

## **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 enactments<sup>1</sup>. Consequent upon the 74<sup>th</sup> Constitutional Amendment in 1992, Articles 243-P to 243-ZG were inserted in the Constitution 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 Rajasthan Act No.19 of 1994) to incorporate the provisions of the new articles.

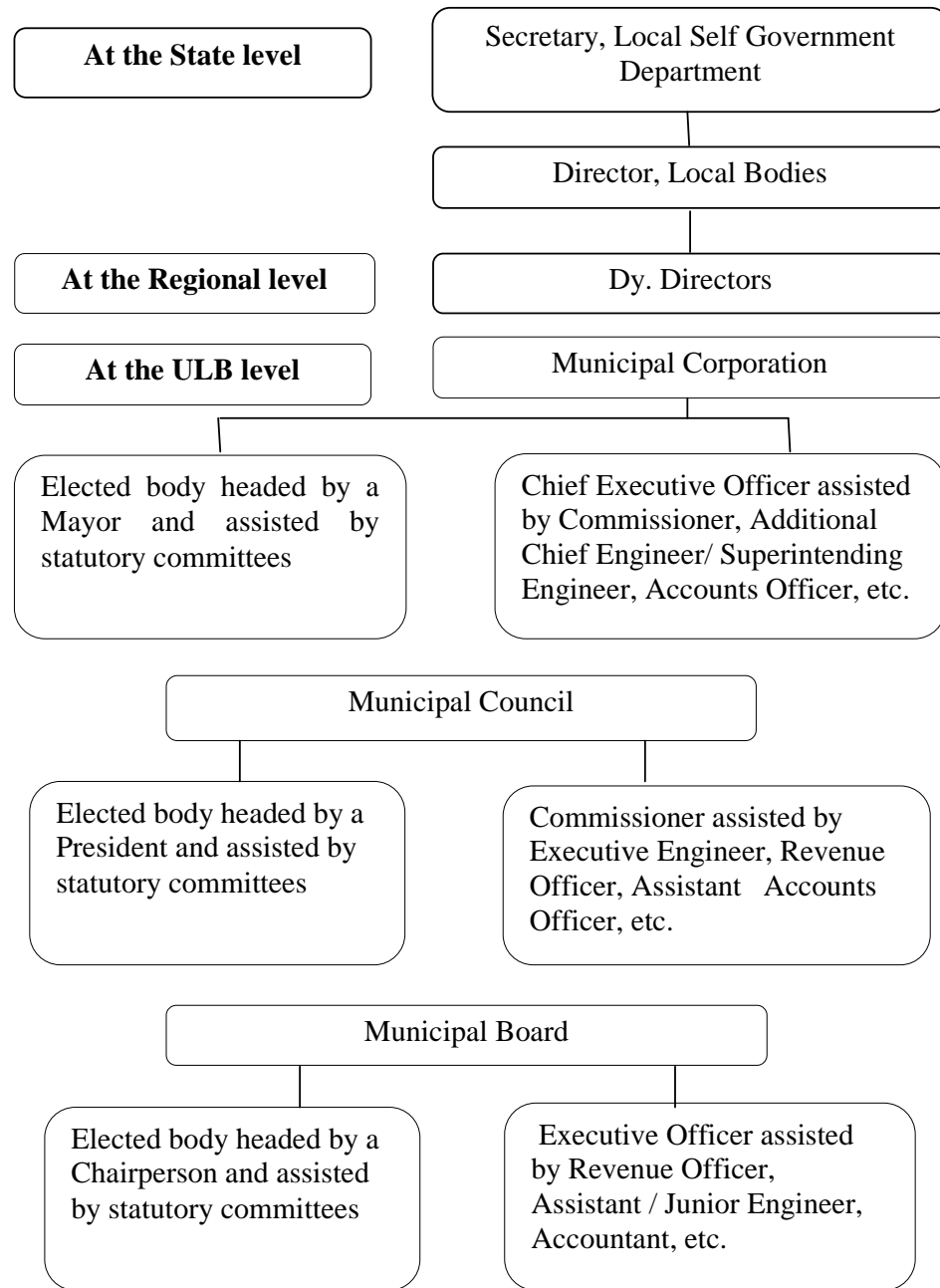
As per census 2001, the urban population of Rajasthan was 1.32 crore, which constituted 23.36 *per cent* of the total population (5.65 crore) of the State. There were three Municipal Corporations<sup>2</sup>, 11 Municipal Councils<sup>3</sup> (MCs) and 169 Municipal Boards (MBs)<sup>4</sup> in Rajasthan as of 31 March 2006. Out of 18 functions listed in the twelfth schedule of the Constitution, 16 functions (*Appendix-V*) were being performed by Urban Local Bodies (ULBs) and remaining two functions i.e Water Supply and Town Planning were not being performed by ULBs as of August 2008.

