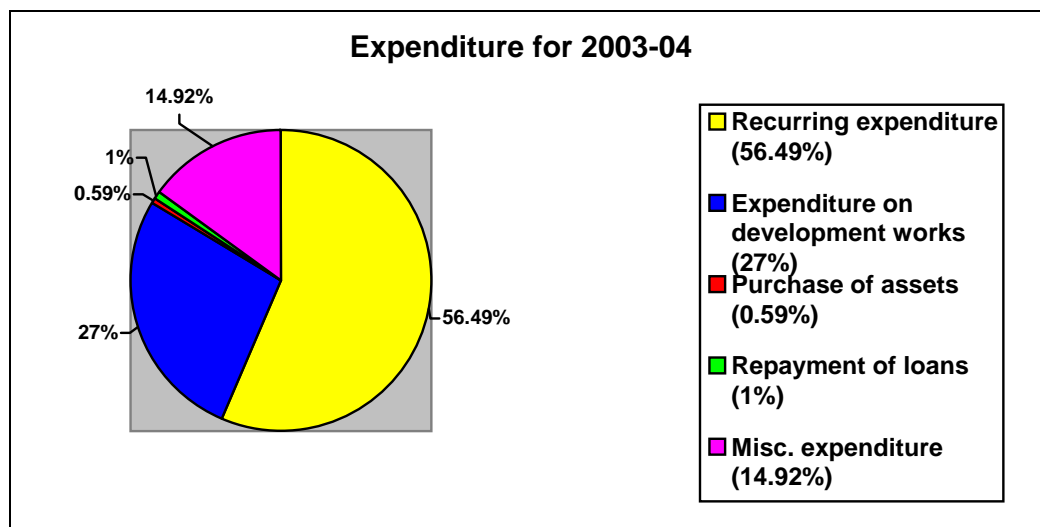
⁷ Also includes special grants/assistance provided by State Government to ULBs in specific cases.



(Rupees in crore)

| Expenditure | 2002-03 | 2003-04 |
|--|---------------|---------------|
| (A) Recurring expenditure | 412.16 | 419.34 |
| (B) Non-recurring expenditure | | |
| (a) Expenditure on developmental works | 208.92 | 200.42 |
| (b) Purchase of new assets | 3.71 | 4.35 |
| (c) Repayment of loans | 7.55 | 7.48 |
| (d) Misc. expenditure | 97.16 | 110.78 |
| Total | 729.50 | 742.37 |

* Refer to Statement of updated figures/details at page-97

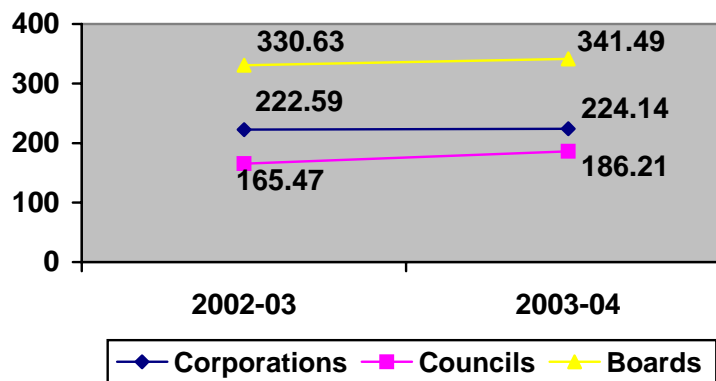


(ii) The category-wise break-up of receipts and expenditure of ULBs is as under:

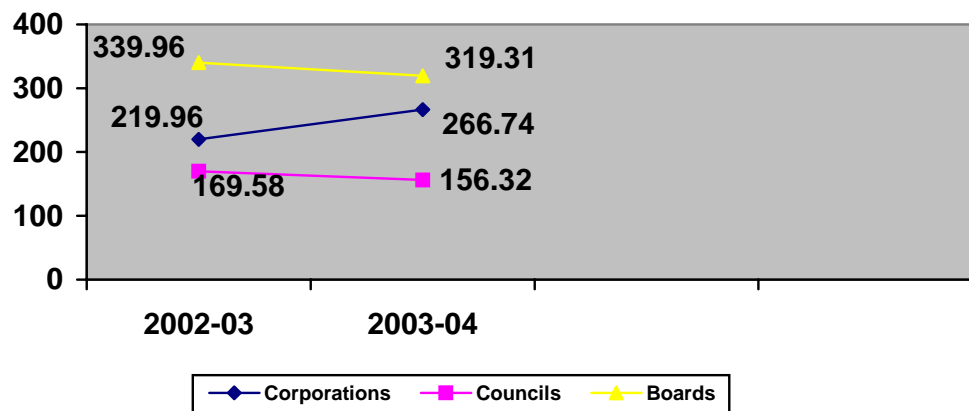
(Rupees in crore)

| Category of ULBs | 2002-03 | | 2003-04 | | Percentage of increase (+)/decrease (-) | |
|--------------------------------|---------------|---------------|---------------|---------------|---|---------------|
| | Receipts | Expenditure | Receipts | Expenditure | Receipts | Expenditure |
| (A) Municipal Corporations (3) | | | | | | |
| (1) Jaipur | 141.52 | 141.40 | 127.10 | 170.21 | (-) 10 | (+) 20 |
| (2) Jodhpur | 34.04 | 34.51 | 35.75 | 37.06 | (+) 05 | (+) 07 |
| (3) Kota | 47.03 | 44.05 | 61.29 | 59.47 | (+) 30 | (+) 35 |
| Total (A) | 222.59 | 219.96 | 224.14 | 266.74 | (+) 01 | (+) 21 |
| (B) Municipal Councils (11) | 165.47 | 169.58 | 186.21 | 156.32 | (+) 13 | (-) 08 |
| (C) Municipal Boards (169) | 330.63 | 339.96 | 341.49 | 319.31 | (+) 03 | (-) 06 |
| Grant Total (A+B+C) | 718.69 | 729.50 | 751.84 | 742.37 | (+) 05 | (+) 02 |

Receipts of ULBs



Expenditure of ULBs



The above financial trends indicate that:

- Own resources of ULBs were not adequate and they were largely dependent on grants-in-aid (58.72 *per cent*) from the State and Central Governments.
- While the total receipts of Jaipur Municipal Corporation had decreased by 10 *per cent* during 2003-04 due to short recovery of house tax and license fees, there was substantial increase (30 *per cent*) in receipts of Municipal Corporation, Kota mainly due to recovery of arrears of Octroi. In respect of other ULBs increase in receipts (3 to 13 *per cent*) was due to receipt of additional grants and special assistance from the State Government during 2003-04.
- While recurring expenditure had increased by two *per cent* from Rs 412.16 crore in 2002-03 to Rs 419.34 crore in 2003-04, the expenditure on developmental works decreased by four *per cent* from Rs 208.92 crore to Rs 200.42 crore in 2003-04.
- The recurring expenditure on pay and allowances of the staff and office contingencies, etc. amounted to 56 *per cent* of the total expenditure.

3.3.3 Own Revenue

- (i) The category-wise position of 'Own Revenue' realised by the ULBs and the percentages of own revenue to total receipts and recurring expenditure

are as under:

| Category of ULBs | 2002-03 | | | | | 2003-04** | | | | |
|-----------------------------------|--------------|--------------|-------------------|---|--|--------------|--------------|-------------------|---|--|
| | Tax | Non-Tax | Total own revenue | Percentage of own revenue to total receipts | Percentage of own revenue to recurring expenditure | Tax | Non-Tax | Total own revenue | Percentage of own revenue to total receipts | Percentage of own revenue to recurring expenditure |
| (A) Municipal Corporations | | | | | | | | | | |
| Jaipur | 14.44 | 23.48 | 37.92 | 27 | 43 | 5.59 | 21.55 | 27.14 | 21 | 30 |
| Jodhpur | 0.74 | 4.18 | 4.92 | 14 | 18 | 0.52 | 5.00 | 5.52 | 15 | 19 |
| Kota | 0.57 | 3.15 | 3.72 | 8 | 12 | 11.58 | 2.25 | 13.83 | 23 | 32 |
| Total (A) | 15.75 | 30.81 | 46.56 | 21 | 32 | 17.69 | 28.80 | 46.49 | 21 | 29 |
| (B) Municipal Councils | 5.66 | 15.69 | 21.35 | 13 | 22 | 5.03 | 12.90 | 17.93 | 10 | 19 |
| (C) Municipal Boards | 4.32 | 37.65 | 41.97 | 13 | 25 | 4.09 | 32.52 | 36.61 | 11 | 23 |
| Grand Total (A+B+C) | 25.73 | 84.15 | 109.88 | 15 | 27 | 26.81 | 74.22 | 101.03 | 13 | 24 |

** Provisional figures

The analysis of the above indicates that:

- Total 'Own Revenue' of ULBs accounted for only 13 *per cent* of their total receipts which was enough to meet only 24 *per cent* of their recurring expenditure during 2003-04.
- While 'Own Revenue' of Municipal Corporation, Jodhpur had increased by 12 *per cent*, it had declined by 28 *per cent* from Rs 37.92 crore in 2002-03 to Rs 27.14 crore in 2003-04 in respect of Jaipur Municipal Corporation mainly owing to short realisation of house tax and licence fees under various bye-laws.
- In Kota, 'Own Revenue' had increased from Rs 3.72 crore in 2002-03 to Rs 13.83 crore in 2003-04, only due to recovery of arrears of Octroi (Rs 11.58 crore) for the years 1982-98 from the assessees. In fact, tax revenue of Municipal Corporation, Kota, excluding the arrears of Octroi during the years 2002-04 was nil and its non-tax revenue had actually declined by 29 *per cent* in 2003-04.
- Similarly, 'Own Revenue' of Municipal Councils and Municipal Boards had decreased by 16 *per cent* and 13 *per cent* respectively during 2003-04 mainly due to non- collection of house tax.

(ii) The position of tax and non-tax revenue (excluding miscellaneous receipts) projected and actually realised by Municipal Corporations during 2002-05 was as under:

(Rupees in crore)

| Name of Corporation | Tax Revenue | | | | | | Non-tax Revenue (excluding misc. receipts) | | | | | |
|---------------------|-------------|---------------|-----------|---------------|-----------|--------------|--|----------------|-----------|---------------|-----------|---------------|
| | 2002-03 | | 2003-04** | | 2004-05** | | 2002-03 | | 2003-04** | | 2004-05** | |
| | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual |
| Jaipur | 20.00 | 14.44 (72) | 20.00 | 5.59 (28) | 25.00 | 8.73 (35) | 18.53 | 22.90 (124) | 20.51 | 14.64 (71) | 24.41 | 15.15 (62) |
| Jodhpur | 2.50 | 0.74 (30) | 2.50 | 0.52 (21) | 2.00 | 0.68 (34) | 2.64 | 2.42 (92) | 4.05 | 2.71 (67) | 3.67 | 2.26 (62) |
| Kota | 33.10 | 0.57 (2) | 34.00 | 11.58 (34) | 4.10 | 2.54 (62) | 2.34 | 2.23 (95) | 2.32 | 1.57 (68) | 2.61 | 1.55 (59) |

* (Figures in brackets denote the percentage of actual realisation to the projected revenue.)

