

PART – B

Chapter - IV

ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

4 Introduction

4.1 Background

The 74th Constitutional amendment fundamentally altered the existing pattern of governance in the Indian federal structure. It had conferred constitutional status to ULBs and recognized these as the third tier of Government at the local level. The basic thrust was to endow the local bodies with adequate powers, functions, resources and responsibilities so as to make them viable and vibrant local self-government institutions. In its wake, the amendment intended to pave the way for smooth transition to fiscal decentralization at the grass root level.

There were 89 Urban Local Bodies (ULBs)¹⁹ in Assam (as of March 2010). Of these, 72 ULBs²⁰ were in General Areas and governed according to the provision of the Assam Municipal Act, 1956. The remaining 17 ULBs²¹ were within the jurisdiction of Sixth Schedule Area, governed by the rules framed by respective Autonomous District Councils (ADCs). The Third Assam State Finance Commission (TASFC) recommendations did not cover the ADC.

The Guwahati Municipal Corporation (GMC) was constituted under the Guwahati Municipal Corporation Act, 1971 and started functioning with effect from 15 February 1974.

The 74th Constitutional Amendment envisaged a three tier system of ULBs in the State which were as under:

- A Municipal Corporation for a larger urban area,

¹⁹ One Municipal Corporation (MC), 30 Municipal Boards (MBs) and 58 Town Committees (TCs).

²⁰ One MC, 29 MBs and 42 TCs

²¹ One MB and 16 TCs

- A Municipal Board for a smaller urban area,
- A Town Committee for transitional area.

4.1.1 Profile of ULBs

The total number of ULBs in the State increased from 87 to 89 as a result of reorganization of Gaon Panchayats (GPs). The number of ULBs of various categories as on March 2009 was as follows:

Sl No.	ULBs	Number	Areas in Sq KM	Population as per census 2001	Average Population	Density of Population per sq km
1	Municipal Corporation	1	216.00	808021	808021	3741
2	Municipal Board	30	257.25	1314070	43802	5108
3	Town Committees	58	215.43	594792	10255	2761

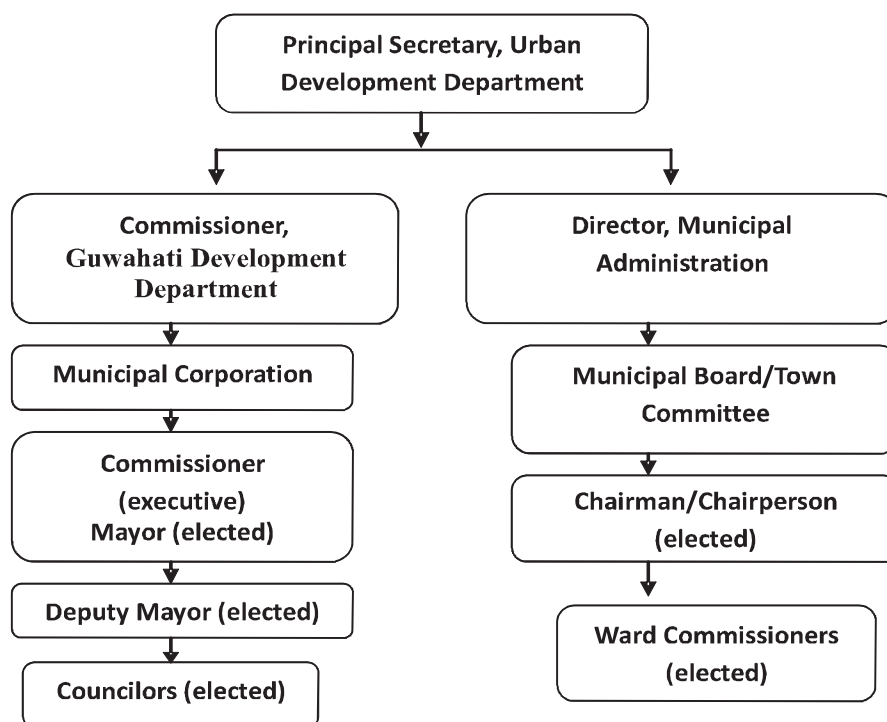
4.1.2 Classification of Towns

The towns were classified into different categories based on the population size. Towns with population of 1,00,000 and above are class-I towns, 50,000 to 99,999 are class-II towns, 20,000 to 49,999 are class-III towns, 10,000 to 19,999 are class-IV towns, 5,000 to 9999 are class-V towns and less than 5000 are class-VI towns. In the State, there are seven class-I towns, eight class-II towns, 21 class-III towns, 31 class-IV towns, 17 class-V towns and five class-VI towns.

