

## CHAPTER- I AN OVERVIEW OF THE URBAN LOCAL BODIES

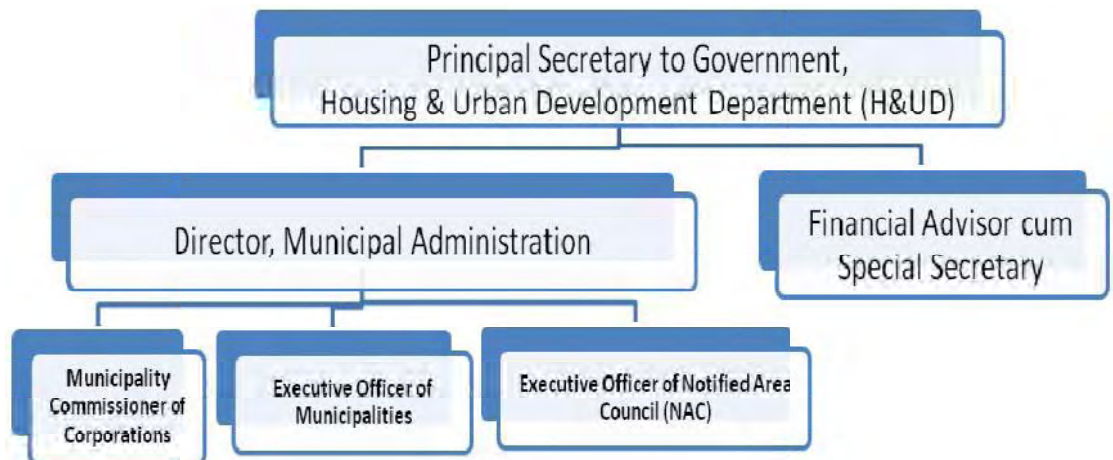
### 1.1 Introduction

After the 74<sup>th</sup> Constitutional Amendment Act 1992, all State Governments were mandated to operationalise the urban local bodies as a unit of self Government and the Legislature of State of Orissa amended (2002) the Orissa Municipal Act 1950. The Orissa Municipal Corporation Act came into force during 2003 for ensuring wide transfer of powers and responsibilities in relation to the matters listed in the twelfth schedule of the Constitution.

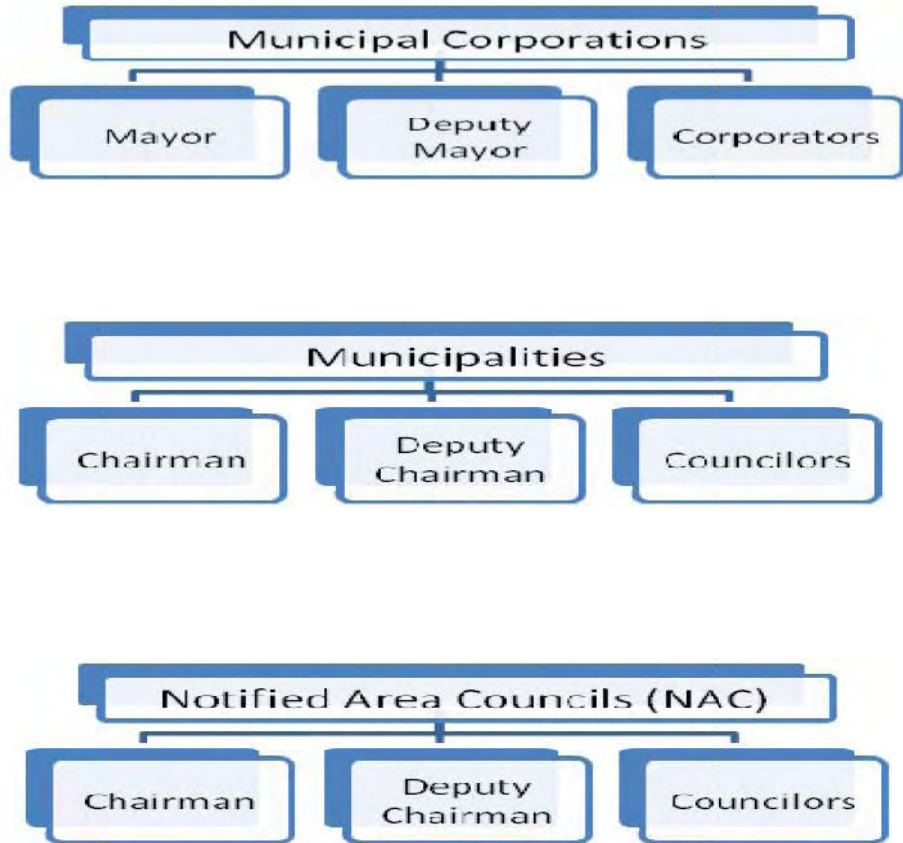
At present there are three Municipal Corporations, thirty-six Municipalities and sixty-four Notified Area Councils functioning in the State of Orissa. Each urban local body is divided into number of wards. At the state level, Housing & Urban Development Department (H&UD) coordinates the functioning of all ULBs.

