

CHAPTER - I

INTRODUCTION TO ULB IN THE STATE OF BIHAR

1.1 Constitutional Background

The Urban Local Bodies (ULBs) came into existence as institutions of local self-governance in 1920. Under the Bihar and Orissa Municipal Act (B&OMA), 1922 various Municipalities/ Notified Area Committees were constituted. Patna Municipal Act. (PMC), 1951 paved way for constitution of five Municipal Corporations in the State.

The 74th Constitutional Amendment Act provided the State Governments sufficient authority to make the ULBs full-fledged, vibrant institutions of local self-governance by vesting them with powers, functions and responsibilities of various departments of the State Government. Accordingly, the ULBs were reorganised into three tier system, namely Nagar Nigams/Municipal Corporations, Nagar Parishads/Municipal Councils (erstwhile Municipalities) and Nagar Panchayats (erstwhile Notified Area Committees). After the 74th Constitutional Amendment first election for constitution of elected bodies in ULBs was held in the year 2002 and subsequently in 2007 in Bihar State. A new Bihar Municipal Act (BMA), 2007 was enacted in January 2007 replacing all prevailing acts.

At present, there are seven Nagar Nigams/Municipal Corporations, 42 Nagar Parishads/Municipal Councils and 79 Nagar Panchayats in the State of Bihar. Each ULB is divided into number of wards with a minimum of 10 wards and a maximum of 75 depending upon its population.

1.2 Powers, Functions and Functionaries of ULBs

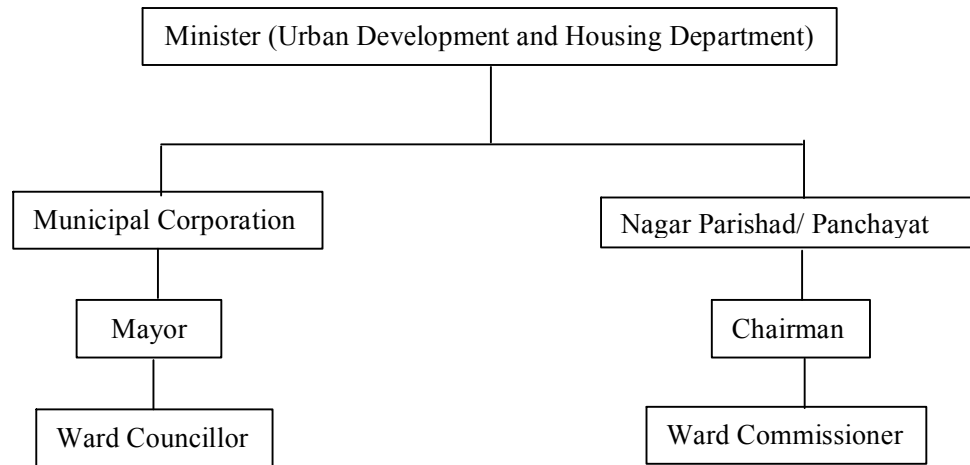
Article 243W of the Constitution enables the State Government to empower the ULBs with such powers and authority, by enacting law, to function as institution of self-governance. The transfer of powers, functions and functionaries to ULBs is yet to be done in Bihar.