#### **3.2 Organisational set up**

At the State level, Secretary, Local Self Government Department (LSGD) is the administrative head and Director, Local Bodies (DLB) is responsible for monitoring and coordination of various activities of ULBs.

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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).

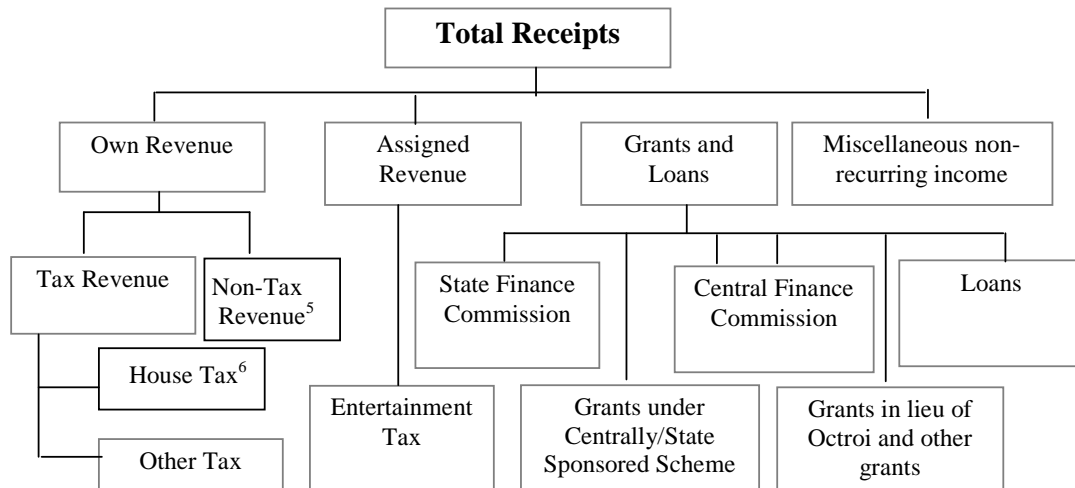
The organisational set up of ULBs is as shown below:



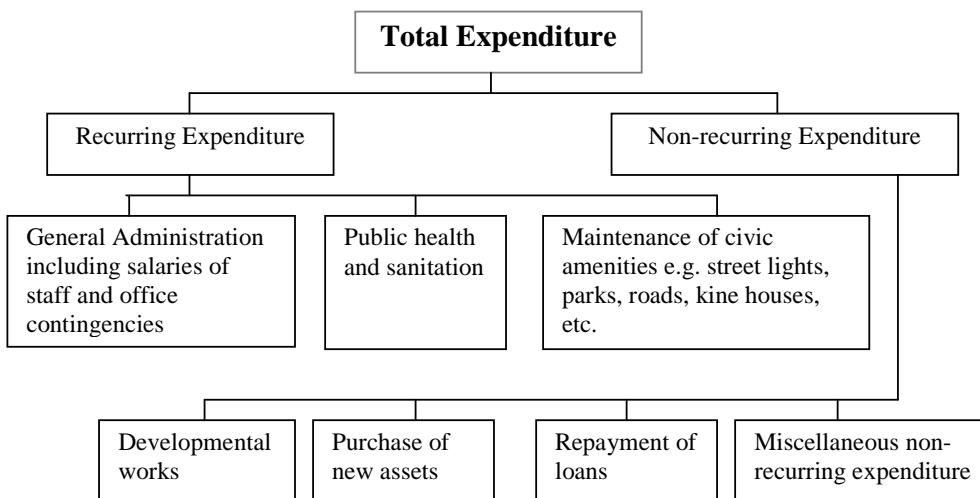
### 3.3 Financial management

#### 3.3.1 Sources of receipts and items of expenditure

Various sources of receipts of ULBs are depicted as under:



Various items of expenditure of ULBs are depicted as under:



5. Income under by- laws and Acts, income from assets, sale of land, interest on investments and miscellaneous recurring income.  
 6. Tax on annual letting value or area of building or land or both.