### 1.2 Organizational Set up

The organizational set-up of the ULBs is as follows: -



The Elected Body set-up of the ULBs is as follows: -



The Municipal Corporation is headed by the Mayor and Municipality/NAC by the Chairman who is elected from among the Corporators and Councilors of the respective ULBs.

ULBs execute various functions entrusted to them through Standing Committees such as Committee on Taxation, finance & accounts, PH & water supply, Public works, Planning & development, Licenses & appeal, grievances and Social justice. While 10 standing committees function in Municipal Corporations, five such committees function in Municipalities and NACs

### **1.3 Powers and Responsibility**

According to section 62 A of Orissa Municipal Act 1950, District Planning Committee is required to consolidate the plans prepared by the Panchayats and the Municipalities in the districts and to prepare a Draft Development Plan for the district as a whole. A District Planning Committee is required to be constituted consisting of 24 members (16 members to be elected by the Zilla Parishad and the Municipalities of the district and four members are to be nominated by the State Government).

The District Planning Committee should prepare the draft Audit Plan in the following aspects.

1. (a)
  - Matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and other physical and natural resources, integrated development of infrastructure and environmental conservations;
  - The extent and type of available resources whether financial or otherwise;
- (b) consult such institutions and organizations as the Governor may, by order, specify.
2. The Chairperson of every District Planning Committee shall forward the Development Plan, as recommended by such Committee, to the State Government.
3. Without prejudice to the generality of the foregoing provisions, a District Planning Committee shall have such other functions as the State Government may by notification from time to time, assign.

### **1.4 Sources of Funds**

For execution of various developmental works, the ULBs mainly receive funds from the Government of India (GOI) and the State Government in the form of

grants. The GOI grants include funds released under Centrally Sponsored Schemes, and grants assigned under the recommendations of Finance Commissions (FC). The State Government grants include grants under various State schemes like Member of Legislative Assembly Local Area Development (MLALAD), Western Orissa Development Council (WODC), Octroi compensation grants etc devolved upon the ULBs through the State Budget based on the recommendations of State Finance Commission (SFC).

Under the provisions of the Acts in force, all collections such as tax on holding, tax on the trades, rent on shops and buildings and other fees and charges etc. constitute the own source of revenue receipts. The receipt and expenditure position of the ULBs for the last five years are as follows: -

*(₹ in crore)*

<b>Year</b>	<b>Receipts</b>	<b>Expenditure</b>	<b>Balance of Grants</b>
<b>2004-05</b>	<b>291.41</b>	<b>291.41</b>	<b>Nil</b>
<b>2005-06</b>	<b>294.27</b>	<b>294.27</b>	<b>Nil</b>
<b>2006-07</b>	<b>356.82</b>	<b>356.82</b>	<b>NIL</b>
<b>2007-08</b>	<b>549.47</b>	<b>549.47</b>	<b>NIL</b>
<b>2008-09</b>	<b>487.45</b>	<b>446.17</b>	<b>41.28</b>

**Source: Information furnished by H & U D Department.**

Though the entire receipts during a year 2004-05, 2005-06, 2006-07 and 2007-08 are shown as expenditure in the State account, some amounts remained unutilized at the ULBs levels. This is due to the fact that after release of grants to the ULBs the same is shown as expenditure in the State account even though the amounts remain unutilized with the ULB parked in Civil Deposits/Personal ledger Accounts and Bank Accounts as discussed under comments on Accounts.

## **1.5 Flow of Funds**

The State Government on receipt of funds under the Centrally Sponsored Plan (CSP) Schemes releases the funds to the ULBs along with the matching share

through the State budget. The State Government also releases funds for Plan and Non-Plan schemes through the State budget. However, the TFC grants are released directly to the ULBs through sanction orders by the State government to the ULBs immediately after receipt of the same from the Government of India.

## **1.6 Accounts**

The Chief Finance Officer is responsible for maintenance of accounts in Municipal Corporations whereas the Executive officers are responsible for maintenance of accounts in Municipalities and NACs. Similarly, the responsibility of preparation of Annual Accounts is also vested on these officers. The Government of Orissa has decided (September 2007) to introduce double entry system of accounting (Accrual Based Accounting) in the ULBs across the State. A Municipal Accounting Manual had been drafted in line with the provisions of the National Municipal Accounting Manual (NMAM) developed by the Ministry of Urban Development in consultation with CAG. The draft Orissa Municipal Accounting Manual (OMAM) has been finalized and the formal approval of the CAG of India had been obtained. However, the accrual system of accounting is yet to be adopted in ULBs as of February 2011.