4.2 Administrative Arrangement

4.2.1 Organisational setup

The overall administration of ULBs vests with the Principal Secretary, Urban Development Department (UDD) at Government level. The following organogram depicts the organizational structure of the department



4.2.2 Powers and functions

The ULBs were to function as institutions of self-government and to carry out the responsibilities conferred upon them. Some obligatory functions of the ULBs as envisaged in Section 162, 196, 211, 212 and 264 of Assam Municipal Act (AMA), 1956 were as follows:

- Water supply for public and private purpose;
- Construction and maintenance of sewage system and drainage system;
- Collection and disposal of solid waste;
- Construction and maintenance of streets, culverts *etc*;
- Construction and maintenance of public latrines, urinals and similar conveniences;
- Lighting of public streets and other public places;
- Construction and maintenance of markets;
- Town planning and development including preservation of monuments, places of historical and other importance;
- Overall administration including survey, removal of encroachments, dangerous buildings, registration of birth & deaths and pollution control of all kinds.

4.2.3 Devolution of Funds, Functions and Functionaries to ULBs

The State Government was yet to complete the process of decentralization fully in accordance with the provision contained in Article 243W of the Constitution, which enjoin State Governments to transfer 18 subjects to ULBs. However, out of 18 subjects, only eight were transferred to ULBs. Further, State Government had not transferred the functionaries required to carry out these functions.

The Principal Secretary, Urban Development Department (UDD) communicated (March 2010) that the matter of devolution of Fund, Functions and Functionaries to the ULBs in the state in conformity with the provision contained in Article 243W of the Constitution is under process.

4.2.4 Staffing pattern

There was no prescribed staffing pattern for ULBs. The number of employees of different ULBs did not conform to any norm based on population, area or other criteria. The department should make an assessment of the number of officers and staff of different categories required for proper functioning of each ULB. A clear policy in this regard needs to be laid down by the State Government keeping in view the skill requirement of personnel in the considering work loads entrusted to ULBs under different programmes, schemes and projects.

4.2.5 Training

In order to augment capacity building, the staff of ULBs would need frequent training in the field of micro-level planning and maintenance of accounts. The elected representatives also needed adequate training. The Urban Development Department could not provide any training for capacity building of the elected representatives and functionaries of ULBs as of February 2010.

4.2.6 Development of database formats on finances of ULBs

The Second State Finance Commission (SSFC), beyond the fiscal package, recommended the need for building up database in respect of Municipal finances. This recommendation was accepted by the State Government. The inputs for the database need to be collected and compiled in standard formats as prescribed by the CAG. Even after regular correspondence and requests the final action taken for development of database was awaited (February 2010).

