

### 3.1 Introduction

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. The Rajasthan Municipalities Act, 2009 was enacted by repealing all the prevailing municipal laws and enactments<sup>1</sup>.

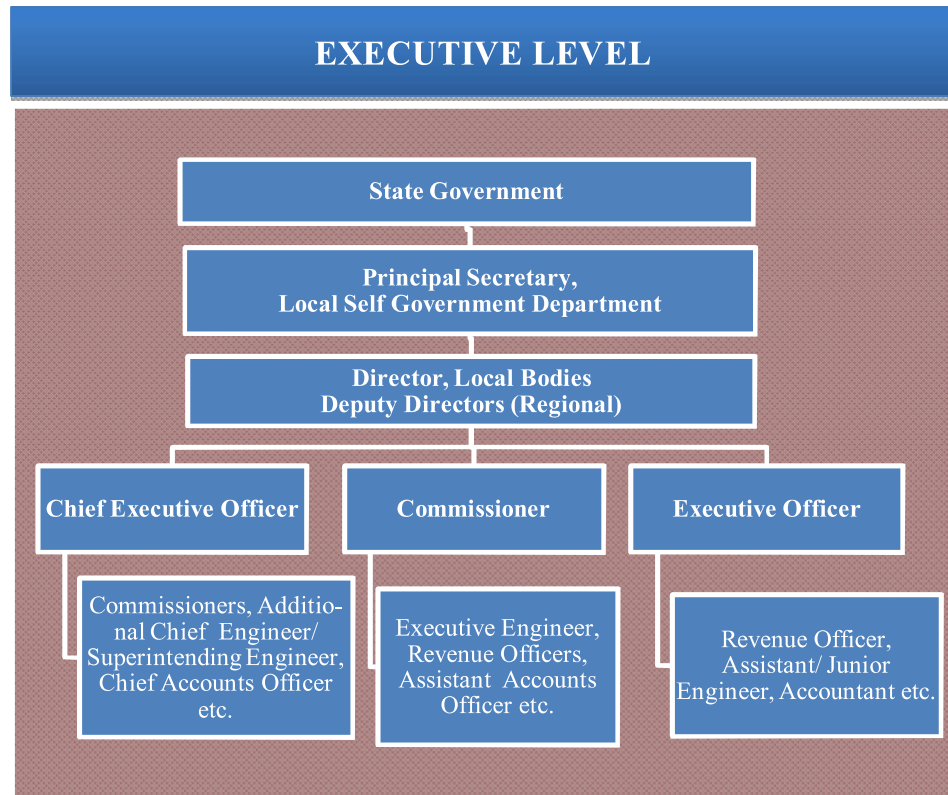
As per census 2001, the urban population of Rajasthan was 1.32 crore, which constituted 23.36 *per cent* of the total population (5.65 crore) of the State. In Rajasthan State, there were three Municipal Corporations<sup>2</sup> (M Cors), 11 Municipal Councils<sup>3</sup> (MCs) and 169 Municipal Boards<sup>4</sup> (MBs) as on 31 March 2008 and five M Cors, 13 MCs and 165 MBs as of November 2010.

### 3.2 Organisational set up

The administrative department dealing with affairs of the urban local bodies (ULBs) is Local Self Government Department (LSGD). The department is headed by Principal Secretary, LSGD at Government level and by Director at

1. Bikaner Municipal Act, 1923; Udaipur City Municipal Act, 1945; Alwar State Municipalities & Small Towns Act, 1934 and Rajasthan Municipalities Act, 1959 etc.
2. Municipal Corporations, Jaipur, Jodhpur and Kota.
3. Municipal Councils, Ajmer, Alwar, Beawar, Bharatpur, Bhilwara, Bikaner, Pali, Sikar, Sriganganagar, Tonk and Udaipur.
4. Municipal Boards, Class-II (with population 50,000-99,999): 39, Class-III (with population 25,000-49,999): 58 and Class-IV (with population less than 25,000): 72.

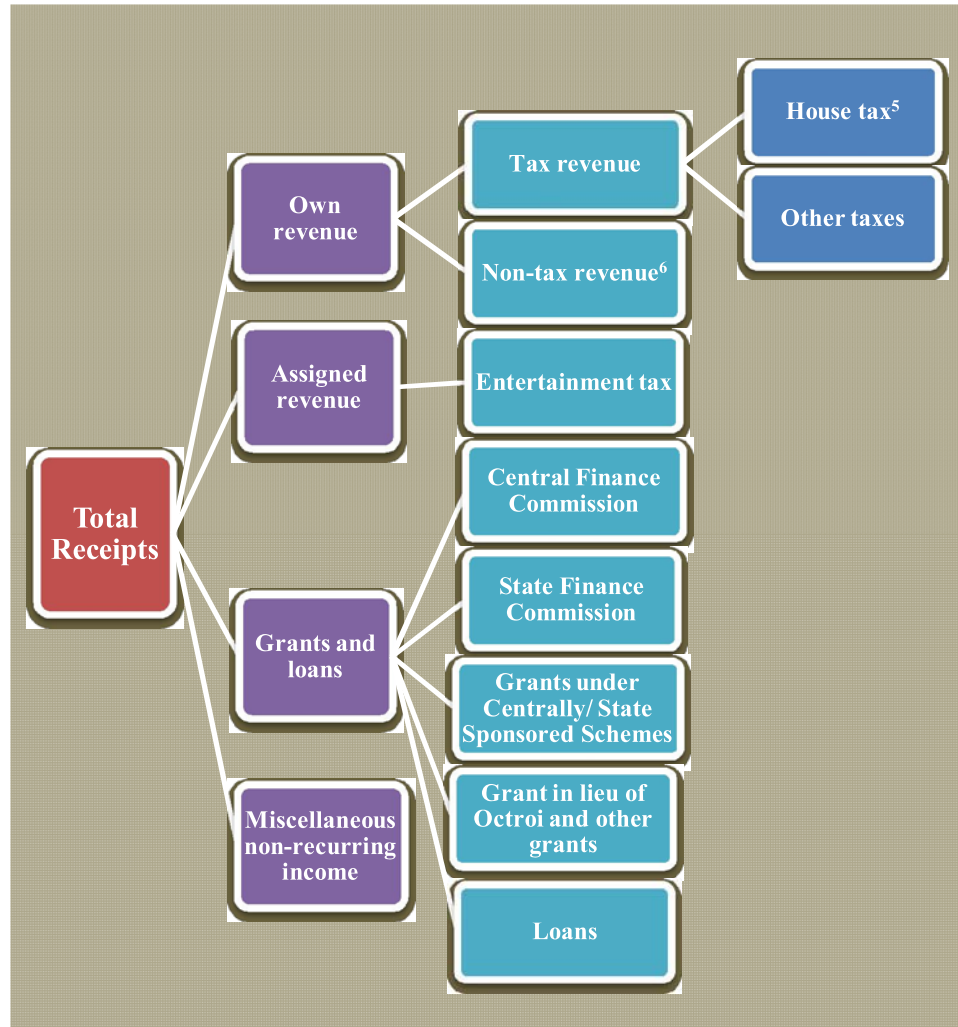
Directorate Local Bodies level. An organisational chart combining the State Government administrative machinery with ULBs is given below:



### 3.3 Financial management

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

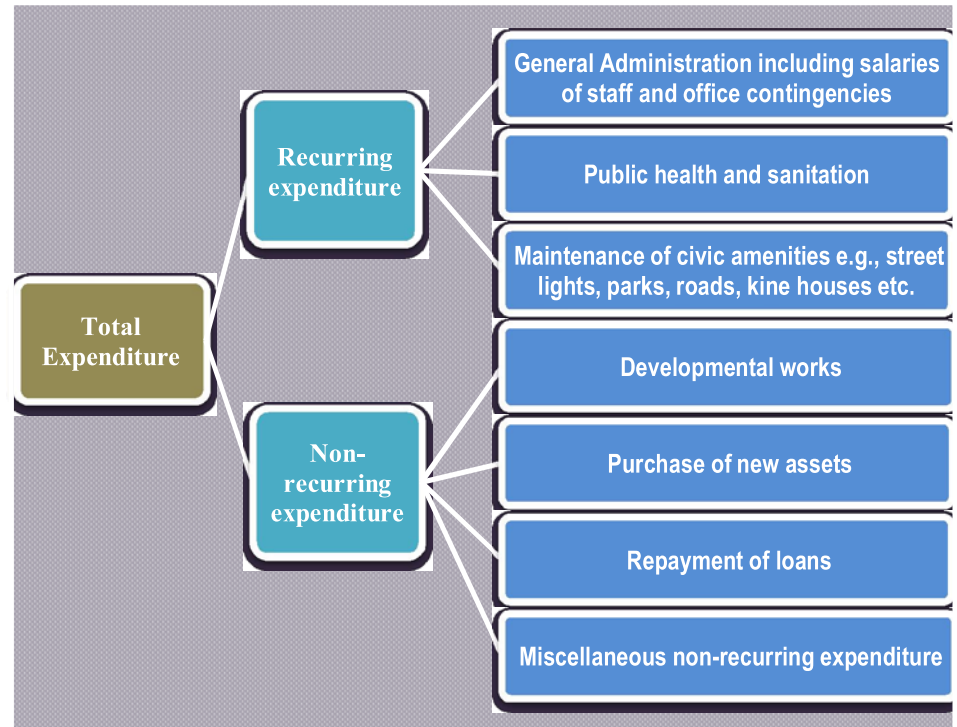
Various sources of receipts of ULBs are depicted as under:



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

6. Income under By-laws and Acts, income from assets, sale of land, interest on investment and miscellaneous recurring income.

Various items of expenditure of ULBs are depicted as under:



### 3.3.2 Receipts and expenditure

The total receipts and expenditure of the ULBs during 2003-08 were as under:

(i) **Receipts:**

(₹ in crore)

Sources of receipts	2003-04		2004-05		2005-06		2006-07		2007-08	
(A) Own revenue										
(a) Tax revenue	26.81	(3.57)	21.80	(2.48)	41.23	(3.89)	27.56	(2.31)	22.87	(1.53)
(b) Non-tax revenue	74.22	(9.87)	159.93	(18.22)	233.84	(22.09)	300.53	(25.15)	444.76	(29.84)
<b>Total (A)</b>	<b>101.03</b>	<b>(13.44)</b>	<b>181.73</b>	<b>(20.70)</b>	<b>275.07</b>	<b>(25.98)</b>	<b>328.09</b>	<b>(27.46)</b>	<b>467.63</b>	<b>(31.37)</b>
(B) Assigned revenue	5.40	(0.72)	1.47	(0.17)	1.07	(0.10)	-	-	-	-
(C) Grants and loans	530.31	(70.53)	602.61	(68.63)	666.24	(62.93)	749.61	(62.74)	863.25	(57.91)
(D) Miscellaneous non-recurring income <sup>7</sup>	115.10	(15.31)	92.19	(10.50)	116.37	(10.99)	117.02	(9.80)	159.80	(10.72)
<b>Grand Total (A to D)</b>	<b>751.84</b>		<b>878.00</b>		<b>1,058.75*</b>		<b>1,194.72*</b>		<b>1,490.68*</b>	

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

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

\* Figures in respect of 2005-06 and 2006-07 do not include grants released under recommendations of Twelfth Finance Commission and Third State Finance Commission and in respect of 2007-08 do not include grants released under recommendations of Third State Finance Commission as intimated by the State Government (April 2010) and Chief Accounts Officer, Directorate Local Bodies, Rajasthan, Jaipur (August 2010) respectively.