** Provisional figures

The above trend indicates that:

- During 2002-03 to 2004-05, the realization of tax revenue against the revenue projected in respect of the three Municipal Corporations ranged between 2 to 72 per cent. While Jaipur Municipal Corporation attributed the shortfall to lack of clarity in the rules relating to collection of house tax, Municipal Corporation, Jodhpur explained it on the basis of re-assessment of house tax not having been done. The contentions of these corporations were, however, not tenable as collection of house tax was obligatory under the provisions of the Act.
- In Kota, no amount was realized towards house tax due to the corporation's decision to not collect house tax in public interest.
- The substantial drop in targets for Municipal Corporation, Kota during 2004-05 was stated to be due to a decision taken in the high level committee set up by State Government to waive the interest on the arrears of Octroi/Dharmada⁸ recoverable from Thermal Power Project, Kota (a unit of Rajasthan State Electricity Board) and adjustment of the major portion of the principal amount towards corporation's dues towards electricity to RSEB.
- In Jaipur, Jodhpur and Kota, the actual realisation of non-tax revenue against the projected for the year 2002-03 was 124 per cent, 92 per cent and 95 per cent respectively which gradually came down to 62 per cent, 62 per cent and 59 per cent respectively during 2004-05. The reasons for shortfalls as attributed by the corporations *inter-alia* include the budget provisions being unrealistic, practical difficulties in actual realisation of revenue, due shares not provided by Urban Improvement Trust, Kota/ Jaipur Development Authority, stay on

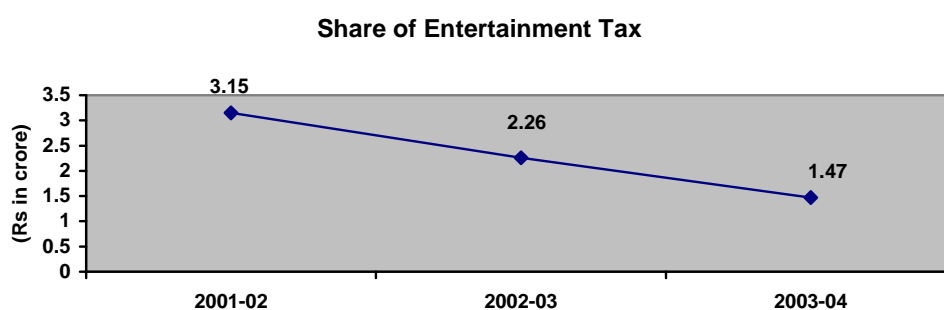
⁸ A tax for maintenance of cattle pounds.

revenue collection by courts and non-regularisation of change in land use in Kota.

3.3.4 Assigned Revenue (Entertainment Tax)

The Second SFC had recommended (2000-01) that State Government should release 15 per cent of net proceeds of entertainment tax⁹ to ULBs.

The share of entertainment tax released by State Government (Commercial Taxation and Finance Departments) to ULBs for the year 2001-02 was Rs 3.15 crore which gradually declined (53 per cent) to Rs 1.47 crore in 2003-04 as the amount of entertainment tax collected by Government itself had decreased mainly due to closure of cinema houses and option of composition scheme¹⁰ availed by cable operators.



3.3.5 Recurring and non-recurring expenditure

The position of recurring and non-recurring expenditure incurred in ULBs during 2002-03 and 2003-04 was as under :

(Rupees in crore)

| Category of ULBs | 2002-03 | | | 2003-04 | | |
|-------------------------|-----------------------|---------------------------|---------------|-----------------------|---------------------------|---------------|
| | Recurring expenditure | Non-recurring expenditure | Total | Recurring expenditure | Non-recurring expenditure | Total |
| (A) Corporations | | | | | | |
| (i) Jaipur | 87.31 (62) | 54.08 | 141.39 | 90.84 (53) | 79.37 | 170.21 |
| (ii) Jodhpur | 27.56 (80) | 6.96 | 34.52 | 28.65 (77) | 8.40 | 37.05 |
| (iii) Kota | 31.93 (72) | 12.12 | 44.05 | 43.49 (73) | 15.98 | 59.47 |
| Total (A) | 146.80 (67) | 73.16 | 219.96 | 162.98 (61) | 103.75 | 266.73 |
| (B) Councils | 96.74 (57) | 72.84 | 169.58 | 95.94 (61) | 60.38 | 156.32 |
| (C) Boards | 168.62 (50) | 171.34 | 339.96 | 160.42 (50) | 158.90 | 319.32 |
| Grand Total | 412.16 (56) | 317.34 | 729.50 | 419.34 (56) | 323.03 | 742.37 |