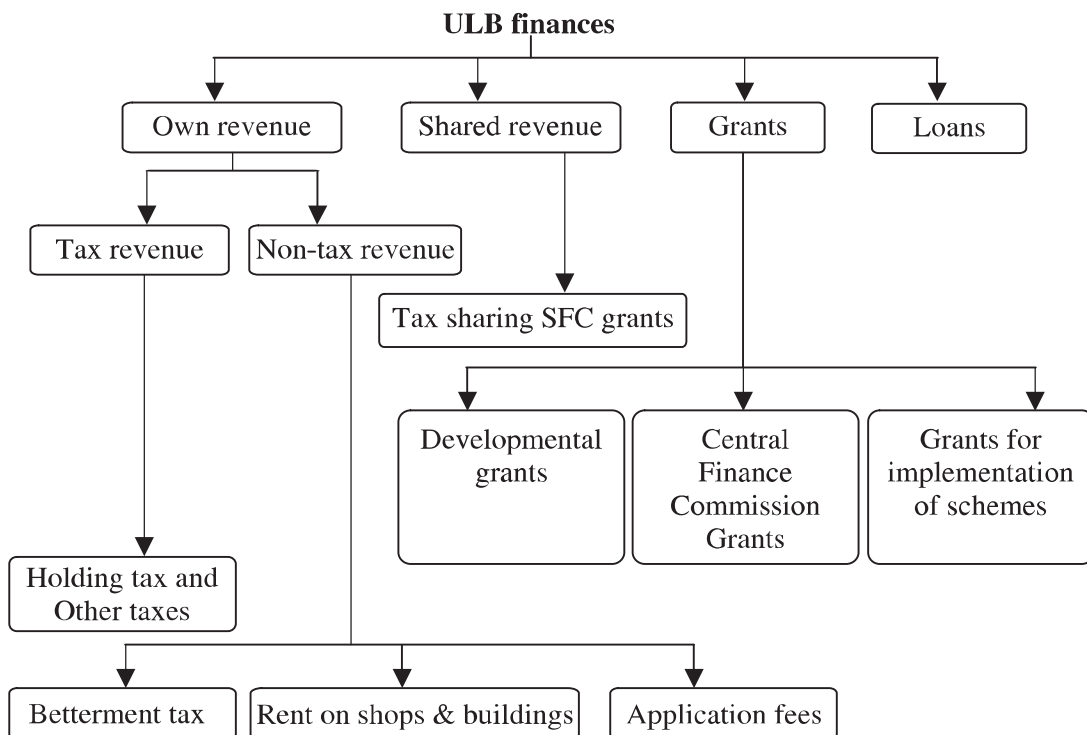
4.3 Financial profile

The ULB fund comprises receipts from its own sources, grants and assistance from Governments and loans obtained from any public financial institutions or nationalized banks or any other institutions.

4.3.1 Source of Revenue

There were two sources of revenue for the ULBs *viz.*, (a) Government Grants and (b) Own Revenue. Own revenue resources of ULBs comprised of Tax and Non-Tax revenue realized by them. Property Tax was the major source of revenue. Government grants comprised of funds released by the Central and State Governments based on recommendations of EFC, TFC, SFC and GOI's share for various Central Sector Schemes. Besides, loans were also obtained by them from financial institutions for implementation of various schemes relating to Urban Development, Water Supply and Roads *etc.*

A flow chart of finances of an ULB was as under:



Under the provision of the Acts in force all collections such as tax on holdings, water tax, latrine tax *etc.*, were source of tax revenue and building plan sanction fees, rent from

shops and buildings, tolls and other fees and charges constitute the main source of non-tax revenue. The State Government released grants-in-aid and loans to the ULBs to compensate their establishment expenses. Grants and assistance were also received from State Government and Central Government for implementation of specific schemes and projects. However, in the absence of a complete data base of finances of ULBs, the overall financial position of ULBs in the State could not be ascertained.

4.3.2 State Finance Commission Recommendations

The Third Assam State Finance Commission (TASFC), constituted on 06 February 2006, submitted its report to the Governor of Assam on 27 March 2008. It covered a period of five years from 2006-07 to 2010-11. The recommendations of the TASFC relating primarily to devolution of state taxes, grants-in-aids and debts relief of the ULBs, decentralization of fund, function and functionaries had been accepted but not implemented (February 2010). Out of 103 recommendations relating to both ULBs and PRIs, government accepted 88 in full while two recommendations were partially accepted, five recommendations were kept pending, two recommendation accepted with modification. Government negated four recommendations in total, one recommendation relating to Pay and Pension of GMC employees referred to the cabinet.

4.3.3 Allocation and release of fund

The State Government through budget provisions allocated ₹157.51 crore under various head of accounts (share of tax revenue, scheme fund, grant *etc.*, and GOI share of schemes and grants) during 2008-09 to ULBs. However, actual releases of fund to ULBs were ₹ 29.02 crore only, at 18.42 *per cent* of the budget provision. Reasons for less release were not intimated. Details of major head wise budget provision and expenditure are indicated in **Appendix-13**.