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

(ii) Expenditure:

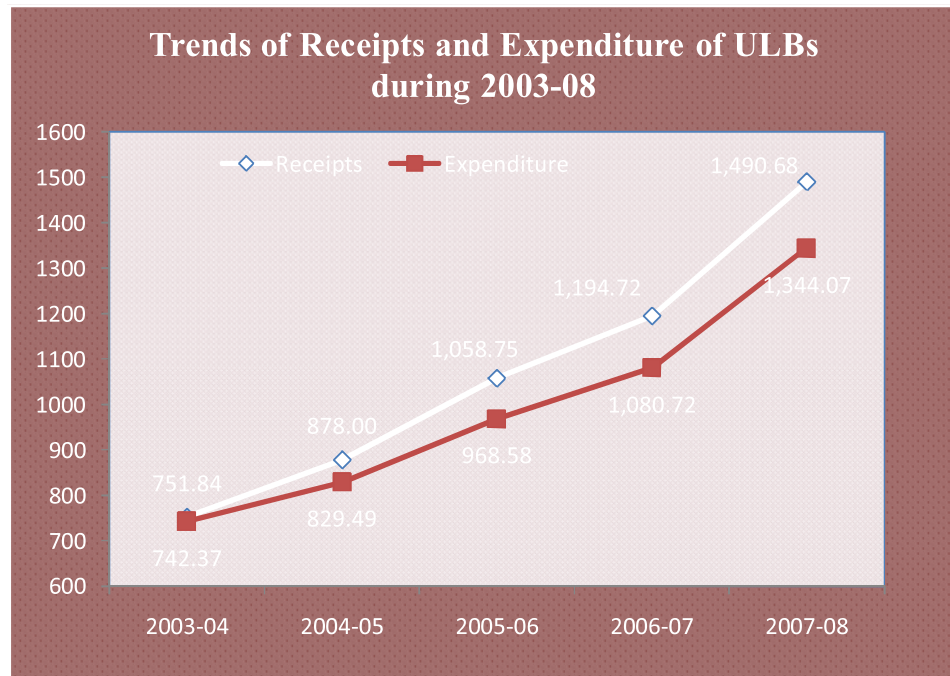
(₹ in crore)

Items of Expenditure	2003-04		2004-05		2005-06		2006-07		2007-08	
(A)Recurring expenditure	419.34	(56.49)	484.38	(58.39)	524.98	(54.20)	594.53	(55.01)	666.30	(49.57)
(B) Non-recurring expenditure										
(a)Expenditure on developmental works	200.42	(27.00)	233.13	(28.11)	282.08	(29.12)	330.38	(30.57)	538.63	(40.08)
(b)Purchase of new assets	4.35	(0.59)	10.90	(1.32)	8.91	(0.92)	7.41	(0.69)	4.29	(0.32)
(c)Repayment of loans	7.48	(1.00)	11.23	(1.35)	13.92	(1.44)	8.42	(0.78)	13.42	(1.00)
(d)Miscellaneous non-recurring expenditure <sup>8</sup>	110.78	(14.92)	89.85	(10.83)	138.69	(14.32)	139.98	(12.95)	121.43	(9.03)
Total (B)	323.03	(43.51)	345.11	(41.61)	443.60	(45.80)	486.19	(44.99)	677.77	(50.43)
Grand Total (A+B)	742.37		829.49		968.58*		1,080.72*		1,344.07*	

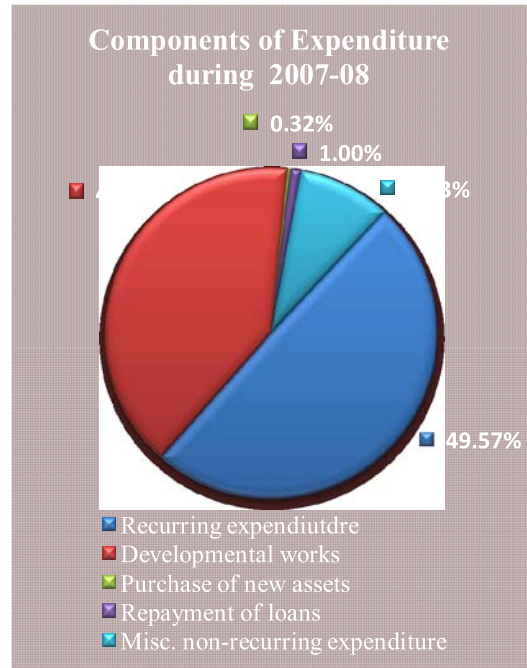
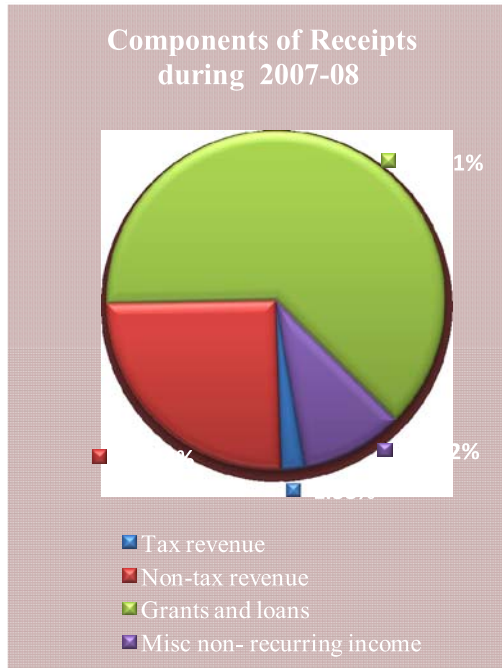
Source: As per data provided by Directorate, Local Bodies, Rajasthan, Jaipur.

Note :Note: Figures in brackets denote percentage to the total expenditure.