### 3.3.2 Receipts and expenditure

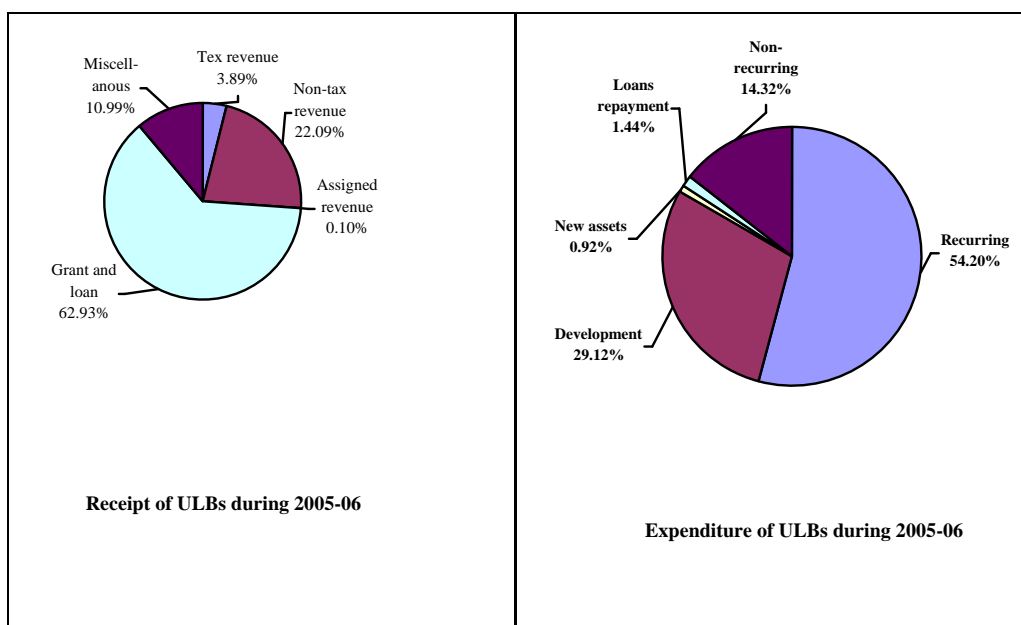
The total receipts and expenditure of the ULBs during 2004-05 and 2005-06 were as under:

(Rupees in crore)

| Sources of receipts                              | 2004-05               | 2005-06               |
|--|-----------------------|-----------------------|
| <b>(i) Receipts</b>                              |                       |                       |
| (a) Tax revenue                                  | 21.80 (2.48)          | 41.23 (3.89)          |
| (b) Non-tax revenue                              | 159.93 (18.22)        | 233.84 (22.09)        |
| <b>Total of own revenue</b>                      | <b>181.73 (20.70)</b> | <b>275.07 (25.98)</b> |
| (c) Assigned revenue                             | 1.47 (0.17)           | 1.07 (0.10)           |
| (d) Grant and loans                              | 602.61 (68.63)        | 666.24 (62.93)        |
| (e) Misc. non-recurring income <sup>7</sup>      | 92.19 (10.50)         | 116.37 (10.99)        |
| <b>Grand Total</b>                               | <b>878.00</b>         | <b>1,058.75</b>       |
| <b>(ii) Expenditure</b>                          |                       |                       |
| <b>(A) Recurring expenditure</b>                 | 484.38 (58.39)        | 524.98 (54.20)        |
| <b>(B) Non-recurring expenditure</b>             |                       |                       |
| (a) Expenditure on developmental works           | 233.13 (28.11)        | 282.08 (29.12)        |
| (b) Purchase of new assets                       | 10.90 (1.32)          | 8.91 (0.92)           |
| (c) Repayment of loans                           | 11.23 (1.35)          | 13.92 (1.44)          |
| (d) Misc. non-recurring expenditure <sup>8</sup> | 89.85 (10.83)         | 138.69 (14.32)        |
| <b>Total</b>                                     | <b>829.49</b>         | <b>968.58</b>         |

Note- Figures in brackets denote percentage to the total receipts.

(Source: As per data provided by Directorate, Local Bodies, Rajasthan, Jaipur)



