

---

---

## **CHAPTER I**

---

### **AN OVERVIEW OF THE URBAN LOCAL BODIES**

---

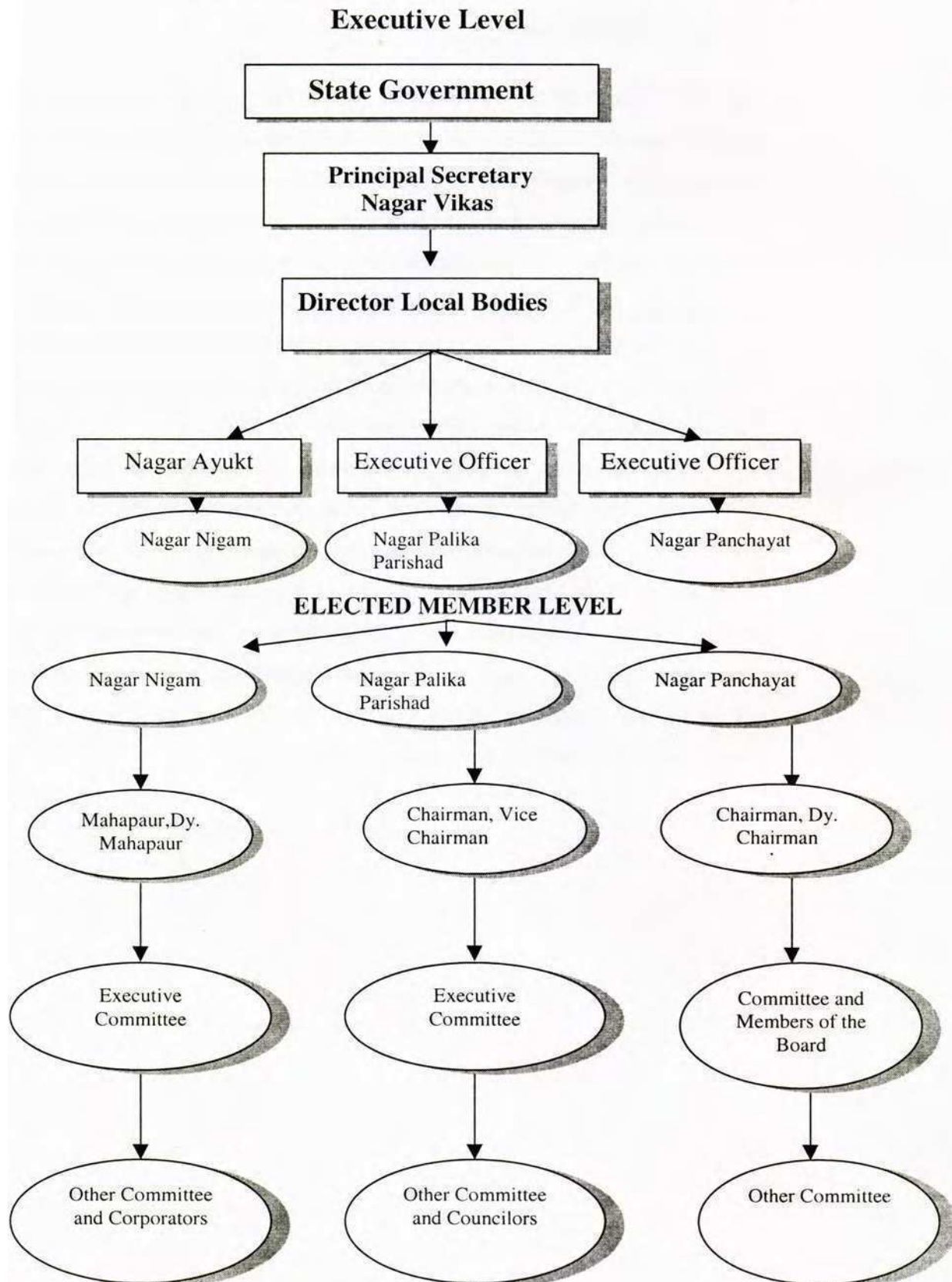
#### **1.1 Introduction**

The 74<sup>th</sup> Constitutional Amendment paved the way for decentralization of powers, transfer and devolution of more functions and funds to the local bodies. Consequently, more diversified responsibilities were developed upon the three-tier structure; Nagar Nigams (NNs), Nagar Palika Parishads (NPPs) and Nagar Panchayats (NPs). To incorporate the provisions of 74<sup>th</sup> Constitutional Amendment, the legislature of Uttar Pradesh enacted the Uttar Pradesh Local Self Government Laws (Amendment) Act 1994. Nagar Nigams are governed by UP Nagar Nigam Act 1959 whereas both the Nagar Palika Parishads and Nagar Panchayats are governed by UP Nagar Palika Act 1916.

The Eleventh Finance Commission (EFC) recommended that the Comptroller and Auditor General of India shall be responsible for exercising control and supervision over the proper maintenance of the accounts and their audit for all three tiers/levels of Panchyati Raj Institutions and Urban Local Bodies (ULBs). Accordingly, the State Government has entrusted the work of exercising control and supervision over the proper maintenance of accounts of ULBs and their audit to C&AG under section 20(1) of the C&AG's (Duties, Powers and Conditions of Service) Act 1971.

## 1.2 Organizational Setup

### Administrative organization of Urban Local Bodies



While the Mayor heads the Nagar Nigam, the President heads both Nagar Palika Parishads and Nagar Panchayats. The elected representative namely Mayor/President exercise their powers and discharge the duties through committee of elected members i.e. corporators, councilors and members of boards. Nagar Ayukt in case of Nagar Nigam and Executive Officers in case of Nagar Palika Parishads and Nagar Panchayats are administrative heads.

General information regarding ULBs in UP is as under:-

Name of Authority	No. of Unit	Area (Sq. Km.)	Population as per year 2001	Officers/Employees		
				General	Safai Karmchari	Total
			Census			