1.3 Organisational Structure of ULBs

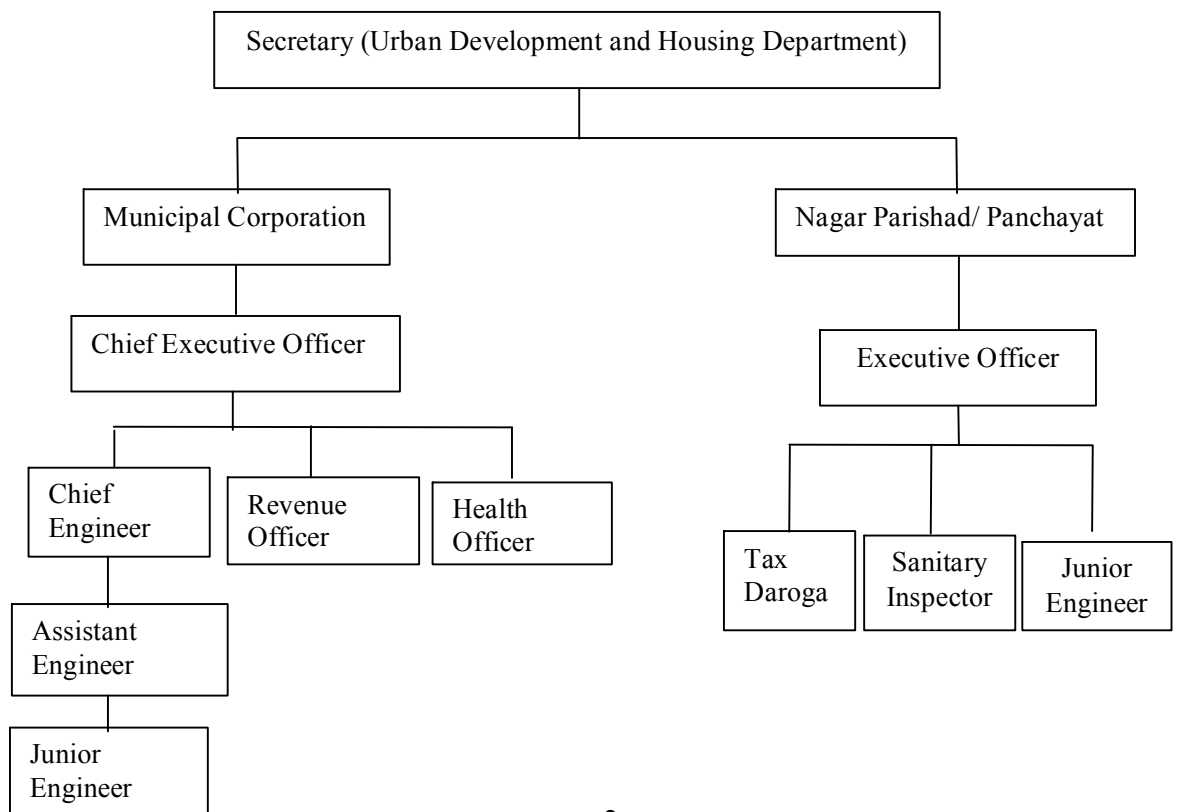
The Chairman/ Mayor elected by the majority of Councillors/Commissioners, is the executive head of the ULB and presides over the meetings of the Board. The executive power of a ULB is exercised by the Board. To assist the Board, various Committees and Ward Committees are functioning.

The Chief Executive Officer/ Executive Officer appointed by the State Government is a whole time officer of the Corporation/ Nagar Parishad/ Nagar Panchayat for the purpose of administrative control of the ULB. Other officers are also appointed to discharge specific functions.

Elected Body



Administrative Setup



1.4 Financial Profile

The ULBs are financed by receipts from their own resources, loans raised and grants and assistance received from Central/State Governments or from any other institutions. Under the provisions of the acts in force, all collections such as tax on holdings, water tax, latrine tax, tax on vehicle, trades, professions, calling and employments, fees on the registration of vehicles kept or used or plying for hire, rent on shops and buildings, tolls and other fees and charges, etc. constitute the main source of revenue. The State Government releases grants-in-aid and loans to the ULBs to compensate their establishment expenses. Grants and assistance are received from the Central/State Government for implementation of specific schemes and projects.

1.5 State Finance Commission (SFC)

The first State Finance Commission constituted in April 1994 did not make any recommendation. Second SFC constituted in June 1999 submitted five interim reports between September 2001 to November 2003. The commission made the following important recommendations:-

1. Devolution of funds of the State Government to the ULBs should be assessed by taking into account the resources and requirement of the ULBs together with the capacities of the State Government to spare fund. The Municipal Annual Budget should be made the document for assessing the resources and responsibilities of the ULBs.
2. The Eleventh Finance Commission (EFC) Grant may be distributed amongst the ULBs as per following principle.
 - 20 percent on the basis of area
 - 80 percent on the basis of population as per census figure of 2001
3. Urban Development Department (UDD) should work out acceptable and equitable indices regarding (a) provision of basic civic services and (b) revenue generation efforts of ULBs and put the ULBs on notice that after two years; the distribution formula of EFC grant shall take the performances on these two points into account.

The third SFC was constituted in June 2004 submitted the following recommendations in November 2004.

1. The entire salary and retirement liability of local bodies may be borne by the local bodies themselves.
2. An amount not exceeding 3 percent of the state's total tax revenue from its own taxes shall be set apart in the annual budget for providing matching grants to ULBs and Zila Parishads. The distribution shall be made on the basis of total resources raised from own sources in the preceding financial year.
3. The State Government should ensure close supervision and provide help to the local bodies to raise and enhance their resources towards self reliance.
4. Patna Model of the holding tax assessment rates may be applied by the state.
5. The local bodies may seek financial helps for creating revenue generating assets from the financial institutions without Government grants.
6. Actual salary requirements of regular employees working in local bodies against sanctioned post should be borne by the State Government in the first year and afterwards 20 percent cost should be made in each year so that at the end of 5th year the assistance may be stopped.
7. The ULBs may be paid one time grant for developing database and manpower requirements as per following details:-

	(Rs. In Lakh)
Patna Municipal Corporation(PMC)	15.00
Other Municipal Corporation	10.00
Nagar Parishad	2.50
Nagar Panchayat	0.50

Out of above seven recommendations made by the SFC, only four recommendations (serial no. 2, 4, 6 and 7 above) have been accepted and implemented by the State Government.