7. It includes deposits and recoveries of loans and advances.

8. It includes refund or deposits, investments made and disbursement of loans and advances.

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

**(Rupees in crore)**

| Category of ULBs                      | 2004-05       |               | 2005-06         |               | Percentage of increase (+)/ decrease (-) |             |
|---------------------------------------|---------------|---------------|-----------------|---------------|--|-------------|
|                                       | Receipts      | Expenditure   | Receipts        | Expenditure   | Receipts                                 | Expenditure |
| <b>(A) Municipal Corporations (3)</b> |               |               |                 |               |  |             |
| (1) Jaipur                            | 158.54        | 150.01        | 222.99          | 206.56        | (+) 41                                   | (+) 38      |
| (2) Jodhpur                           | 43.20         | 40.06         | 53.04           | 42.56         | (+) 23                                   | (+) 6       |
| (3) Kota                              | 66.08         | 61.01         | 67.09           | 62.83         | (+) 2                                    | (+) 3       |
| <b>Total (A)</b>                      | <b>267.82</b> | <b>251.08</b> | <b>343.12</b>   | <b>311.95</b> | (+) 28                                   | (+) 24      |
| <b>(B) Municipal Councils (11)</b>    | 193.91        | 183.01        | 205.58          | 178.25        | (+) 6                                    | (-) 3       |
| <b>(C) Municipal Boards (169)</b>     | 416.27        | 395.40        | 510.05          | 478.38        | (+) 23                                   | (+) 21      |
| <b>Grand Total (A+B+C)</b>            | <b>878.00</b> | <b>829.49</b> | <b>1,058.75</b> | <b>968.58</b> | (+) 21                                   | (+) 17      |

(Source:- As per data provided by Directorate, Local Bodies, Rajasthan, Jaipur).

The above financial trends indicate that:

- Own resources of ULBs were not adequate and they were dependent on grants and loans from the State and Central Governments being 68.63 per cent and 62.93 per cent during 2004-05 and 2005-06 respectively.
- Tax revenue of ULBs had increased by 89 per cent during 2005-06 due to increased recovery of house tax, passenger tax / toll tax etc.
- While recurring expenditure had increased by eight per cent from Rs 484.38 crore in 2004-05 to Rs 524.98 crore in 2005-06, the expenditure on purchase of new assets decreased by 18 per cent from Rs 10.90 crore to Rs 8.91 crore in 2005-06.
- The recurring expenditure on pay and allowances of the staff, office contingencies, maintenance of civic services, public health and sanitation, etc. amounted to 54.20 per cent of the total expenditure in 2005-06.
- Miscellaneous non-recurring expenditure had increased by 54 per cent during 2005-06.

### 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:

(Rupees in crore)

| Category of ULBs                  | 2004-05      |               |                   |   |  | 2005-06      |               |                   |   |  |
|-----------------------------------|--------------|---------------|-------------------|---|--|--------------|---------------|-------------------|---|--|
|                                   | 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 |
| <b>(A) Municipal Corporations</b> |              |               |                   |   |  |              |               |                   |   |  |
| Jaipur                            | 8.73         | 35.84         | 44.57             | 28  | 45   | 16.12        | 78.61         | 94.73             | 42  | 81   |
| Jodhpur                           | 0.68         | 6.82          | 7.50              | 17  | 24   | 0.79         | 16.26         | 17.05             | 32  | 49   |
| Kota                              | 2.87         | 6.28          | 9.15              | 14  | 24   | 3.34         | 3.06          | 6.40              | 10  | 16   |
| <b>Total (A)</b>                  | <b>12.28</b> | <b>48.94</b>  | <b>61.22</b>      | <b>23</b>                                   | <b>36</b>  | <b>20.25</b> | <b>97.93</b>  | <b>118.18</b>     | <b>34</b>                                   | <b>61</b>  |
| <b>(B) Municipal Councils</b>     | 5.70         | 24.04         | 29.74             | 15  | 27   | 7.79         | 27.68         | 35.47             | 17  | 31   |
| <b>(C) Municipal Boards</b>       | 3.82         | 86.95         | 90.77             | 22  | 45   | 13.19        | 108.23        | 121.42            | 24  | 55   |
| <b>Grand Total (A+B+C)</b>        | <b>21.80</b> | <b>159.93</b> | <b>181.73</b>     | <b>21</b>                                   | <b>38</b>  | <b>41.23</b> | <b>233.84</b> | <b>275.07</b>     | <b>26</b>                                   | <b>52</b>  |

(Source: As per data provided by Directorate, Local Bodies, Rajasthan, Jaipur.)

The analysis of the above indicates that:

- During year 2005-06, total 'own revenue' of ULBs accounted for 26 per cent of their total receipts which was enough to meet only 52 per cent of their recurring expenditure.
- 'Own revenue' of Municipal Corporation, Kota had decreased by 30 per cent from Rs 9.15 crore in 2004-05 to Rs 6.40 crore in 2005-06 owing to short realisation of miscellaneous receipts and interest receipts on investments, while it had increased in Jaipur Municipal Corporation by 113 per cent from Rs 44.57 crore to Rs 94.73 crore in 2005-06 and in case of Municipal Corporation, Jodhpur by 127 per cent from Rs 7.50 crore to Rs 17.05 crore in 2005-06 due to increase in realisation of house tax, income under bye laws, income from assets and sale of land etc.
- 'Own revenue' of Municipal Councils and Municipal Boards had increased by 19 and 34 per cent respectively during 2005-06 mainly due to increased collection of house tax, income under bye laws, income from assets and sale of land.