N.N	12	1426.56	13149873	15381	21145	36526
N. P. P.	194	1971.33	13392824	13269	19093	32362
N. P	422	1762.28	6020378	3658	5272	8930
Total	628	5160.17	32563075	32308	45510	77818

### 1.3 Functioning of the ULBs

The ULBs execute their function through various committees viz. Planning and Development Committee, Education Committee, Water Management Committee, Works Committee, Health and Welfare Committee, Administrative Committee etc. They also identify the beneficiaries under various schemes e.g. housing, self-employment etc. based on the income criteria and social backwardness.

### 1.4 Audit Arrangements

Under section 142 (2) of UP Nagar Nigam Act 1959, *Mukhya Nagar Lekha Parikshak* is the Primary Auditor of the accounts of Nagar Nigam. There is no provision for primary auditors in UP Nagar Palika Act 1916 to conduct audit of Nagar Palika Parishads and Nagar Panchayats. The Director Local Funds Audit (*DLFA*) acts as statutory auditor of all three tiers of ULBs. The C& AG of India also conducts test audit under Section 20(1) of the C&AG (DPC) Act, 1971 and extends technical guidance and support to DLFA.

### 1.5 Audit Coverage

The test audit of 5 Nagar Nigams<sup>1</sup>, 16 Nagar Palika Parishads<sup>2</sup> and 32 Nagar Panchayats<sup>3</sup> was conducted during the year 2005-06. The audit covered transaction audit and financial audit, comprising comments on accounts. The important audit findings are cited in the succeeding paragraphs.

### 1.6 Allocation of Funds

The First State Finance Commission recommended allocation based on the criteria of 80 *per cent* according to population and 20 *per cent* according to area for devolution of 7 *per cent* of net proceeds of total tax revenue of the state government to ULBs and determined their inter-se-percentage share. Accordingly, 3.12 *per cent* of net proceeds are earmarked each for Nagar Nigams and Nagar Palika Parishads and 0.76 *per cent* for Nagar Panchayats. These grants are further allocated among the NNs, NPPs and NPs on the basis of percentage of total population, population of SC/ST, social backwardness and revenue earned from their own resources.