\* Figures in respect of 2005-06 and 2006-07 do not include expenditure incurred out of grants released under recommendations of Twelfth Finance Commission and Third State Finance Commission and in respect of 2007-08 do not include expenditure incurred out of grants released under recommendations of Third State Finance Commission as intimated by the State Government (April 2010) and Chief Accounts Officer, Directorate, Local Bodies, Rajasthan, Jaipur (August 2010) respectively.



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

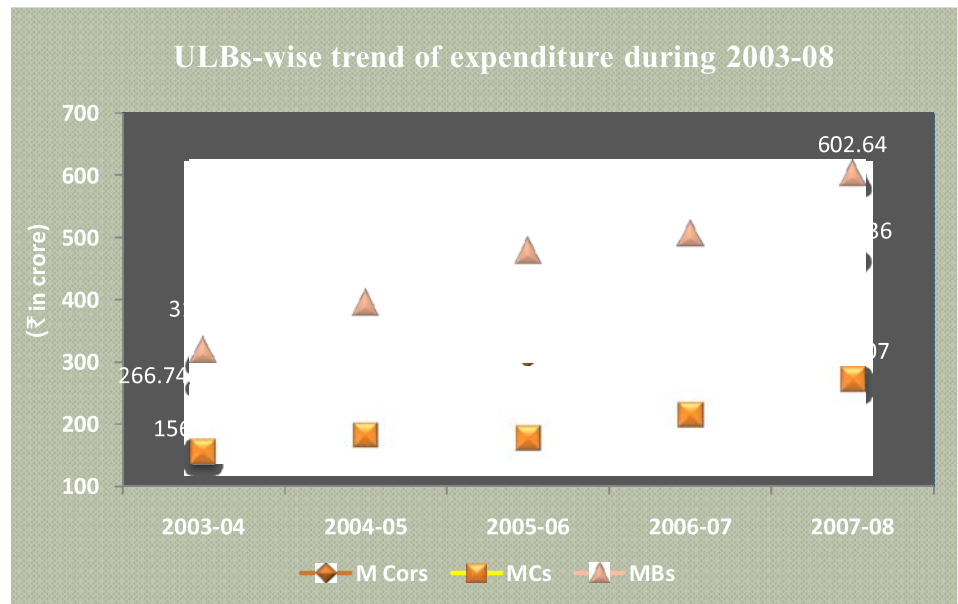
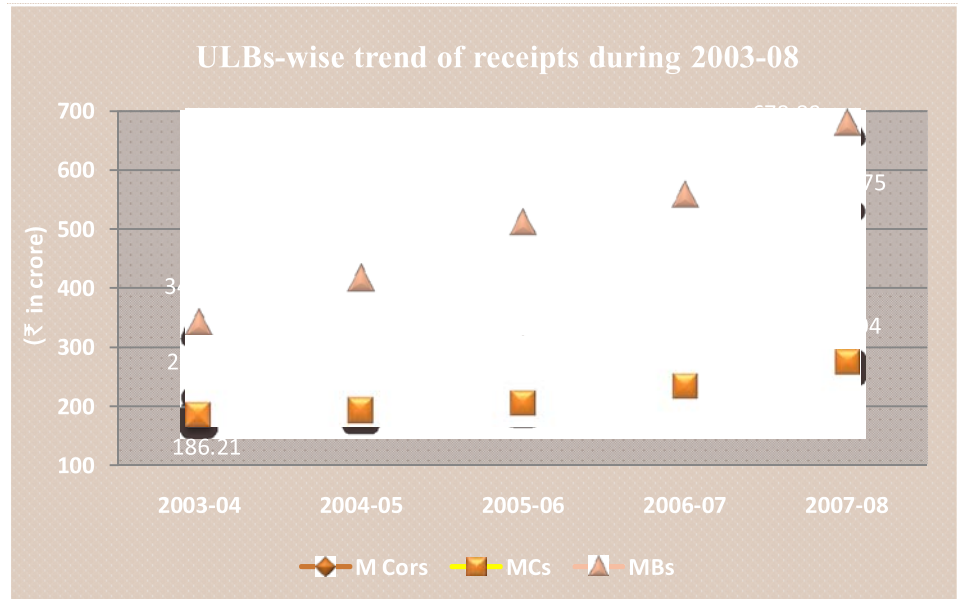


(iii) The category-wise break-up of receipts and expenditure of ULBs is as under:

(₹ in crore)

Category of ULBs	2003-04		2004-05		2005-06		2006-07		2007-08		Percentage of increase (+)/ decrease (-) of 2007-08 with reference to 2006-07	
	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure
(A) Municipal Corporations (1) Jaipur	127.10	170.21	158.54	150.01	222.99	206.56	283.27	244.19	389.24	326.99	(+) 37.41	(+) 33.91
(2) Jodhpur	35.75	37.06	43.20	40.06	53.04	42.56	54.40	52.80	62.77	65.42	(+) 15.39	(+) 23.90
(3) Kota	61.29	59.47	66.08	61.01	67.09	62.83	65.50	62.56	85.74	76.95	(+) 30.90	(+) 23.00
<b>Total (A)</b>	<b>224.14</b>	<b>266.74</b>	<b>267.82</b>	<b>251.08</b>	<b>343.12</b>	<b>311.95</b>	<b>403.17</b>	<b>359.55</b>	<b>537.75</b>	<b>469.36</b>	<b>(+) 33.38</b>	<b>(+) 30.54</b>
(B) Municipal Councils (11)	186.21	156.32	193.91	183.01	205.58	178.25	234.48	215.31	274.04	272.07	(+) 16.87	(+) 26.36
(C) Municipal Boards (169)	341.49	319.31	416.27	395.40	510.05	478.38	557.07	505.86	678.89	602.64	(+) 21.87	(+) 19.13
<b>Grand Total (A+B+C)</b>	<b>751.84</b>	<b>742.37</b>	<b>878.00</b>	<b>829.49</b>	<b>1,058.75</b>	<b>968.58</b>	<b>1,194.72</b>	<b>1,080.72</b>	<b>1,490.68</b>	<b>1,344.07</b>	<b>(+) 24.77</b>	<b>(+) 24.37</b>

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 Central and State Governments being 70.53 per cent, 68.63 per cent, 62.93 per cent, 62.74 per cent and 57.91 per cent during 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 respectively.
- Tax revenue of ULBs had decreased by 17.02 per cent during 2007-08 due to less recovery of tax on land and building (house tax) etc.
- While recurring expenditure had increased by 12.07 per cent from ₹ 594.53 crore in 2006-07 to ₹ 666.30 crore in 2007-08, the expenditure on

purchase of new assets decreased by 42.11 *per cent* from ₹ 7.41 crore in 2006-07 to ₹ 4.29 crore in 2007-08.