(ii) The position of tax and non-tax revenue (excluding miscellaneous receipts in respect of which no targets/projections for collection were made) projected and actually realised by Municipal Corporations during 2004-06 was as under:

(Rupees in crore)

| Name of Corporation | Tax Revenue |                        |           |                        | Non-tax Revenue<br>(excluding miscellaneous receipts) |                        |           |                        |
|---------------------|-------------|------------------------|-----------|------------------------|---|------------------------|-----------|------------------------|
|                     | 2004-05     |                        | 2005-06   |                        | 2004-05   |                        | 2005-06   |                        |
|                     | Projected   | Actual<br>(percentage) | Projected | Actual<br>(percentage) | Projected   | Actual<br>(percentage) | Projected | Actual<br>(percentage) |
| Jaipur              | 25.00       | 8.73<br>(35)           | 36.00     | 16.12<br>(45)          | 31.48   | 18.30<br>(58)          | 39.95     | 33.74<br>(84)          |
| Jodhpur             | 2.00        | 0.68<br>(34)           | 5.50      | 0.79<br>(14)           | 4.77  | 2.48<br>(52)           | 4.21      | 4.48<br>(106)          |
| Kota                | 4.10        | 2.87<br>(70)           | 5.06      | 3.34<br>(66)           | 3.21  | 3.31<br>(103)          | 2.72      | 3.83<br>(141)          |

(Source: As per Annual Accounts of Municipal Corporation Jaipur, Jodhpur and Kota)

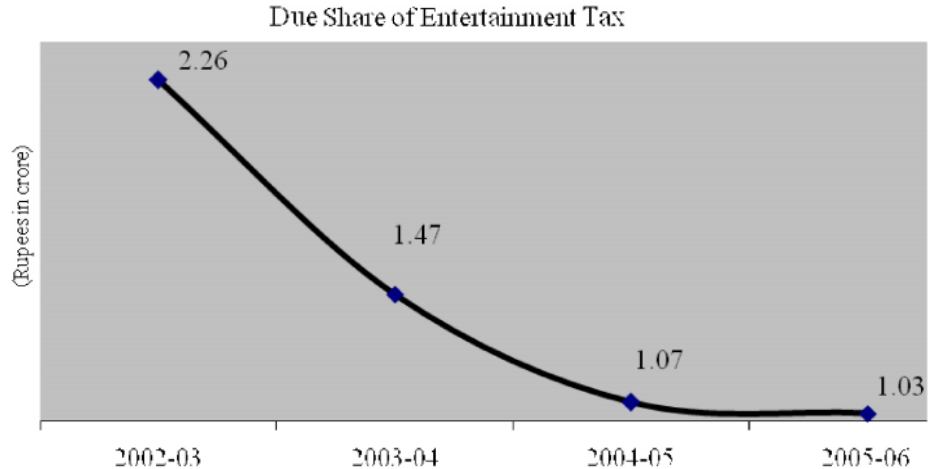
The above trend indicates that during 2005-06 the realisation of tax revenue against the projected revenue in respect of three Municipal Corporations ranged between 14 to 66 *per cent* whereas realisation of the non-tax revenue against the revenue projected was 84 to 141 *per cent*. Thus, the targets were not fixed realistically. The reasons for shortfalls in realisation of tax revenue as attributed by the Municipal Corporations (July 2007) were (i) corporation's decision of non-collection of house tax in Kota, (ii) targets of collection fixed in budget being on higher side and (iii) practical difficulties in collection of revenue in Jaipur and Jodhpur.

### 3.3.4 Assigned Revenue (Entertainment Tax)

The Second State Finance Commission (SFC) had recommended (2000-01) that the State Government should release 15 *per cent* of net proceeds of entertainment tax<sup>9</sup> to ULBs.

The share of entertainment tax due to be released by State Government (Commercial Taxation and Finance Departments) to ULBs for the year 2002-03 was Rs 2.26 crore which gradually declined (54 *per cent*) to Rs 1.03 crore for the year 2005-06 (actually released in 2007-08) due to relaxation in entertainment tax on newly constructed cinema halls, theatres etc. and reduction in rate of entertainment tax from 70 *per cent* to 50 *per cent* since January 2004.