4.3.4 Large Savings under JNNURM

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched by Government of India (December 2005) to ensure sustainable development of selected cities undertaking reform at municipal level in thrust areas like potable water supply, sewage and sanitation, solid waste management, road network, transportation, integrated development of schemes, street lighting *etc.*

Budget provision, actual expenditure and excess/ savings under JNNURM operated by the Director Town and Country Planning, (T&CP) Assam, for the year 2008-09 are shown below:

(₹ in crore)				
Head of A/C	Name of scheme	Budget provision	Expenditure	Saving (-)/ Excess (+)
2217-Urban Development	IHSDP of JNNURM	21.71	2.52	(-) 19.19
-do-	UIDSMT of JNNURM	31.50	22.65	(-) 8.85
Total		53.21	25.17	(-) 28.04

It is seen from the above table that there were overall savings of ₹ 28.04 crore (53 percent) during 2008-09. Large savings implied that funds meant for sustainable development of selected ULBs remained largely unutilized. Director, T&CP attributed (March 2010) this non-utilization to sanction of the projects of ULBs at the end of financial year.

4.3.5 Short release of fund

As per information furnished by the Director, T&CP, receipt and release of fund under various schemes during 2008-09 were as under:

(₹ in crore)						
Sl No	Name of scheme	OB lying with Director T&CP	Amount drawn	Total fund	Amount released to ULBs	Closing Balance
1	IDSMT	2.12	0.56	2.68	2.14	0.54
2	UIDSSMT JNNURM	8.06	22.65	30.71	6.63	24.08
3	IHSDP of JNNURM	12.84	2.32	15.16	9.79	5.37
4	10 per cent Pool Fund	13.85	20.65	34.50	16.67	17.83
Total		36.87	46.18	83.05	35.23	47.82

During 2008-09, the Director, T&CP was to allocate ₹ 83.05 crore including balance of preceding years to Urban Local Bodies for implementation of the schemes. Against this, only ₹ 35.23 crore was released during the period resulting in short release of ₹ 47.82 crore thereby adversely affecting the implementation of the schemes. The Director, T&CP stated (March 2010) that due to non-submission of UCs for the previously released amounts, the funds were not transferred to ULBs. The Directorate

had drawn the amounts and kept the same in current account to avoid surrender of budget provision and released fund in the subsequent years. This indicates defective fund management and unrealistic assessment of fund requirement.

4.3.6 Twelfth Finance Commission Grants

The Twelfth Finance Commission (TFC) recommended grants-in-aid amounting to ₹55 crore for the ULBs of the State for five years period 2005-10. The annual allocation was ₹11 crore for the ULBs. The grants were recommended by the TFC for Local Bodies both in General and Sixth Schedule Areas of Assam. Apart from operation and maintenance of core civic services like water supply and sanitation and solid waste management in case of ULBs, the TFC grants were also earmarked for maintenance of accounts and creation of database by local bodies. However, earmarking of grants for the purpose had not been done by TFC and it was left to the discretion of the respective State Governments.

Government of India had so far released ₹33 crore of TFC to the State Government in six installments for the ULBs. Due to non-furnishing of Utilization Certificate (UC), the State Government did not receive ₹22 crore as grants relating to first and second installments of 2008-09 and 2009-10 till February 2010. As of December 2009, the State Government released ₹22.45 crore to ULBs against the receipt of ₹33 crore from GOI for the years 2005-08. The State Government released ₹0.66 crore as interest during 2009-10 to 89 ULBs for delayed release of TFC grants.

4.3.7 Non-release of TFC Grants

The State Government allocated ₹52.59 lakh during 2005-06 to Silchar Municipal Board (SMB) to be released in three equal installments of Rs.17.53 lakh each. The department disbursed ₹17.53 lakh being 1st installment of 2005-06 to SMB on 05.02.07 which was spent by the SMB as of March 2008. The 2nd installment of ₹17.53 lakh was however, released through the DC, Cachar on 30.3.09 for onward transmission to SMB. As per information gathered from the DC, Cachar, the 2nd installment of ₹17.53 lakh was drawn by the DC and kept in Deposit at Call Receipt (DCR) on 31 March 2009. The Government did not release the 3rd instalment of ₹17.53 lakh as of February 2010.

4.3.8 Debt position of ULBs

Municipalities obtained loan from the State Government for implementation of various schemes/programmes. The principal and interest were payable according to the terms and conditions of the respective loan agreements.