- The recurring expenditure on pay and allowances of the staff, office contingencies, maintenance of civic services, public health and sanitation etc. amounted to 49.57 *per cent* of the total expenditure in 2007-08 whereas it was 54.20 *per cent* and 55.01 *per cent* in 2005-06 and 2006-07 respectively.
- In MCs while receipts had increased by 16.87 *per cent* from ₹ 234.48 crore in 2006-07 to ₹ 274.04 crore in 2007-08, expenditure had increased by 26.36 *per cent* from ₹ 215.31 crore in 2006-07 to ₹ 272.07 crore in 2007-08.
- In M Cor, Jodhpur while receipts had increased by 15.39 *per cent* only, expenditure had increased by 23.90 *per cent* in 2007-08 as compared to 2006-07.

### 3.3.3 Own revenue

3.3.3.1 The category-wise position of 'Own Revenue' realised by the ULBs and the percentage of own revenue to total receipts is as under:

(₹ in crore)

Category of ULBs	2006-07				2007-08			
	Tax	Non-Tax	Total own revenue	Percentage of own revenue to total receipts	Tax	Non-Tax	Total own revenue	Percentage of own revenue to total receipts
(A) Municipal Corporations								
(1) Jaipur	10.55	124.56	135.11	47.70	6.59	195.59	202.18	51.94
(2) Jodhpur	0.94	15.97	16.91	31.08	0.09	19.25	19.34	30.81
(3) Kota	2.50	4.20	6.70	10.23	2.70	19.12	21.82	25.45
<b>Total (A)</b>	<b>13.99</b>	<b>144.73</b>	<b>158.72</b>	<b>39.37</b>	<b>9.38</b>	<b>233.96</b>	<b>243.34</b>	<b>45.25</b>
(B) Municipal Councils (11)	6.14	40.49	46.63	19.89	3.72	49.61	53.33	19.46
(C) Municipal Boards (169)	7.43	115.31	122.74	22.03	9.77	161.19	170.96	25.18
<b>Grand Total (A+B+C)</b>	<b>27.56</b>	<b>300.53</b>	<b>328.09</b>	<b>27.46</b>	<b>22.87</b>	<b>444.76</b>	<b>467.63</b>	<b>31.37</b>

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

The analysis of the above indicates that:

- During the year 2007-08, total 'own revenue' of ULBs accounted for 31.37 *per cent* of their total receipts.



- There was increasing trend in own revenue of ULBs; it increased 53.31 per cent, 14.37 per cent and 39.29 per cent in M Cors, MCs and MBs respectively during 2007-08 mainly due to increased collection of income under By-laws, income from assets, sale of land and interest on investments etc.
- Own revenue of M Cor, Kota had increased by 225.67 per cent from ₹ 6.70 crore in 2006-07 to ₹ 21.82 crore mainly due to enhanced recoveries on account of taxes on vehicles, terminal tax, income from By-laws, interest on investments, sale of land etc.

**3.3.3.2** 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 M Cors during 2006-08 is as under:

(₹ in crore)

Name of Corporation	Tax Revenue						Non-tax Revenue (excluding miscellaneous receipts)					
	2006-07			2007-08			2006-07			2007-08		
	Projected	Actual		Projected	Actual		Projected	Actual		Projected	Actual	
Jaipur	40.00	10.55	(26)	5.00	6.59	(132)	69.40	58.13	(84)	133.75	53.45	(40)
Jodhpur	13.62	0.94	(7)	13.62	0.09	(1)	9.34	3.45	(37)	8.16	2.78	(34)
Kota	23.10	2.50	(11)	4.06	2.70	(67)	2.51	4.49	(179)	7.43	7.58	(102)

*Source: As per figures adopted in the annual accounts of respective Municipal Corporations.*  
*Note: Figures in brackets denote the percentage of actual realisation to the projected revenue.*

The above trend indicates that during 2007-08 the realisation of tax revenue against the revenue projected in respect of three Municipal Corporations ranged one to 132 per cent whereas realisation of non-tax revenue ranged 34 to 102 per cent. This indicated that targets need to be fixed realistically. Further, it was also noticed that M Cors, Jaipur and Jodhpur had not fixed targets for realisation of Urban Development tax which reflects lack of monitoring on part of departmental authorities in realisation of tax revenue.