### 1.7 Sources of Funds

For execution of various developmental works, the Government of India and State Government provide funds in the form of grants. The funds of ULBs are availed from the following sources:-

- (i) Grants assigned under the recommendations of the Eleventh Finance Commission (EFC).
- (ii) Allocation of 7 *per cent* of net proceeds of total tax revenue of the State Government under the recommendations of the First State Finance Commission (FSFC).
- (iii) Funds remitted by the respective departments for functions transferred to the ULBs.
- (iv) Revenue earned by the ULBs out of their own resources i.e. taxes, rent, fees, issue of licenses, tehbazari, taxi stands etc.

<sup>1</sup> Allahabad, Ghaziabad, Gorakhpur, Lucknow and Meerut.

<sup>2</sup> Achhnera, Admadpur, Samshabad, Mubarakpur, Ballia, Basti, Faizabad, Sandi, Sandila, Khalilabad, Golagokarnnath, Charkhari, Mau, Gopiganj, Sitapur and Sultanpur.

<sup>3</sup> Dayalbagh, Shwamibagh, Handia, Lalgopalganj, Mauaima, Phoolpur, Sankargarh, Azamatgarh, Nizamabad, Jarwal, Risiya, Bisaratganj, Meerganj, Richchha, Shergarh, Gosainganj, Khaga, Fariha, Jasarana, Sadat, Saidpur, Khetasarai, Zafarabad, Gosainganj, Mahona, Kachhwa, Kemari, Shahabad, Gyanpur, Ikauna, Kadipur and Gangapur.

### 1.8 Release of Funds

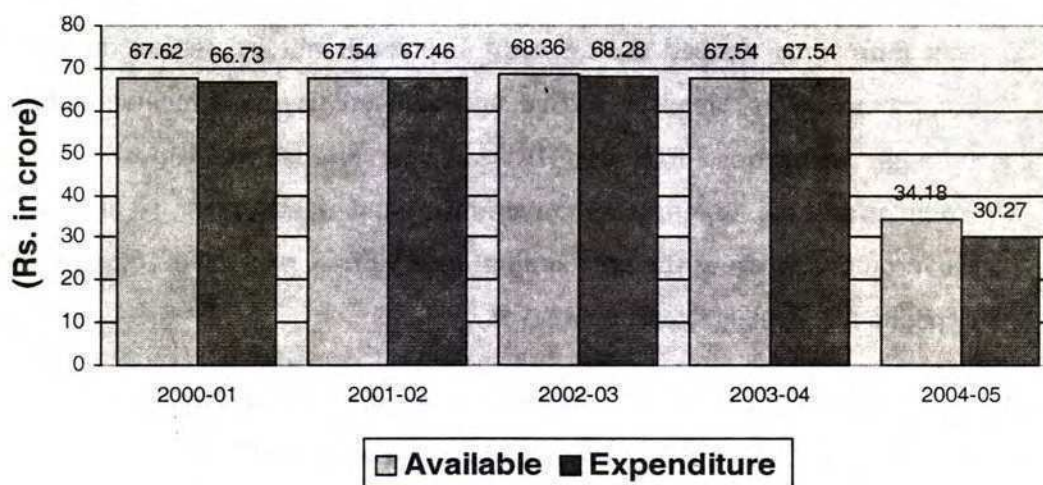
The State Government (Finance Department) release grants on the recommendations of EFC and SFC to the ULBs through allotment orders under intimation to the Director Local Bodies. Withdrawal of the grants from treasury depends upon the current liquidity status of the State. Besides, the funds for implementing centrally sponsored schemes and central sector schemes are released to the state administration, which in turn releases the same to various implementing agencies at the district level. The funds released under EFC and SFC during the last five years (2000-01 to 2004-05) and expenditure incurred there against are as follows:-

#### ELEVENTH FINANCE COMMISSION (ULB)

(Rs. in crore)

Year	Funds released	Expenditure
2000-01	67.62	66.73
2001-02	67.54	67.46
2002-03	68.36	68.28
2003-04	67.54	67.54
2004-05	34.18	30.27