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



### 3.3.5 Recurring and non-recurring expenditure

The position of recurring and non-recurring expenditure incurred in ULBs during 2004-05 and 2005-06 was as under:

(Rupees in crore )

| Category of ULBs        | 2004-05               |                           |               | 2005-06               |                           |               |
|-------------------------|-----------------------|---------------------------|---------------|-----------------------|---------------------------|---------------|
|                         | Recurring expenditure | Non-recurring expenditure | Total         | Recurring expenditure | Non-recurring expenditure | Total         |
| <b>(A) Corporations</b> |                       |                           |               |                       |                           |               |
| (i) Jaipur              | 98.23 (65)            | 51.78                     | 150.01        | 116.78 (57)           | 89.78                     | 206.56        |
| (ii) Jodhpur            | 31.64 (79)            | 8.42                      | 40.06         | 34.87 (82)            | 7.69                      | 42.56         |
| (iii) Kota              | 38.73 (63)            | 22.28                     | 61.01         | 40.58(65)             | 22.25                     | 62.83         |
| <b>Total (A)</b>        | <b>168.60 (67)</b>    | <b>82.48</b>              | <b>251.08</b> | <b>192.23(62)</b>     | <b>119.72</b>             | <b>311.95</b> |
| <b>(B) Councils</b>     | 111.95 (61)           | 71.06                     | 183.01        | 113.10 (63)           | 65.15                     | 178.25        |
| <b>(C) Boards</b>       | 203.83 (52)           | 191.57                    | 395.40        | 219.65 (46)           | 258.73                    | 478.38        |
| <b>Grand Total</b>      | <b>484.38 (58)</b>    | <b>345.11</b>             | <b>829.49</b> | <b>524.98(54)</b>     | <b>443.60</b>             | <b>968.58</b> |

Note: Figures in brackets denote the percentage of recurring expenditure to the total expenditure.  
(Source: As per data provided by Directorate, Local Bodies, Rajasthan, Jaipur.)

The above financial trend indicates that:

- Recurring expenditure of Jaipur Municipal Corporation grew by 19 per cent from Rs 98.23 crore in 2004-05 to Rs 116.78 crore in 2005-06 due to increase in expenditure on public health services, road light and pay and allowances.
- While non-recurring expenditure of Municipal Boards grew by 35 per cent from Rs 191.57 crore in 2004-05 to Rs 258.73 crore in 2005-06 mainly due to increase in expenditure on developmental works and Miscellaneous expenditure, it declined in Municipal Councils by eight per cent.



### 3.4 Devolution of funds

#### 3.4.1 Allocation of grants

Despite the substantial dependence of ULBs on assistance from Central/State Governments during 2003-06, such assistance to ULBs constituted only two to three *per cent* of total expenditure (Revenue and Capital) of the State Government as shown below:

(Rupees in crore)

| Year    | Total expenditure (Revenue and Capital) of the State | Financial assistance to ULBs* | Percentage of financial assistance to total expenditure |
|---------|--|-------------------------------|---|
| 2003-04 | 22029.27   | 441.48                        | 2.00  |
| 2004-05 | 23394.48   | 602.61                        | 2.58  |
| 2005-06 | 25793.69   | 666.24                        | 2.58  |

\*(Source: As per data provided by Directorate, Local Bodies, Rajasthan, Jaipur.)

#### 3.4.2 Twelfth Finance Commission grant

The position of grants released by State Government to ULBs under recommendations of Twelfth Finance Commission (TFC) for core activities of ULBs during 2005-06 was as under:

(Rupees in crore)

| Year         | Installment | Amount released by GOI | Amount released by State Government |             |
|--------------|-------------|------------------------|-------------------------------------|-------------|
|              |             |                        | 2005-06                             | 2006-07     |
| 2005-06      | First       | 22.00                  | 20.90                               | 1.10        |
|              | Second      | 22.00                  | 22.00                               | -           |
| <b>Total</b> |             | <b>44.00</b>           | <b>42.90</b>                        | <b>1.10</b> |

The Audit observed that:

(i) As per guidelines of the TFC, State Government had to mandatorily transfer the grants released by GOI to the ULBs within 15 days of the same being credited to the State Government's account. In case of delayed transfer beyond the specified period of 15 days, the State Government was required to transfer interest at the rate equal to the RBI Bank rate alongwith such delayed transfer of grants to ULBs.

It was observed that the first installment of TFC grant of 2005-06 amounting to Rs 22 crore was credited to the State Government's account on 14 December 2005 which was to be transferred to the PD accounts of ULBs latest by 29 December 2005, but Rs 1.10 crore was credited (February 2007) to the PD Accounts of four<sup>10</sup> ULBs with a delay of 14 months. Further, interest amount of Rs 8.14 lakh at the rate of 6 to 6.5 *per cent* required to be transferred along with delayed grant was also not transferred to these ULBs.