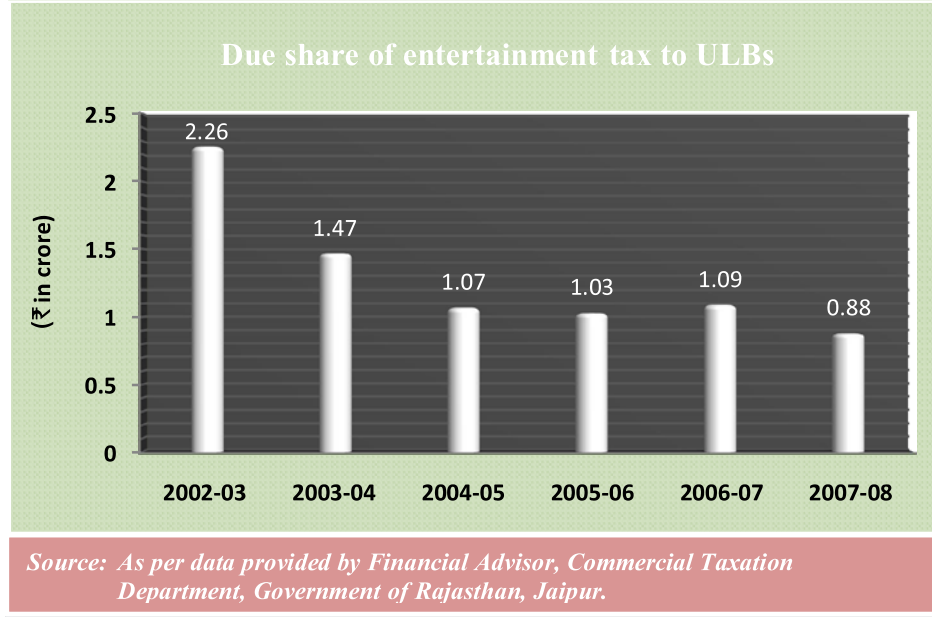
### 3.3.4 Assigned Revenue (Entertainment Tax)

The Second State Finance Commission had recommended 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 the State Government (Commercial Taxation and Finance Departments) to ULBs during the year 2002-03 was ₹ 2.26 crore which gradually declined (61.06 per cent) to ₹ 0.88 crore during the year 2007-08 due to relaxation in entertainment tax on newly constructed cinema halls, theatres etc. and reduction in rate of entertainment

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

tax from 70 per cent to 50 per cent since January 2004. The State Government had not released any amount of entertainment tax to ULBs during 2007-08. However, the due share of entertainment tax for the years 2005-06 to 2007-08 of ₹ 3 crore was released (January 2009) to ULBs by the State Government during the year 2008-09.



### 3.3.5 Twelfth Finance Commissions grants

Under recommendations of Twelfth Finance Commission, grant of ₹ 44.00 crore was due to be released to ULBs for the year 2007-08 but that grant was released during 2008-09 as per details given below:

**(₹ in crore)**

Due amount of grant	Amount released by GOI	Amount released by State Government	Utilisation status
22.00 (First instalment)	22.00 (23.05.2008)	22.00 (04.06.2008)	Out of ₹ 44.00 crore, ₹ 41.36 crore was utilised up to March 2009.
22.00 (Second instalment)	22.00 (24.10.2008)	22.00 (06.11.2008)	
<b>Total</b>	<b>44.00</b>	<b>44.00</b>	

### 3.3.6 Recurring and non-recurring expenditure

The position of recurring and non-recurring expenditure incurred in ULBs during 2003-08 is as under:

(₹ in crore)

Category of ULBs	2003-04			2004-05			2005-06			2006-07			2007-08		
	RE	NRE	Total	RE	NRE	Total	RE	NRE	Total	RE	NRE	Total	RE	NRE	Total
(A) Municipal Corporation	90.84	79.37	170.21	98.23	51.78	150.01	116.78	89.78	206.56	146.44	97.75	244.19	157.12	169.87	326.99
(1) Jaipur	(53)			(65)			(57)			(60)			(48)		
(2) Jodhpur	28.65	8.40	37.05	31.64	8.42	40.06	34.87	7.69	42.56	38.30	14.50	52.80	44.32	21.10	65.42
	(77)			(79)			(82)			(73)			(68)		
(3) Kota	43.49	15.98	59.47	38.73	22.28	61.01	40.58	22.25	62.83	43.07	19.49	62.56	51.38	25.57	76.95
	(73)			(63)			(65)			(69)			(67)		
Total (A)	162.98	103.75	266.73	168.60	82.48	251.08	192.23	119.72	311.95	227.81	131.74	359.55	252.82	216.54	469.36
	(61)			(67)			(62)			(63)			(54)		
(B) Municipal Councils (11)	95.94	60.38	156.32	111.95	71.06	183.01	113.10	65.15	178.25	132.57	82.74	215.31	152.06	120.01	272.07
	(61)			(61)			(63)			(62)			(56)		
(C) Municipal Boards (169)	160.42	158.90	319.32	203.83	191.57	395.40	219.65	258.73	478.38	234.14	271.72	505.86	261.42	341.22	602.64
	(50)			(52)			(46)			(46)			(43)		
Grand Total (A+B+C)	419.34	323.03	742.37	484.38	345.11	829.49	524.98	443.60	968.58	594.52	486.20	1,080.72	666.30	677.77	1,344.07
	(56)			(58)			(54)			(55)			(50)		

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

Note: RE :RE: Recurring expenditure and expenditure and NRE :NRE: Non-recurring expenditure. Figures in brackets denote the percentage of recurring expenditure to the total expenditure.

The above financial trend indicates that:

- Recurring expenditure of M Cor, Kota grew by 19.29 per cent from ₹ 43.07 crore in 2006-07 to ₹ 51.38 crore in 2007-08 due to increase in expenditure on public health services, street light and pay and allowances of employees.
- Non-recurring expenditure of M Cor, Jaipur grew by 73.78 per cent from ₹ 97.75 crore in 2006-07 to ₹ 169.87 crore in 2007-08 mainly due to increase in expenditure on developmental works and on purchase of new assets.

## 3.4 Devolution of functions and funds

### 3.4.1 Devolution of functions

- Seventy fourth Constitutional Amendment envisaged devolution of powers and responsibilities upon municipalities in relation to matters those listed in the Twelfth Schedule of the Constitution. There was no formal devolution of functions to ULBs. However, out of 18 functions listed in the

Twelfth Schedule of the Constitution, 16 functions (*Appendix-VIII*) were being performed by ULBs and remaining two functions i.e., water supply and urban planning were not being performed by ULBs. Chief Accounts Officer, Directorate Local Bodies Department (DLBD) intimated (June 2009) that town planning function is partially being performed by ULBs and water supply functions would be transferred in phased manner to ULBs. However, no orders have since been issued in this regard (March 2011). The function regarding land development in municipal areas is not wholly being performed by ULBs and it is also being performed by the separate bodies/agencies such as Jaipur Development Authority, Jodhpur Development Authority, Urban Improvement Trusts and Housing Boards.