According to the Finance Accounts of the State Government, there were outstanding loan of ₹ 42.10 crore against the ULBs as on 31 March 2009 as indicated below

(₹ in crore)

Sl No.	Name of ULBs	Position of consolidated loan			
		Opening balance as on 01 April 2008	Amount Advanced during 2008-09	Repayment made during 2008-09	Closing balance as on 31 March 2009
1	Guwahati Municipal Corporation	34.70	-	-	34.70
2	Other Municipalities ²²	7.40	-	-	7.40
Total					42.10

As per Section 59 of the AMA, 1956, ULBs may with the prior permission of the State Government obtain loan from public financial institutions or any nationalized bank or such other lending institute as the State Government may approve in this regard. The State Government may, if it considers so necessary, stand as a guarantor for the loans.

This was subject to financial norms in the matter of debt servicing including creation of sinking fund as prescribed by the Government under the provision of Act and Rules.

As reported by the Director, Municipal Administration (DMA) to Third Assam State Finance Commission (TASFC), outstanding debt of nine ULBs against Life Insurance Corporation India (LICI) was ₹ 3.40 crore (principal : ₹ 1.43 crore and interest : ₹ 1.97 crore) on 31 March 2007. However, details like year of raising of loan, rate of interest *etc.*, were not on record.

Test check of records of Barpeta Road MB revealed that in contraventions of the above provisions, a loan of ₹ 29.98 lakh was obtained from a bank during 2007-08 for construction of bus stand cum market complex without prior approval of the State Government.

²² Unit wise outstanding position in respect of Other Municipalities and break up between principal and interest are not available in Finance Accounts.

Furthermore, test check of records of ULBs revealed that the following units did not repay any loan and interest accrued thereon, resulting in huge accumulation of liability as detailed below:

(₹ in crore)						
Sl No.	Name of ULB	Year of loan	Source of loan	Amount of loan	Liability	As of
1	Barpeta Road	1994-95	HUDCO	0.06	0.21	March 09
		2008-09	ACAB Ltd	0.30	0.29	-do-
2	Amguri	1996-97	HUDCO	0.20	2.08	-do-
3	Morigaon	2005-06	Govt Loan	0.08	0.13	-do-
4	Hailakandi	1994-95	HUDCO	NA	0.16	March 08
		NA	LICI	0.43	0.43*	Feb/2009
		NA	Govt loan	0.50	0.50*	
		NA	-do-	0.32	0.32*	
5	GMC	1990-93	HUDCO	NA	10.12	March 09
		1997-2005	Govt loan	NA	3.85	-do-
6	Silchar		-do-	2.05	12.43	-do-
Total					30.52	

**Interest not computed*

Increasing liabilities of unpaid loans reflect the weak financial position of the ULBs and hinder their capacity to raise further loans.

4.4 Budget estimates and expenditure

As provided under Section 43A of the Assam Municipal Act (AMA), 1956 read with Rule 11 to 18 of the Assam Municipal Account Rules, 1961, the budget estimates showing details of probable receipts and expenditure shall be prepared in Municipal Account Form No.1 and placed before the Municipal Board in their meeting to be held at least two months before the close of the year. Further, the budget estimates shall be approved by the Municipal Board and copies thereof shall be submitted to the DMA. Test check of records of 11 ULBs²³ revealed following irregularities in preparation of budget and incurring expenditure.

4.4.1 Preparation of unrealistic budget

Test check revealed that only four ULBs prepared their budget estimates in the prescribed format and utilized only 15 to 52 per cent of the budget provision during 2006-09 as detailed below:

²³ Abhayapuri TC, Amguri MB, Barpeta Road MB, Bongaigaon MB, Guwahati Municipal Corporation, Hailakandi MB, Jorhat MB, Morigaon MB, Nagaon MB, Rangia MB, Silchar MB

(₹ in crore)

Sl No.	Year	Name of ULB	Budget Estimate	Actual expenditure	Excess provision	Actual expenditure in Per cent
1	2007-08	Amguri	0.96	0.34	0.62	36
	2008-09		1.11	0.26	0.85	24
2	2008-09	Morigaon	11.64	1.74	9.90	15
3	2006-07	Abhaypuri	1.68	0.87	0.81	52
4	2007-08	Bongaigaon	1.81	0.93	0.88	51

From above, it was evident that budgets were prepared in an unrealistic manner without assessing the actual requirements.