#### Eleventh Finance Commission (ULB)

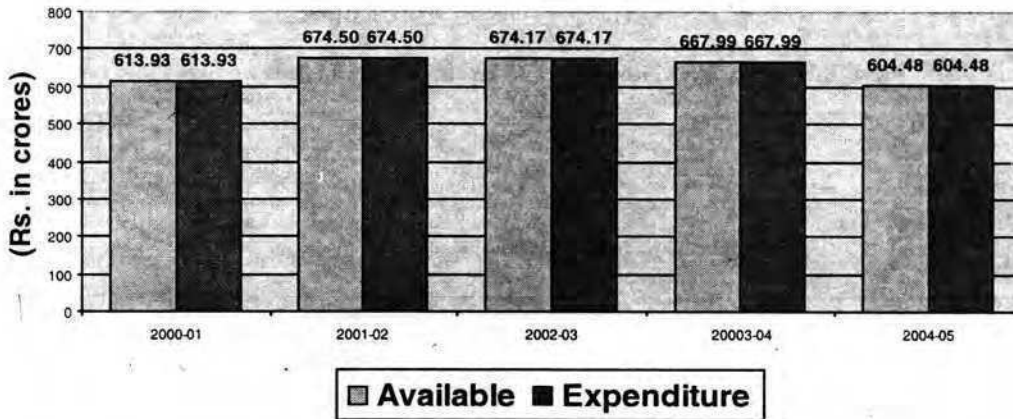


**STATE FINANCE COMMISSION (ULB)**

(Rs. in crore)

Year	Funds released	Expenditure
2000-01	613.93	613.93
2001-02	674.50	674.50
2002-03	674.17	674.17
2003-04	667.99	667.99
2004-05	604.48	604.48

**State Finance Commission (ULB)**



**1.9 Internal Control**

Audit observation on financial irregularities and deficiencies in initial account/records noticed during audit but could not be settled on spot are communicated to Head of Office and as well as departmental authorities through Inspection Reports (IRs). The serious and most important irregularities are reported to Government and a statement is also sent to Government showing the outstanding observations over 5 to 16 years old to expedite the same at department level.

Appropriate Internal Control Mechanism at Nagar Nigams to watch the settlement of A.G.'s Audit Paras and fix the accountability at different level were not available. Due to lack of such mechanism 640 Audit Paras (252 numbers of Part-II A and 388 numbers of Part -II B) were outstanding as on 31<sup>st</sup> March 2005.

**Outstanding Para of Nagar Nigams upto 2004-05**

Sl. No.	Name of Unit	Total Unsettled Paras		Upto 1993-94		94-95 to 99-00		00-01 to 02-03		03-04		04-05	
		Part-II		Para II		Para II		Para II		Para II		Para II	
		A	B	A	B	A	B	A	B	A	B	A	B
1.	Agra	29	66	18	29	4	28	6	6	1	3	0	0
2.	Aligarh	4	7	0	0	0	0	2	4	2	3	0	0
3.	Allahabad	29	32	18	14	6	14	5	4	0	0	0	0
4.	Bareilly	14	37	0	0	7	15	5	17	2	5	0	0
5.	Ghaziabad	19	49	5	15	2	24	6	0	4	3	2	7
6.	Gorakhpur	7	2	0	0	0	0	1	1	0	0	6	1
7.	Jhansi	0	16	0	10	0	0	0	6	0	0	0	0
8.	Kanpur	58	50	32	17	4	16	12	8	0	0	10	9
9.	Lucknow	36	23	4	7	19	0	6	6	4	6	3	4
10.	Meerut	35	56	13	5	7	12	3	22	6	9	6	8
11.	Muradabad	0	14	0	14	0	0	0	0	0	0	0	0
12.	Varanasi	21	36	10	16	2	5	5	9	4	6	0	0
	Total	252	388	100	127	51	114	51	83	23	35	27	29

Reminders were sent to ULBs but reply not received.

**1.10 Financial Position (2004-05) of ULBs Audited**

The financial position of ULBs as detailed in **Appendix I to III** during 2004-05 was as under:

(Rs. in crore)

Local Body	Opening Balance	Received	Total	Expenditure	Closing Balance
NN	105.59	317.31	422.90	303.84	119.06
NPP	12.44	49.72	62.16	44.43	17.73
NP	6.97	14.12	21.09	11.81	9.28
Total	125.00	381.15	506.15	360.08	146.07

Expenditure thus did not keep pace with the available resources, indicating poor planning and financial resource management by ULBs.