(Figures in brackets denote the percentage of recurring expenditure to the total expenditure)

⁹ Collected by Commercial Taxation Department of State Government under Section 14 of the Rajasthan Entertainment Tax and Advertisement Tax Act, 1957.

¹⁰ Lump sum amount of tax to be remitted by cable operators irrespective of number of cable connections.

The above financial trend indicates that:

- Recurring expenditure of Municipal Corporations grew by 11 per cent from Rs 146.80 crore in 2002-03 to Rs 162.98 crore in 2003-04 primarily due to increase in pay and allowances, office contingencies, etc.
- While non-recurring expenditure mainly representing capital expenditure in Municipal Corporations had increased by 42 per cent from Rs 73.16 crore in 2002-03 to Rs 103.75 crore in 2003-04, it declined in Municipal Councils and Municipal Boards by 17 per cent and 7 per cent respectively indicating that developmental works were not adequately taken up in small ULBs.

3.4 Devolution of functions and funds

Out of 18 functions listed in the twelfth schedule of the Constitution, 13 functions¹¹ with funds and functionaries (*Appendix-IV*) were transferred to ULBs as of July 2005.

3.4.1 Allocation of grants

During 2002-05, allocation of grants to ULBs constituted two per cent of annual budget of the State Government as shown below:

| Year | Total budget provision of the State | Allocation to ULBs | Percentage |
|---------|-------------------------------------|--------------------|------------|
| | (Rupees in crore) | | |
| 2002-03 | 22564 | 471.66 | 2.09 |
| 2003-04 | 26242 | 526.93 | 2.01 |
| 2004-05 | 25926 | 599.24 | 2.31 |

3.4.2 Central Finance Commission grant

The position of grants released to ULBs under recommendations of EFC during 2002-05 was as under:

| (Rupees in crore) | | | |
|---|--------------|--------------|--------------|
| Purpose of grant | 2002-03 | 2003-04 | 2004-05 |
| Improvement of slums | 4.00 | 20.00 | Nil |
| Fire brigade services | 4.40 | 9.80 | Nil |
| General grant for core activities of ULBs | 9.94 | 19.88 | 29.71 |
| Total | 18.34 | 49.68 | 29.71 |

¹¹ 7 completely and 6 partially.

Against the general grant of Rs 19.88 crore to be provided to ULBs for core activities during 2002-03, only Rs 9.94 crore was released and the remaining grant of Rs 9.94 crore was released during 2004-05. The delayed release of this amount was attributed by the department to short receipt of funds from Government of India during 2002-03.

3.4.3 State Finance Commission grant

Based on the recommendations (August 2001) of the Second State Finance Commission (SFC) the State Government was required to provide grants annually to the local bodies at 2.25 *per cent* of the net tax revenue of the state (excluding entertainment tax).

The grants released to ULBs by State Government under recommendations of the SFC during 2002-05 were as under:

(Rupees in crore)

| Year | Grants to be released | Grants actually released | Grants short released |
|---------|-----------------------|--------------------------|-----------------------|
| 2002-03 | 27.61 | 27.61 | - |
| 2003-04 | 27.61 | 27.61 | - |
| 2004-05 | 48.94 | 46.01 | 2.93 |

The short release of grants amounting to Rs 2.93 crore during 2004-05 relates to the incentive grant to be given to ULBs as per the recommendations of the SFC. The Finance Department attributed the short release to non-submission of proposals in accordance with the recommendations of SFC by the LSG Department.