4.4.2 Irregular expenditure without budget provision

Three ULBs incurred expenditure without preparing budget estimates in contravention of the Assam Municipal Accounts Rules, 1961 as detailed below:

(₹ in crore)

Sl No.	Name of ULB	Period for which budget not prepared	Expenditure made without budget
1	Barpeta Road	2004-09	2.38
2	Nagaon	2002-09	9.21
3	Rangia	2006-09	1.31
Total			12.90

Non-preparation of budget estimates tantamount to failure of budgetary control in those ULBs. Reason for non-preparation of budget estimates were neither found on record nor furnished.

Remaining four²⁴ ULBs neither furnished their budget estimates to audit nor did they state whether budget estimates were prepared by them in any form.

4.5 Pending Utilization Certificates

According to Swarna Jayanti Sahari Rojgar Yojana (SJSRY), ULBs should furnish Utilization Certificate (UC) for the expenditure incurred out of SJSRY fund. As per information received from DMA, Assam, 89 ULBs of the state did not submit UCs for ₹ 41.46 crore against total release of ₹ 48.99 crore during 2006-09. Thus, UCs worth ₹ 41.46 crore pertaining to SJSRY scheme were awaited for the last 3 years as detailed below:

²⁴ Hailakandi MB, Bongaigaon MB, Silchar MB and Jorhat MB

(₹ in crore)					
SI No	Period	Total no of ULBs	Fund release	UC submitted	UC wanting
1	2006-07	89	8.38	4.33	4.05
2	2007-08		28.16	3.20	24.96
3	2008-09		12.45	-	12.45
Total			48.99	7.53	41.46

4.6 Accounting Arrangement

Assam Municipal (Account Rules), 1961 framed under Assam Municipal Act, 1956, provide for maintenance of accounts of municipalities on cash basis. Consequent upon 74th amendment of the constitution of India and pursuant to the recommendation of the Eleventh Finance Commission, a task force constituted by the CAG of India formulated (December 2004) National Municipal Accounting Manual (NMAM) based on accrual system of accounting for adoption by ULBs in the country. NMAM *inter alia* provides for preparation of annual financial statements *viz.*, Receipt & Payment Account and Income & Expenditure Statement on the transaction of an ULB in a year and a balance sheet depicting the status of assets and liabilities of the ULB at the end of the financial year.

However, the State Govt. neither amended the Act nor modified the Rules there under to provide for adoption of accrual system of accounting for ULBs. The accounts of ULBs were continued to be maintained on cash basis and thereby true and fair view financial affairs of ULBs and their assets and liabilities were not disclosed.

4.7 Non-constitution of Steering Committee

As per decision taken in the National Seminar Organized (September 2003) by the Ministry of Urban Development, a steering committee was to be formed in all the States to oversee the implementation of budget and accounting formats in ULBs as suggested by CAG's Task Force. A representative of PAG/AG of the concerned State was also to be made as member of steering committee as an observer. No such steering committee was formed by the State Government (February 2010). Due to non-formation of Steering committee implementation of budget and accounts format of ULBs as suggested by CAG's Task Force not implemented in the state

4.8 Annual Action Plan (AAP)

The Municipalities were required to prepare action plan every year, which were to be consolidated at the district level by the District Planning Committee (DPC) for the district as a whole. The main purpose of preparing such a plan was to avoid plurality in planning for various developmental issues like drinking water supply, provision of health and infrastructure activities such as roads, housing *etc.* No such action plans were prepared in any of the test-checked municipalities. In absence of local planning the District Plan too did not become a reality. Preparation of action plans by municipalities and their consolidation along with the plans of the Panchayati Raj Institutions (PRIs) was crucial to ensure incorporation of local needs and wants in the development process. The absence of such planning compromises on popular participation and democratic planning.

4.9 Internal control mechanism

Internal control mechanism is an integral function of an organization which helps it to govern its activities effectively, to achieve its objectives. It is intended to provide reasonable assurance of proper enforcement of Acts, Rules and bye-laws. Various internal control measures in financial and operational activities were built into the departmental rules and manuals and their strict adherence would minimize the risk of errors and irregularities. Audit scrutiny revealed that the internal control provisions were not effectively implemented by the ULBs.