- Section 104 of Rajasthan Municipalities Act (RMA), 1959 empowers ULBs to levy (i.e. assess and collect) the obligatory taxes (House tax, Octroi and Professional tax) at such rate, from such date and in such manner as the State Government direct by notifications in the official gazette. House tax was abolished from 24 February 2007 but was re-imposed under the nomenclature of Urban Development tax from 29 August 2007. Even prior to abolition of the House tax it was not levied and recovered by as many as 60 ULBs of the State. Octroi was abolished by the State Government in August 1998.

- Section 105 of RMA, 1959 provides that subject to general or specific orders of the State Government, the ULBs may impose certain discretionary taxes (tax on vehicle, tax on dog/animals etc.). Though the percentage of own revenue of ULBs was ranged 13.44 to 31.37 during the years 2003-08 of the total receipts, even then discretionary taxes were not levied by most of the ULBs for augmentation of their own income.

### 3.4.2 Devolution of funds

- **Short release of State Finance Commission grants**

Article 243 I and 243 Y of the Constitution had made it mandatory for the State Government to constitute State Finance Commissions (SFCs) to work out the proper allocation of devolution of State funds to the local bodies. The State Government constituted three SFCs viz First SFC (1995-2000), Second SFC (2000-2005) and Third SFC (2005-2010).

While accepting (March 2006) the interim report of the Third SFC recommendation (for the years 2005-07) for release of 2.5 *per cent* of total State revenue, the State Government assured to release the grant as per the final recommendations. But while accepting (March 2008) the final recommendations of Third SFC the State Government agreed and released 3.5 *per cent* of total State revenue from 2008-09 instead of 2005-06 as assured

earlier. This resulted in short release of grant to the extent of ₹ 120.07 crore as detailed below:

(₹ in crore)

Year	Net State tax revenue	Share of net State tax revenue to be devolved to PRIs and ULBs (3.5 per cent of column 2)	Share of net State tax revenue to be devolved to ULBs only (24.30 per cent of column 3)	Actual release made by the State Government to ULBs	Short release
1	2	3	4	5	6 (4-5)
2005-06	9,752.97	341.35	82.95	53.75	29.20
2006-07	11,459.33	401.08	97.46	60.30	37.16
2007-08	13,116.71	459.09	111.56	57.85	53.71
<b>Total</b>	<b>34,329.01</b>	<b>1,201.52</b>	<b>291.97</b>	<b>171.90</b>	<b>120.07</b>

(Source: C&AG's Audit Report (Revenue Receipts) Government of Rajasthan for the year ending 31 March 2008) and Budget Estimates of Government of Rajasthan for the years 2007-10.

From the above tables it would also be seen that against SFC's recommendations the actual devolution made by the State Government decreased from 64.80 per cent to 51.86 per cent during 2005-06 to 2007-08.

### 3.5 Database on finances and accounting arrangements

National Municipal Accounts Manual (NMAM) for ULBs in India developed by the Ministry of Urban Development, GOI under the guidance of C&AG of India was introduced in February 2005. Based on the NMAM, Rajasthan Municipal Accounts Manual has been prepared. The LSGD directed (December 2009) all ULBs to maintain the accounts on Accrual Based (Double Entry) Accounting System from 1 April 2010. As regards switching over to Accrual Based Accounting System in ULBs in first instance, the work was outsourced in respect of six ULBs<sup>10</sup> under Asian Development Bank project. In respect of remaining 177 ULBs, Rajasthan Urban Infrastructure Finance Development Corporation had been authorised as a Nodal Agency for facilitating the task of outsourcing this work (April 2010).

### 3.6 Budgetary control and maintenance of accounts

The LSGD has to exercise control over ULBs while according sanction on annual budget and to exercise effective monitoring of quarterly returns received from ULBs. The performance of the ULBs in relation to budgetary control and maintenance of accounts was not effective due to weak internal

10. Municipal Corporations, Jaipur, Jodhpur, Kota and MCs, Ajmer, Bikaner and Udaipur.

control mechanism resulting in deficient fund management, ineffective monitoring of activities etc. as detailed in the succeeding paragraphs.

### 3.6.1 *Non-rectification of differences between cash books and Personal Deposit/Bank pass books*

Rajasthan Municipalities Accounts Rules (RMARs), 1963 provide that at the end of each month the receipt and expenditure entered in the general cash book should be compared with those appearing in the pass books of Personal Deposit (PD)/ bank accounts and difference if any should be explained in the footnote of the cash book. The DLB also instructed (November 2001 and August 2002) the ULBs to conduct reconciliation of differences between the balance of cash books and the pass books every month.

It was observed that five MBs had not rectified the difference of ₹ 47.24 lakh (**Appendix-IX**) as on 31 March 2007 between cash books and PD/Bank pass books. There were exceptionally huge differences in MBs, Srikaranpur (₹ 13.51 lakh), Gangapur City (₹ 12.96 lakh) and Baran (₹ 12.50 lakh).

On this being pointed out, two MBs stated (July-November 2007) that rectification would now be done. Remaining three MBs did not furnish any reply. After similar type of objection having pointed out in Audit Reports for the years 2005-06 and 2006-07, LSGD DLBD directed (February 2010) all ULBs to conduct monthly reconciliation of cash book with bank accounts/ PD pass books and to send quarterly report to DLBD, Jaipur through Deputy Director (Regional). None of ULB has intimated any action taken in this regard (January 2011).