10. Municipal Corporation, Kota: Rs 91.34 lakh; MB, Ramganjmandi: Rs 6.60 lakh; MB, Sangod: Rs 6.05 lakh and MB, Kaithoon: Rs 6.13 lakh.

(ii) Out of the grants (Rs 42.90 crore) released during 2005-06, only Rs 6.65 crore (16 per cent) could be utilised by ULBs as of January 2007 due to non-approval of action plan and non-issuance of guidelines by LSGD. However, out of the total released amount of Rs 44 crore, Rs 37.71 crore was utilised by ULBs as of March 2009.

### 3.4.3 State Finance Commission grant

Based on the recommendations (August 2001) of Second State Finance Commission (SFC) and Interim Report (February 2006) of Third SFC, State Government was required to provide grants annually to the local bodies at 2.25 per cent of the net State tax revenue (excluding entertainment tax). Of this, 23.4 per cent and 24.3 per cent share was to be released to ULBs during 2000-05 and 2005-10 respectively. The grants released to ULBs by State Government under recommendations of the SFCs during 2003-06 were as under:

(Rupees in crore)

| Year    | Grants to be released | Grants actually released | short (-) / excess (+) release of Grants |
|---------|-----------------------|--------------------------|--|
| 2003-04 | 27.61                 | 27.61                    | -  |
| 2004-05 | 48.94                 | 46.01                    | (-) 2.93                                 |
| 2005-06 | 50.58                 | 53.75                    | (+) 3.17                                 |

LSG Department intimated (July 2007) that grant of Rs 3.17 crore was released in excess during 2005-06 keeping in view the arrears of previous years.

## 3.5 Database on finances and Accounting arrangements

National Municipal Accounts Manual (NMAM) for ULBs developed by the Ministry of Urban Development, Government of India under the guidance of C&AG of India was introduced in February 2005. Based on the NMAM, Rajasthan Municipal Accounts Manual has been prepared. To make it legally binding on the ULBs, necessary amendment in the Rajasthan Municipal Accounting Rules was under process (February 2009). In view of recommendations of Eleventh Finance Commission for reforms in accounting system of all ULBs, Accrual Based (Double Entry) Accounting System was to be adopted from October 2004. As regards switching over to Accrual Based Accounting (Double Entry) System in ULBs in first instance, the work was outsourced in respect of six ULBs<sup>11</sup>, under Asian Development Bank (ADB) project. In respect of remaining 177 ULBs, Rajasthan Urban Infrastructure Finance Development Corporation (RUIFDCO) had been authorised as a Nodal Agency for facilitating the task of outsourcing this work (April 2009).

11. Municipal Corporations Ajmer, Bikaner, Jaipur, Jodhpur and Kota and Municipal Council, Udaipur.

### **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 six MBs there was a difference of Rs 41.45 lakh (*Appendix-VI*) as on 31 March 2005 between cash books and PD/bank pass books for want of reconciliation with treasuries/banks. This was fraught with the risk of misappropriation of funds.

On this being pointed out, four MBs stated (December 2005 to February 2006) that reconciliation would be carried out. MB, Bayana stated (December 2005) that the difference was due to issuance of cheques and charging of bank commission at the end of the financial year. However, the facts could not be verified in audit due to non-availability of details regarding cheques issued and deduction of bank commission. MB, Dholpur 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 grant<sup>12</sup>.

It was observed that seven MBs had irregularly incurred excess expenditure of Rs 1.08 crore (*Appendix-VII*) over the sanctioned budget grant under different items/schemes/heads of account during 2004-05, which indicated improper budget estimation and financial indiscipline requiring regularisation or action against concerned DDOs.

On this being pointed out, all the seven ULBs stated (August 2005-April 2009) that the excess expenditure would be regularised by obtaining ex-post facto sanction.

#### **3.6.3 Non-adjustment/recovery of advances**

In seven MBs advances of Rs 39.08 lakh were outstanding against contractors/suppliers/individuals/Government departments/ undertakings in 146 cases<sup>13</sup> for four to 36 years as of March 2009 (*Appendix-VIII*).

On this being pointed out, no reply was furnished by these ULBs.

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

13. Contractors/suppliers (15 cases: Rs 20.25 lakh), Employees/individuals (85 cases: Rs 6.93 lakh) and Government Departments/undertakings (46 cases: Rs 11.90 lakh).