**1.11 Non-maintenance of Asset Register**

Asset Register is an important part of annual statement of accounts to ascertain the position of assets. At the end of the financial year physical verification of assets as well as certification is got done so that correct position of the assets be verified. The amount of recovery in case of loss and theft etc. can not be

ascertained if the register has not been maintained. The Asset Register was however not maintained in all test checked 5 NNs, 16 NPPs and 32 NPs.

#### **1.12 Certification of Accounts**

With no specific provisions in the State Act/Rules, certification of Account by the Director Local Fund Audit (DLFA) was not in vogue in any of NNs, NPPs, and NPs test checked. In the absence of certification, the authenticity of the final accounts can not be vouchsafed and no opinion on the true and fair view of the accounts of these bodies could be given in audit.

#### **1.13 Unpaid Liabilities of Rs. 3.99 crore**

The loan for various schemes of Nagar Nigam Meerut viz Rs. 5.89 crore for improvement of road network, Rs. 3.47 crore for improvement of Drainage network, Rs. 2.72 crore for improvement of water supply system and Rs. 2.23 crore for Sewerage Re-habilitation was provided by National Capital Area Scheme Board Delhi between October 99 to August, 2001 with the condition that the loan would be refunded through the State Government in five installments along with the interest @ 12% p.a.. In case of the loan not being repaid in time, penal interest @ 2.75 % p.a. would also be charged. It was noticed that against the outstanding liabilities for Rs.6.95 core (Principal: Rs.5.82 crore and interest: Rs.1.13 crore), the State Government refunded to the Board Rs. 1.36 crore from Stamp Duty (March 2003) and Rs. 1.60 crore was got adjusted from the amount payable to Nigam from State Finance Commission Grants (March, 2001). The payment of the balance amount (Principal: Rs. 2.86 crore and interest: Rs. 1.13 crore) was not made till March 2005.

#### **1.14 Loss of Rs. 1.05 lakh**

An amount of Rs. 1.05 lakh was irregularly deposited by Nagar Palika Parishad Shamshabad, Agra in District Co-operative Bank, a non scheduled bank, in the year 1977. Due to embezzlement in the bank, the amount could not be drawn (July 2005) resulting in loss to the Parishad.

#### **1.15 Non reconciliation of Accounts**

In two NNs (Gorakhpur and Ghaziabad) difference of Rs. 8.29 crore between the closing balance of the cash book as on 31-3-2005 and the balances shown in the pass books of Bank/treasury were not reconciled whereas in other 3 Nagar Nigams, (Allahabad, Lucknow and Meerut) and test checked 16 Nagar Palika Parishads and 32 Nagar Panchayats, bank reconciliation statements



were not prepared. Un-reconciled balances reflect incorrect financial position of the local bodies and possibility of occurrence of fraud/embezzlement/misappropriation of fund can not be ruled out.

**1.16 Blockage of fund Rs. 2.26 crore**

Nagar Nigam, Allahabad received a grant of Rs. 15.98 crore (April 1999) from the State Finance Commission for liquidation of old liabilities of the State Electricity Board. Out of the grants so received, Rs. 2.26 crore was lying unutilized (Oct. 2006) in the Personal Ledger Account.

**1.17 Conclusion**

- 1 No appropriate internal control mechanism existed in NNs to watch the settlement of outstanding paras.
- 2 The financial resource management of ULBs suffered due to poor planning.
- 3 Non maintenance of asset registers deprived the ULBs of detection of the cases of theft, loss and misappropriation of the assets created at the cost of public expenses.
- 4 Non reconciliation of balances of cash book with those of bank accounts periodically involved the risk of fraud and misappropriation of funds.
- 5 There was no internal control mechanism in NNs to review the IRs and the Audit Reports.

**1.18 Recommendations**

view of the above audit findings, following recommendations are made:

- Internal controls with reference to systems in connection with maintenance of accounts should be strengthened.
- Asset register should essentially be maintained.
- The financial resource management should be strengthened through the adequate planning.
- Reconciliation of balances of Cash Book with bank accounts and Personal Ledger Account should invariably be done on regular basis.
- Committee should be set up for monitoring and settlement of audit objections raised in the Audit Reports.