### 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 grants<sup>11</sup>.

It was observed that 26 ULBs had irregularly incurred excess expenditure of ₹ 4.94 crore (**Appendix-X**) over the sanctioned budget grants under 273 different items/schemes/heads of accounts during 2006-07, which indicated faulty budget estimation and financial indiscipline requiring regularisation or action against erring DDOs concerned. Excess expenditure was met out of unspent balances available under various other schemes and from own income of ULBs. This also points to weak budgetary control mechanism being followed in these ULBs.

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

On this being pointed out, eight ULBs stated that the excess expenditure would be regularised by obtaining *ex-post facto* sanction. ULBs, Alwar, Dholpur and Srivijaynagar did not mention any action to be taken for regularisation of excess expenditure in its reply while replies from 14 ULBs were awaited. MB, Bhadra replied that excess expenditure had been confirmed in its board meeting. The reply of MB was not tenable as expenditure was to be regularised by the sanctioning authority i.e., Deputy Director (Regional) concerned. After similar type of objection having pointed out in Audit Reports for the years 2005-06 and 2006-07, LSGD DLBD directed (February 2010) all ULBs not to incur excess expenditure over budget allotment in any circumstances. If excess expenditure is incurred over budget allotment the Executive Officer and official dealing with accounts would be responsible. None of ULB has intimated any action taken in this regard (January 2011).

### 3.6.3 Non-adjustment/recovery of advances

RMARs, 1963 stipulate that temporary advances made to individuals should be adjusted before the close of the year in which they are made and no fresh advance for a particular work should be made unless the previous one has been adjusted.

It was observed that in 22 ULBs advances of ₹ 4.70 crore sanctioned for developmental works, repair and maintenance of vehicles, election work, organising administrative camps, cleaning of ponds, travelling allowance, food grains etc. were outstanding against departments/contractors/employees etc. in 543 cases for two to 52 years as of March 2009 (*Appendix-XI*).

On this being pointed out, seven ULBs stated that action would be taken to recover/adjust the amount and replies from 14 ULBs were awaited. MC, Bhilwara did not mention any action to be taken for recovery/adjustment of advances lying outstanding in its reply.

However, the fact remains that inaction on the part of these ULBs in timely adjustment/recovery had resulted in accumulation of advances of ₹ 4.70 crore. This was also indicative of lack of effective internal control mechanism in these ULBs. Possibilities of recovery of outstanding advances since long are also remote. After similar type of objection having pointed out in Audit Reports for the years 2005-06 and 2006-07, LSGD DLBD directed (February 2010) all ULBs to adjust temporary advance, maximum within one month or completion the purpose for which it was sanctioned. All temporary advances should be adjusted before the close of the year and no fresh advance for a particular work should be made unless the previous one has been adjusted. None of ULB has intimated any action taken in this regard (January 2011).

## 3.7 Audit arrangements and position of entrustment of TGS to C&AG

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

The State Government entrusted (February 2011) Technical Guidance and Supervision (TGS) by the C&AG over audit of local bodies.

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

Director, Local Fund Audit Department (DLFAD) is the Statutory Auditor for accounts of ULBs.

Audit of five M Cors, 13 MCs and 140 MBs due as on 31 March 2008 by the DLFAD was pending as of September 2010 due to vacant posts of staff and involvement of staff in election duties.

### 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>12</sup>.

It was observed that:

(i) At the end of March 2010, 33,976 IRs issued by DLFAD upto 2007-08 containing 7,57,636 paragraphs remained pending for settlement. These included 252 cases of embezzlement of money amounting to ₹ 1.54 crore of which merely ₹ 12.95 lakh was recovered. Further, first compliance to 100 IRs was still awaited.

(ii) Seven hundred twenty two IRs containing 7,222 paragraphs issued during the years 2002-08 by office of the Principal Accountant General (Civil Audit) upto July 2004 and thereafter by office of the Senior Deputy Accountant General (Local Bodies Audit & Accounts) with effect from August 2004 to March 2008 were also pending for settlement as of September 2010 due to lack of satisfactory compliance of the paragraphs from ULBs/LSGD. The year- wise position of outstanding paragraphs is as under:

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



Year	Pending	
	Inspection Reports	Paragraphs
2002-03	3	47
2003-04	73	477
2004-05	129	1,373
2005-06	183	1,695
2006-07	192	1,983
2007-08	142	1,647
<b>Total</b>	<b>722</b>	<b>7,222</b>

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 eroded the accountability of the ULBs/departmental officers.

### 3.10 Impact of audit

During 2007-08, recoveries amounting to ₹ 5.45 lakh were made at the instance of C&AG's audit in 15 cases.

### 3.11 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 new assets actually declined in comparison to the increase in recurring expenditure.
- Inadequate budgetary and internal control mechanism in ULBs resulted in expenditure in excess of the allotted funds, piling up of differences in balances as per cash books and PD/Bank pass books and non-adjustment/recovery of outstanding advances against departments/contractors/employees etc. for a long time.
- Annual accounts of 177 out of 183 ULBs were still being maintained in the conventional formats on cash basis instead of accrual basis. The huge pendency of audit observations and delay in their settlement are fraught with the risk of continuance of irregularities/deficiencies observed during audit.
- The State Government had not released grants to ULBs as per recommendations of State Finance Commission.
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### 3.12 Recommendations

Following recommendations are made:

- The ULBs should take effective steps to augment their own resources by levying new taxes and increasing the tax base so as to minimise dependency on Government assistance and to provide better civic facilities. Monitoring of recovery of urban development tax needs to be put in place.
- ULBs should ensure that effective budgetary controls are in place by introducing incentive scheme. Further, the internal control mechanism needs to be strengthened to ensure prompt adjustment/recovery of advances and regular reconciliation and rectification of the differences between balances as per cash books and PD/Bank pass books.
- The Government should ensure proper and timely compliance to the audit observations and the audit committee meetings are held regularly with audit, auditee organisation and LSGD.
- The Government should take effective action to ensure maintenance of Annual Accounts by the remaining 177 ULBs on Accrual Based Accounting System.