The inaction on the part of these ULBs in timely adjustment/recovery had resulted in accumulation of advances of Rs 39.08 lakh besides, loss of interest. This was also indicative of lack of effective internal control in these ULBs.

### **3.7 Audit arrangement**

The Comptroller and Auditor General of India conducts audit of local bodies under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

### **3.8 Arrears of audit fee of Director, Local Fund Audit Department**

Director, Local Fund Audit Department (DLFAD) is the Statutory Auditor for Accounts of ULBs. Audit fee at prescribed rate is paid to DLFAD by ULBs. As of March 2009, Rs 14.44 lakh towards audit fees for the year 2005-06 remained outstanding from 70 ULBs as arrears of audit fee.

### **3.9 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 to their notice during the course of audit and/or pointed out through Inspection Reports (IRs)<sup>14</sup>.

It was observed that:

(i) At the end of March 2009, 23,468 IRs issued up to 2005-06 containing 6,23,845 paragraphs issued by DLFAD remained pending for settlement. These included 1610 cases of embezzlement of money amounting to Rs 12.02 crore of which Rs 4.06 lakh was recovered. Further, first compliance to 95 IRs was still awaited.

(ii) Three hundred eighty four IRs containing 3,719 paragraphs issued during the years 2002-06 by office of the Principal Accountant General (Civil Audit) up to July 2004 and thereafter by office of the Senior Deputy Accountant General (Local Bodies Audit & Accounts) with effect from August 2004 to March 2006 were also pending for settlement as of March 2009. These included three IRs containing 239 paragraphs for which even first compliance was not furnished. These were pending for 42 to 45 months as of March 2009 as under:

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<sup>14</sup> Section 307 (3) of Rajasthan Municipalities Act, 1959 and Rule 15 (1) of Rajasthan Municipalities Accounts Rules, 1963.

| Year         | Pending    |              | First compliance not furnished |            |
|--------------|------------|--------------|--------------------------------|------------|
|              | IRs        | Paras        | IRs                            | Paras      |
| 2002-03      | 3          | 115          | -                              | -          |
| 2003-04      | 74         | 493          | -                              | -          |
| 2004-05      | 127        | 1,382        | -                              | -          |
| 2005-06      | 180        | 1,729        | 3                              | 239        |
| <b>Total</b> | <b>384</b> | <b>3,719</b> | <b>3</b>                       | <b>239</b> |

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

### 3.10 Impact of Audit

During 2004-05 recoveries amounting to Rs 11.67 crore were made at the instance of C&AG's audit for excess payment, dues etc. in 89 cases and rectifications of mistakes/irregularities involving Rs 1.07 crore was done in six cases. Similarly, during 2005-06 recoveries amounting to Rs 3.62 crore were made at the instance of C&AG's audit for excess payments, dues, etc. in 128 cases and rectification of mistakes/irregularities involving Rs 3.05 crore was also done in 87 cases.

### 3.11 Position of entrustment of audit/TGS to C&AG

The State Government is yet to entrust audit/Technical Guidance and Supervision (TGS) of audit of DLFAD to the C&AG.

### 3.12 Conclusion

While both the receipts and expenditure of ULBs showed an increasing trend, they were largely dependent on Government funds because of low 'Own Revenue' base. The expenditure on purchase of assets declined in comparison to the increase in recurring expenditure.

Inadequate budgetary and internal control mechanisms in ULBs resulted in excess expenditure over allotted funds, piling up of differences in balances as per cash books and bank/PD accounts and non-adjustment/recovery of outstanding advances against contractors/ suppliers/individuals/ Government departments for a long time.

Annual accounts of ULBs were still being maintained in the conventional formats on cash basis instead of accrual basis in double entry accounting system which is yet (June 2009) to be introduced in 177 out of 183 ULBs.

The huge pendency of audit observations and delays in their settlement is fraught with the risk of continuance of irregularities/deficiencies observed during audit.

### **3.13 Recommendations**

- The ULBs should take effective steps to augment their own resources so as to minimize dependency on government assistance and to provide better civic facilities.
- ULBs should ensure that effective budgetary controls are in place. The internal control mechanism needs strengthening to ensure prompt adjustment/recovery of advances and regular reconciliation of the differences between balances as per cash books and PD/Bank pass books.
- The system of preparation of accounts on accrual basis should be introduced in all the ULBs in order to improve the financial information system and to ensure accountability and transparency of financial transactions.
- To facilitate meaningful analysis of the decentralisation process and monitoring and evaluation of financial and physical performance of the ULBs, completion of database on their finances in the prescribed formats should be expedited.
- The Government should issue suitable instructions to ULBs to ensure prompt response to the audit observations.