1.6 Application of Funds

As per section 67 and 68 of B&OMA, 1922, the Municipal Fund is applicable to:-

- (a) firstly, for payment of liabilities and obligations arising from a trust legally imposed upon or accepted by the Government.
- (b) secondly, for repayment of loan and interest under the provisions of the Local Authorities Loan Act (LALA), 1914; and
- (c) thirdly, for payment of salaries and allowances of their own establishment.

Section 74 of BMA, 2007 states that the Municipal Fund shall be applied for payment of all sums, charges and costs necessary for carrying out the purposes of this act and the rules and the regulations made there under and for payment of all sums payable out of the Municipal Fund under any other law for the time being in force.

1.7 Role of Empowered Standing Committees with respect to Audit Reports

As per Section 91 (6) of BMA, 2007 the Empowered Standing Committee (ESC) was required to consider the Audit Report as early as possible and if necessary, to take prompt action therein and shall also, if necessary, to surcharge the amount of any illegal payment on the person making or authorising it and to charge against any person responsible therein for the amount of any deficiency or loss incurred by negligence or misconduct of such person or any amount which ought to have been but is not brought into account by such person to certify the amount due from such person. However, constitution of ESC as required under Section 21 (1) was reported by only 5 ULBs (Table - 1).

Table -1

Constitution of Empowered Standing Committees in ULBs

Sl.No.	Name of ULB	Date of constitution of Empowered Standing Committee	No. of meetings held	Position as on
	Chakia Nagar Panchayat	23.06.07	3	12.05.2008
	Sasaram Nagar Parishad	28.08.07	9	14.05.2008
	Madhepura Nagar Parishad	24.07.07	3	02.06.2008
	Buxar Nagar Parishad	15.06.07	1	27.08.2008
	Motipur Nagar Panchayat	18.07.07	5	07.05.2008

Source: File No. L.A. Sur-13893

Status of constitution of ESCs in remaining ULBs was not ascertainable as they did not reply to our queries. Similar comments were also made in last Annual Audit Report.

1.8 Accounting Arrangements

Under Section 87 of the BMA, 2007 the State Government is required to prepare and maintain a manual to be called Municipal Accounting Manual containing details of all financial matters and procedures relating thereto in respect of municipality. This manual is yet to be prepared. Section 88 and 89 *ibid*, provides for preparation of Annual Financial Statements containing Income and Expenditure Account and Balance Sheet in the formats to be notified by the Government of Bihar. These statements are yet to be prepared by ULBs, rather all the ULBs are maintaining records as per provisions contained in old Bihar Municipal Accounts Rules (BMAR), 1928.

However, a MoU has been signed between the Urban Development and Housing Department (UD & HD), State of Bihar and Planning & Resources on Urban Development Affairs (PRUDA) of All India Institute of Local Self Government for preparation of Municipal Accounts Code and training and implementation of Accrual Based Double Entry Accounting System in 49 ULBs on 05.12.2007. The work is in progress.

1.9 Audit Arrangements

The Accounts of ULBs are subject to audit under the Bihar and Orissa Local Fund Audit (LFA) Act, 1925. The Act also provides for the Examiner of Local Accounts (ELA), Bihar as the sole auditor to carry out the mandate. With the enactment of BMA, 2007 and provisions there under, the State Government, in exercise of power conferred under Section 91 (1) of the act, appointed the ELA, Bihar as Auditor of the ULBs and the audit is to be conducted under the provisions of the LFA Act, 1925. Accordingly, the ELA, Bihar functions as the sole auditor of ULBs under the supervision of the Principal Accountant General (Audit), Bihar. The ELA is assisted by the Local Audit Department (LAD) to discharge his duties and responsibilities.

1.10 Audit Coverage

Out of 122 ULBs, audit of 43 ULBs¹ covering the financial year upto 2006-07 was conducted during the year 2007-08. This Annual Report discusses the important audit findings in 43 ULBs audited during the year 2007-08.

¹ **Nagar Nigam-** Ara, Bhagalpur, Biharsharif, Darbhanga, Gaya, Muzaffarpur, Patna. **Nagar Parishad-** Barahia, Begusarai, Bettiah, Danapur, Fulwarisharif, Jainagar, Jamalpur, Kishanganj,