4.9.1 Deficiencies in maintenance of cash books

Due to lack of internal control, cash books had several deficiencies in the ULBs test checked as detailed below:

- Particulars of payment, voucher nos, cheque numbers, classification *etc.*, were not recorded on the payment side of the cash book;
- Cash book was not closed at the end of every month and signed by the officer authorized;
- Deletion and overwriting were frequently made without attestation;

- Heads of receipts and expenditure were not recorded;
- List of un-cashed cheques were not recorded in the cash book;
- Cash book balances were not reconciled with the balances in banks in respect of 5 ULBs;
- Physical verification of cash was not done ever;
- Analysis of closing balance was not recorded in the cash books at the end of each month.

4.9.2 Bank Reconciliation Statement not prepared

Cash Book balances were not reconciled with pass book balances by five ULBs at the end of financial year. Differences ranging from ₹20,000 to ₹11.72 lakh noticed in five test-checked ULBs are indicated below:

(₹ in lakh)					
Sl No	Name of ULB	As on March	Balance as per Pass Book	Balance as per Cash Book	Difference
1	Bongaigaon	2009	52.22	43.05	9.17
2	Morigaon	2008	22.42	20.22	2.20
		2009	13.16	1.44	11.72
3	Rangia	2009	0.36	2.69	2.33
4	Amguri	2009	9.36	10.58	1.22
5	Barpeta Road	2008	0.07	0.27	0.20

Due to non-reconciliation, possibility of financial irregularities could not be ruled out. The authenticity of balances appearing in cash books also remained doubtful in absence of reconciliation with bank balances. Non reconciliation of balances was also fraught with the risk of misappropriation of funds going undetected.

4.9.3 Non-maintenance of records, registers

Maintenance of records, registers and accounts is one of the important tools of an internal control mechanism. The basic records were not being maintained by ULBs test checked. Implications of non-maintenance of some of these records were as follows:

SI No	Records/Registers non maintained	Implications
1	Advance Ledger	The purpose, age and amount of advance to be recovered/adjusted as on 31 March every year could not be ascertained. Due to that, probability of loss could not be ruled out.
2	Grant/Loan appropriation ledger	Grants/loans received, date of receipt, appropriation made from time to time and amount lying unutilized in a particular grant/loan as on 31 March 2009 could not be ascertained.
3	Loan Ledger	The date of receipt, amount, and conditions of loans and over-due installments of loan with interest realizable could not be ascertained.
4	Demand and Collection Register	Position of demand and collection and balance of a particular revenue/ tax, rent, fee <i>etc.</i> , could not be ascertained. In absence of posting of collected money (taxes, rent, fees <i>etc</i>) in the register, the possibility of fraud and embezzlement could not be ruled out
5	Work Register	In absence of work registers, name of the schemes taken up, estimated cost, name of agency, the progress of work <i>etc.</i> , could not be ascertained.
6	Unpaid Bill Register	In absence of unpaid bills register, the amount of claims along with the reason for withholding the payments and actual liability of the ULBs could not be ascertained.
7	Annual Report	The working as well as functioning of the ULBs with regard to proper utilization of the grants/funds could not be ascertained.
8	Deposit Register	Amount of deposits and their adjustment could not be ascertained and therefore, possibility of mis-appropriation and embezzlement of money could not be ruled out.
9	Register of land/ Register of Revenue Resource/Asset Register	Identification and valuation of assets, proper records of all lands, sites of buildings, tanks, ponds, ferries, parks <i>etc.</i> , could not be ascertained.

4.9.4 Internal Audit

Internal Audit is a vital component of control to enable an organization to assure itself that the prescribed system is functioning reasonably well. There was no specific provision in the Assam Municipal Act (AMA), 1956 or in the Municipal Account Rules made there under for internal audit of accounts of ULBs. As such, no ULB had internal audit wing. It was recommended that the provision of Internal Audit may be made in rules to ensure compliance to the internal control of all ULBs.

4.10 Audit arrangements

Rule 94 of the Assam Municipal (Account Rules) 1961, framed under Assam Municipal Act, 1956 and rule governing Municipal Corporation, envisaged that the accounts of ULBs would be examined by the Director of Audit Local Fund (DALF). However, consequent upon 74th amendment to the Constitution, the task force constituted by the CAG suggested that the relevant Act and Rules be amended to provide the DALF as primary auditor of ULBs, who would act under Technical Guidance and Supervision (TGS) of the CAG.