The reasons of delay in adoption of accrual system of accounting in ULBs are awaited from the Department (February 2011).

## **1.7 Audit**

The Examiner, Local Fund Audit (ELFA) is the Statutory Auditor and conducts audit of the ULBs U/s 113 of Orissa Municipal Act 1950 through the District Audit Officers, Audit Superintendents and Auditors.

The audit of ULBs entrusted to the CAG under section 20(1) of the CAG's (DPC) Act, 1971. As most of the ULBs are significantly financed by grants from Central/State Government they are audited under Section 14 of CAG's DPC Act.

## **1.8 Internal Audit**

The system/arrangement for the regular internal audit of ULBs of the State by Local Fund Audit is not effectively performed. However, in case of serious irregularities like misappropriation of cash/stock and store etc, special teams are constituted by the Housing and Urban Development Department (H & UD) for special audit.

## **1.9 Response to audit**

The response to audit objections by the ULBs is very poor. As of March 2009, 879 paras raised through 53 Inspection Reports, were pending for settlement due to non-furnishing of reply and effective action has not been taken for clearance of the pending paras.

## **1.10 Annual Technical Inspection Report**

The Office of the Senior Deputy Accountant General (Local Bodies Audit and Accounts) under the administrative control of Principal Accountant General (Civil Audit) Orissa has issued three Annual Technical Inspection Reports on Local Bodies pertaining to the years 2005-06, 2006-07 and 2007-08 covering major audit findings in respect of transaction of ULBs to the State Government. But the District Audit Monitoring Committee formed by State Government has not taken any action for the discussion of the Audit Paras for further action.

## **1.11 Result of audit**

Audit of accounts for 2008-09 of 53 ULBs were conducted. The Inspection reports were discussed on the important audit findings with officer-in-charge of

53 ULBs (3 Municipal Corporations, 22 Municipalities and 28 Notified Area Councils).

The financial status of audit findings in different aspects are mentioned below:-

Sl.No	Brief of audit objection raised	Amount involved (₹ in lakh)
1	Unfruitful expenditure	86.56
2	Infructuous expenditure	92.83
3	Loss of Municipal fund/interests	116.78
4	Non-recovery of tax/grant	131.16

## 1.12 COMMENTS ON ACCOUNTS

### 1.12.1 Non-utilization of grants

The total funds received vis-a-vis the expenditure incurred by the test checked ULBs for the year 2008-09 were as under: -

*( ₹ in crore)*

Name of ULB	No of ULBs	Opening balance	Receipt	Total	Expenditure	Balance
Municipal Corporations	2	49.49	65.43	114.92	83.18	31.74
Municipalities	11	42.05	84.40	126.45	52.84	73.61
NACs	7	6.74	11.99	18.73	8.94	9.79
<b>Total</b>	<b>20</b>	<b>98.28</b>	<b>161.82</b>	<b>260.1</b>	<b>144.96</b>	<b>115.14</b>

Records of 20 units out of 53 units test checked during 2008-09 revealed that even though ₹260.10 crore was available against schemes like TFC, BRGF, IHSDP etc., the ULBs could not be able to utilize ₹144.96 crore resulting in non utilization of fund of ₹115.14 crore (i.e.44 per cent of available fund). No specific reasons were attributed for the poor utilization of funds by the ULBs.

Due to inaction and poor planning of the ULBs the available fund could not be fully utilized against the desired projects for the benefit of the public.

### **1.12.2 Non preparation of Annual Accounts**

As per Rule 145 of the Orissa Municipal Rules 1953, after the closure of the financial year and not later than 15<sup>th</sup> April of the following year, the annual accounts of ULBs shall be prepared showing totals of receipts and expenditure under different heads during the year. It was noticed in audit that none of the test checked Municipalities prepared the annual accounts timely as envisaged in the Rules.

Though Orissa Municipal Accounting Manual (OMAM) for implementation of accrual systems of accounting has been prepared for ULBs, the accrual system is yet to be implemented.

Though ELFA is the statutory auditor, the annual accounts of the ULBs are not certified by him for want of enabling provision in Local Fund Act.

### **1.12.3 Non-furnishing of records.**

Six ULBs did not produce relevant records viz. vouchers to audit for want of which expenditure of ₹12.90.lakh could not be vouched. (**Appendix-I**)

## **1.13 Recommendation**

- Accounts need to be maintained as per Orissa Municipal Accounting Manual.
- Funds should be allotted timely for utilisation.
- Internal Control Mechanism should be strengthened to review the activities of the ULBs through Management Information System.
- Department should form the District Audit Monitoring Committee to review the audit paras of ULBs and settlement of the outstanding objections.