3.4.4 Grant in lieu of octroi

Octroi which was a major source of revenue of ULBs was withdrawn by the State Government from August 1998. In order to make good the loss of Octroi, the State Government provided every month grants-in-aid equivalent to their actual collection in the year 1997-98 with 10 *per cent* increase every year. From 2001-02 onwards, the annual increase of 10 *per cent* was reduced to five *per cent*. Resultantly, during 2001-04, only Rs 1167.57 crore was released against the eligible grant of Rs 1218.17 crore, thereby depriving the ULBs of sufficient funds for discharging their civic responsibilities and the urban population of benefits of civic services and development works to that extent.

3.5 Accounting arrangements

The annual accounts of the ULBs were being prepared in conventional formats without exhibiting the position of assets and liabilities. Further, the 'Accrual

Based Accounting System' as suggested by the Comptroller and Auditor General of India is yet to be introduced. Database on the finances of ULBs was yet to be developed (February 2006) in the formats suggested by C&AG in August 2003, as recommended by the EFC.

3.6 Irregularities in budgetary control and maintenance of accounts

3.6.1 Non-reconciliation of differences between cash books and Personal Deposit/Bank pass books

Monthly reconciliation of differences between cash books and pass books of Personal Deposit (PD) and/or bank accounts was required to be conducted to avoid risk of fraud and misappropriation of funds.

It was observed that in Municipal Corporation Jodhpur, 5 MCs and 13 MBs there was a difference of Rs 2.56 crore as on 31 March 2004 between the cash books and PD/bank pass books for 1 to 25 years for want of reconciliation with treasuries/banks every month. This was fraught with the risk of misappropriation of funds.

On being pointed out, Municipal Boards Baran and Jhunjhunu stated (September 2004) that the differences being very old were lying un-reconciled due to non-availability of relevant records. While 11 ULBs stated that reconciliation would be done in due course, the remaining six ULBs did not furnish any reply.

3.6.2 Irregular/excess expenditure over the sanctioned budget

No expenditure can be incurred out of municipal funds unless it is covered by a budget grant and the controlling officer should initiate action against the Drawing and Disbursing Officers (DDOs) who incur excess expenditure over the sanctioned budget grant¹².

It was observed that Municipal Corporation Jodhpur and 42* MBs had irregularly incurred (1999-2004) excess expenditure of Rs 23.37* crore over the sanctioned budget grant under different items/schemes/heads of account, which indicates improper budget estimation and financial indiscipline requiring regularisation or action against concerned erring DDOs.

On being pointed out, 36* ULBs stated (April 2004-September 2005) that excess expenditure was incurred on the basis of actual requirement and the same would be got regularised by obtaining *ex-post facto* sanction from DLB/ Government. The seven remaining ULBs did not furnish replies.

¹² Paragraphs 29 and 32 of *Appendix-A* to the Rajasthan Municipalities (Budget) Rules, 1966.

* Refer to Statement of updated figures/details at page-97.

3.6.3 Arrears of revenue outstanding against Government departments, undertakings, etc.

Rajasthan Municipalities Act, 1959 provides procedure for recovery of municipal claims from assesseees by issue of bills, demand notice or warrant for distress and by sale of property of the defaulters. Alternately, dues can be recovered by filing suit against the defaulters in the court or by invoking provisions of the Public Demand Recovery Act, 1952 and/or Rajasthan Land Revenue Act, 1956.

In two Municipal Corporations, four * MCs and 31 * MBs arrears of revenue of Rs 75.20 * crore on account of cost or rent of land and buildings, octroi, road cutting charges, advertisement fees etc., were outstanding against Government departments /Public Sector Undertakings/ Statutory bodies for the last one to 43 years as detailed below:

| S. No. | Particulars of revenue in arrears | Against whom outstanding | Name /number of municipalities to which arrears relate | Period to which arrears relate | Amount (Rupees in lakh) |
|--------|---|---|---|--|--|
| (1) | Cost and/or rent of allotted/ occupied lands/buildings recoverable as per Rajasthan Municipalities (Disposal of Urban Land) Rules, 1974 and State Government instructions of August 1983 and arrears of octroi, house tax, urban assessment, etc. | (i) Public Health Engineering Department (PHED) (ii) Rajasthan State Road Transport Corporation (iii) Rajasthan State Electricity Board (now Vidyut Vitran Nigam Ltd.) (iv) Rajasthan State Electricity Board (now Rajasthan Vidyut Prasaran Nigam Ltd.) | MC, Sikar and 3 MBs 11 * MBs Municipal Corporation, Jodhpur and 14 * other MBs MB, Phulera | 1992-97 1975-2004 1961-2004 1968-2003 | 93.44 1675.44 * 2244.95 * 43.63 |
| (2) | 15 per cent of the sale proceeds of land in the municipal area vide Government, Urban Development Department circular of September 1983 | Jaipur Development Authority/ Urban Improvement Trusts | Two Municipal Corporations (Jaipur and Jodhpur) and two MCs (Bharatpur and Sriganganagar) | 1983-2004 | 2889.41 |
| (3) | Road cutting charges | PHED and Bharat Sanchar Nigam Limited | 4 MCs and 17 * MBs | 1992-2004 | 288.24 * |

* Refer to Statement of updated figures/details at page-97.

| S. No. | Particulars of revenue in arrears | Against whom outstanding | Name /number of municipalities to which arrears relate | Period to which arrears relate | Amount (Rupees in lakh) |
|--------|---|--|--|--------------------------------|-------------------------|
| (4) | License fees/charges for advertisement on dairy booths and mobile vans under Municipal Council, Jaipur (Advertisement) Bye-laws, 1974 | Jaipur Zila Dugdha Utpadan Sahakari Samiti Limited | Jaipur Municipal Corporation | 2002-04 | 285.27 |
| | Total | | | | 7520.38* |

On being pointed out, the municipalities stated that letters/notices for recovery were periodically issued and correspondence made with the concerned department and District Collectors but evoked minimal response. However, the fact remains that the ULBs were being deprived of huge amount of revenue (Rs 75.20* crore) lying unrecovered for very long periods. Special and concerted efforts are required for speedy settlement of old dues.

3.6.4 Non-recovery of advances

In three Municipal Corporations, two MCs and 43* MBs, advances of Rs 5.82* crore were outstanding against individuals in 2213* cases¹³ for the last one to 58* years.

On being pointed out, Municipal Corporation, Kota, two MCs and 39* MBs while accepting facts stated that action was being taken to adjust/recover the outstanding advances. No reply was furnished by the Municipal Corporations, Jaipur, Jodhpur and the four remaining MBs¹⁴.

Thus, the fact remains that inaction on the part of these ULBs in timely adjustment/recovery had resulted in accumulation of advances of Rs 5.82* crore, besides loss of interest. Further, the possibility of recovery of long outstanding advances is extremely remote. This was also indicative of lack of effective internal control in these ULBs.

3.7 Audit arrangements

Director, Local Fund Audit is the Statutory Auditor for ULBs. The Comptroller and Auditor General conducts audit of local bodies under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The State Government is yet to entrust the technical guidance and supervision over the maintenance of accounts of these bodies and their audit as per the recommendations of the Eleventh Finance Commission.

¹³ Contractors : (297* cases: Rs 4.09* crore), Elected representatives (30 cases: Rs 0.05 crore) and employees (1886* cases: Rs 1.68* crore).

¹⁴ Fatehnagar, Nainwa, Pokaran and Taranagar.