Government of India (GOI) forwarded (September 2004) section 93 to 96 of Model Municipal Law (MML) along with CAG's suggestions on it for adoption by the State Government. The sections 93 to 96 of MML provided that:

- (i) Financial statement and Balance Sheet of Municipal accounts shall be audited by an Auditor appointed by the State Government (Section 93);
- (ii) the Auditor shall prepare a report of the accounts audited and send such report to Chief Municipal Officer (Section 94);
- (iii) the Chief Municipal Officer shall place the audited financial statement, balance sheet and his comments thereon before the empowering standing committee which after the examination thereof shall place them before municipality with its comments, if any (Section 95) and
- (iv) the Chief Municipal Officer shall, after adoption of the financial statement, the balance sheet and the report of the auditor by the Municipality, forward the same to the State Government together with a report of the action taken thereon by the Municipality and shall also send copies thereof to the Auditor (Section 96).

Though the State Govt. accepted the TGS arrangement and entrusted the CAG of India to conduct audit of ULBs under Section 20 (1) of CAG's (DPC) Act 1971, the amendment to State Municipal Act and Rules has not yet been made and the parameters for TGS arrangement have not yet been finalized by the State Government. However, the Urban Development Department, through a departmental order issued in December 2009 entrusted the DALF as primary auditor of ULBs to conduct the audit of accounts of ULBs under the TGS of CAG.

4.10.1 Audit Coverage by CAG

The Senior Deputy Accountant General (LB Audit & Accounts), Assam conducts audit of ULBs under Section 14, 15 and 20(1) of CAG's (DPC) Act, 1971. Out of 89 ULBs, audit of accounts of 10 ULBs and one Municipal Corporation (**Appendix-14**) covering the financial year 2008-09 was conducted during January to December 2009. The important findings of audit are described in the next chapter.

4.10.2 Response to Audit Observation

ULB authorities were required to comply with the observations contained in the Inspection Reports (IRs) and rectify the defects and omissions and report their compliance to audit within three months from the date of issue of IRs.

The details of IRs and the outstanding paragraphs as of December 2009 were given below:

(₹ in crore)			
Year of issue	No. of Inspection Reports	No. of outstanding Paras	Money value
Up to 2007	79	1072	2.06
2007-08	2	27	0.01
2008-09	11	190	80.83
Total	92	1289	82.90

A review of the IRs, which was pending due to non-receipt of replies, revealed that the heads of the offices, whose records were inspected, did not send any reply to a large numbers of IRs/ Paragraphs. The Principal Secretaries of the Departments also failed to ensure that the concerned officers of the ULBs took prompt and timely action in furnishing replies to IRs.

4.10.3 Follow up action on previous Annual Technical Inspection Reports

The department did not furnish any reply/action taken notes on the ATIRs for the years ended March 2005, March 2006, March 2007 and March 2008 issued in July 2006, November 2007, June 2009 and October 2009 respectively. State Government was also requested for incorporating suitable clause in the Act for providing institutional arrangement for discussion on the Report in the Legislature. Their response was awaited (February 2010).

4.11 Conclusion

- Budget preparations were defective and accounts of ULBs were still being maintained on cash basis, instead of double entry accounting system. Non preparation of balance sheet resulted in non-disclosure of financial assets and liabilities of ULBs.
- Database of finances of ULBs, as prescribed by CAG had not yet been created.
- Lack of internal control and monitoring resulted in loss of public Fund, Functions and Functionaries were not transferred to the ULBs in contrast to the spirit of decentralization.
- There was poor response and delays in furnishing replies to audit observations leading to accumulation of outstanding audit objections.

4.12 Recommendations

- Preparation of budget estimates with correct assessment of revenue and expenditure should be ensured by concerned authorities. State Government should ensure that ULBs maintain their account on accrual basis of accounting system and annual Accounts with Balance Sheet be prepared to disclose the true and fair views of the ULBs.
- Financial control and monitoring mechanism to be strengthened to avoid loss of revenue and unwarranted expenditure.
- Government should evolve a time bound programme to transfer Fund, Functions and Functionaries to the ULBs as envisaged in the constitution.
- Database of ULB finances may be developed for compilation of position of different grants/funds which would help the authorities to exercise effective monitoring of schemes and assets created.
- State Government should issue suitable instructions to the ULBs to ensure prompt response to audit observations. Government should also constitute Audit Committee at appropriate level for prompt settlement of outstanding audit objections.