* Refer to Statement of updated figures/details at page-97

3.8 Audit coverage

Test-check of accounts of three Municipal Corporations, 11 MCs and 126* MBs was conducted for the period upto 2003-04 during 2004-05. Out of 2551* paragraphs included in the Inspection Reports, 2239* paragraphs involved money value of Rs 800.10* crore as detailed below:

| S. No. | ULBs test-checked | Number of Paragraphs | Money Value involved (Rupees in crore) |
|--------|------------------------|----------------------|--|
| 1. | Municipal Corporations | 248 | 188.07 |
| 2. | Municipal Councils | 288 | 227.59 |
| 3. | Municipal Boards | 1703* | 384.44* |
| | Total | 2239* | 800.10* |

3.9 Arrears of DLFA audit and audit fees

Director, Local Fund Audit (DLFA) is the Statutory Auditor for ULBs. Audit fees at prescribed rate is paid to DLFA by ULBs. As of June 2005, Rs 16.79 lakh towards audit fees was yet to be paid by various ULBs. Audit of accounts of 48 MBs for 2003-04 was also in arrear.

3.10 Lack of response to Audit observations

For early settlement of audit observations, Departmental Administrative Officers were required to take prompt steps to remove defects and irregularities brought in their notice during the course of audit and/or pointed out through Inspection Reports (IRs)¹⁵.

It was observed that:

(i) At the end of June 2005, 5846 IRs containing 77,452 paragraphs issued by DLFAD during the years upto 2004-05 remained pending for settlement. These included 412 cases of embezzlement of money amounting to Rs 1.54 crore and large number of paragraphs pertaining to the period prior to 1998-99. Further, first compliance to 172 IRs was still awaited.

(ii) Two hundred eight* IRs containing 3,299* paragraphs issued during the years 2002-05 by the Principal Accountant General (Civil Audit) were also pending for settlement as of June 2005. These included two IRs containing 45 paragraphs for which even first compliance had not been furnished and are pending for one to two years as of February 2006.

¹⁵ Section 307(3) of Rajasthan Municipalities Act, 1959 and Rule 15(1) of Rajasthan Municipalities Accounts Rules, 1963.

* Refer to Statement of updated figures/details at page-98

This indicated lack of prompt response on the part of the municipal/departmental authorities which had not only resulted in recurrence of the deficiencies and lapses pointed out earlier, but also eroding the accountability of the ULBs/departmental officers.

3.11 Impact of Audit

Recoveries amounting to Rs 15.74 crore were made at the instance of audit for excess payments, dues, etc. in 43 cases relating to the period 1982-2004. Besides, rectification of mistakes/irregularities involving Rs 1.68* crore was made in 34* cases.

3.12 Conclusion

The 'Own Revenue' of ULBs was extremely meagre and therefore these local bodies were largely dependent on government grants eroding their financial autonomy. Further, cases of short release of funds/delays in downward transfer of funds to ULBs were noticed in audit.

Widespread and persistent irregularities and deviations from prescribed accounting and budgetary control procedures such as non-reconciliation of differences in cash balances carrying the risk of misappropriation and expenditure in excess of the allotted funds were observed in audit of ULBs.

Annual accounts of ULBs were still being maintained in the conventional formats on cash basis instead of accrual basis on double entry accounting system and database of finances was yet to be developed on the basis of formats suggested by C&AG, as recommended by the EFC.

There was poor response and delays in settlement of audit observations and cases of embezzlement.

3.13 Recommendations

Following recommendations are made:

- ▶ The ULBs should take effective steps to augment their own resources so as to reduce dependency on government assistance and to provide better civic facilities.
- ▶ The Government needs to strengthen the system of budgetary controls. The internal control mechanism should be bolstered to ensure prompt adjustment of advances.

* Refer to Statement of updated figures/details at page-98

- ▶ The Government should evolve a time bound programme to recover losses, amounts embezzled and overpayments. A suitable mechanism be developed to ensure prompt response to the audit observations.
- ▶ Accounts of ULBs should be prepared in the formats suggested by C&AG in order to improve the financial information system and to ensure accountability and transparency of financial transactions.
- ▶ To facilitate meaningful analysis of the decentralization process and monitoring and evaluation of financial and physical performance of the ULBs, data base on their finances in the prescribed formats should be developed and maintained at all levels of ULBs, Directorate of Local Bodies and Finance Department.