

**CHAPTER-III**  
**AN OVERVIEW ON FINANCE AND ACCOUNTS OF THE URBAN LOCAL BODIES**

**3.1 Introduction**

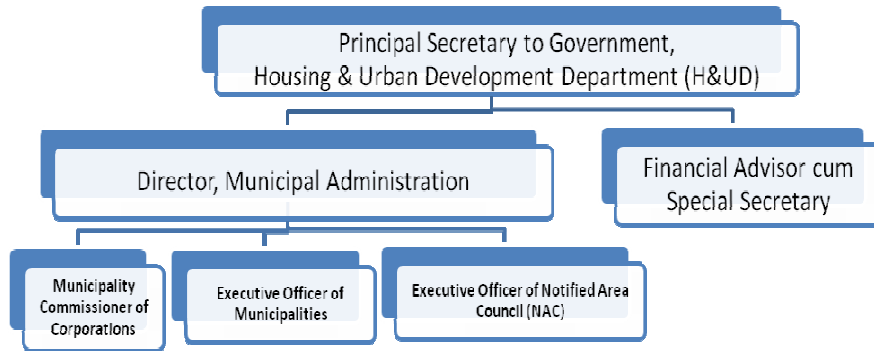
After the seventy-fourth amendment to the Constitution of India, all State Governments were mandated to operationalise the urban local bodies as units of self Government. Orissa Municipal Act 1950 was amended for this purpose and the Orissa Municipal Corporation Act was enacted during 2003 for ensuring wide transfer of powers and responsibilities to ULBs in relation to the matters listed in the twelfth schedule of the Constitution.

At present there are three Municipal Corporations, 37 Municipalities and 63 Notified Area Councils (NACs) functioning in the State of Orissa. Each urban local body is divided into number of wards. At the state level, Housing & Urban Development Department coordinates the functioning of all ULBs. The Municipalities and NACs were constituted under the provisions of Orissa Municipal Act 1950, while Municipal Corporations were constituted under Orissa Municipal Corporation Act 2003.

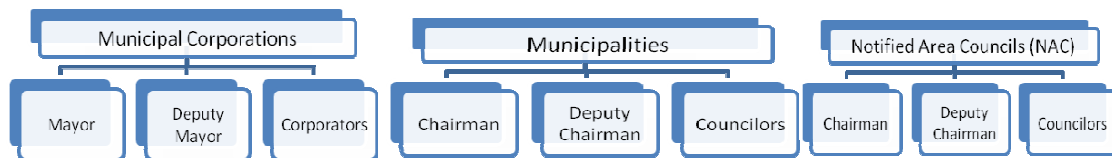
The population of Orissa is 3.68 crore (2001 census) of which 0.55 crore (14.95 per cent) reside in urban areas of the State.

**3.2 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.

### **3.3 Powers and Responsibility**

Twelfth Schedule (Article-243 W) of the Constitution of India envisages that the State Government may by law; endow the Municipality with such powers and authority as may be necessary to enable them to function as institutions of self Government. It listed 18 functions to be devolved to the ULBs by the State Government. However, the State Government has devolved 16 out of 18 functions enumerated in Twelfth Schedule of the Constitution to the Urban Local Bodies. Remaining two functions i.e. 'water supply for domestic, industrial and commercial purposes' and 'road and bridges' have not yet been devolved (April 2011).

### **3.4 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 and central plan schemes, and grants assigned under the recommendations of Finance Commissions (FC). The State Government grants include 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 *ibid*, 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 generated revenue receipts. The receipt and utilization of funds by the ULBs for the last five years are indicated at Table 1.

*Table 1: Receipt and utilization of funds by ULBs of the State*

( in crore)			
Year	Receipts	Expenditure	Balance of Grants
2005-06	294.27	294.27	NIL
2006-07	356.82	356.82	NIL
2007-08	549.47	549.47	NIL
2008-09	487.45	446.17	41.28
2009-10	658.49	658.49	NIL

Source: Information furnished by H&UD Department.

Though the entire receipts during the years 2004-05, 2005-06, 2006-07 and 2007-08 are shown as expenditure in the State account, substantial funds remained unutilised at the ULBs levels being parked in Civil Deposits/Personal ledger Accounts and Bank Accounts as discussed at paragraph 1.10.1.

### **3.5 Flow of Funds**

The State Government on receipt of funds under the Centrally Sponsored Plan (CSP) Schemes releases the same 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. Funds under Backward Region Grant Funds (BRGF) and Twelfth Finance Commission (TFC) Grants were credited by Government of India to the Consolidated Fund of the State and were routed through the State budget also.

### **3.6 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 (May 2008). However, the accrual system of accounting is yet to be adopted in ULBs as of April 2011 excepting in Bhubaneswar Municipal Corporation.

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

### **3.7 Audit arrangements**

The Examiner, Local Fund Audit (ELFA) is the Statutory Auditor and conducts audit of the ULBs under Section 113 of Orissa Municipal Act 1950 through the District Audit Officers, Audit Superintendents and Auditors. Total ULBs planned and audited by ELFA during 2007-10 were as under:

<b>Year</b>	<b>Total Number of ULBs planned for audit</b>	<b>Total Number of ULBs audited</b>	<b>Shortfall if any in completion.</b>	<b>Reason of non completion</b>
2007-08	71	64	7	Shortage of staff.
2008-09	81	78	3	
2009-10	82	78	4	

#### **3.7.2 C.A.G Audit**

Audit of 20 per cent of ULBs was 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 were audited under Section 14 of CAG's (DPC) Act.

### **3.8 Pending Inspection Report Paragraphs**

**3.8.1** As many as 142030 paragraphs of Inspection Report issued from time to time by DLFA were outstanding due to want of proper compliance as on 31 March 2010. This needs aggressive pursuance to get the proper compliance for settlement of the audit paragraphs.

**3.8.2** Similarly, 825 paragraphs relating to Inspection Reports issued by Senior DAG (LBA&A), Orissa remained unsettled as of 31 March 2010 due to want of proper compliance.

### **3.9 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 four Annual Technical Inspection Reports on Local Bodies pertaining to the years 2005-06, 2006-07, 2007-08 and 2008-09 covering major audit findings in respect of transaction of ULBs to the State Government. District Audit Monitoring Committee (DAMC) has been constituted (April 2011) to review the outstanding paragraphs. However, no paragraph relating to ULBs were discussed in the DAMC (April 2011).

### **3.10 Comments on Accounts**

#### **3.10.1 Non-utilization of grants**

The total funds received vis-a-vis the expenditure incurred by the test checked ULBs for the year 2009-10 were as under:

*( ₹ in crore)*

Name of ULB	No of ULBs	Opening balance	Receipt	Total	Expenditure	Balance
Municipal Corporations	1	15.92	46.97	62.89	25.38	37.51
Municipalities	9	37.56	83.45	121.01	49.71	71.30
NACs	17	23.38	57.62	81.00	47.05	33.95
<b>Total</b>	<b>27</b>	<b>76.86</b>	<b>188.04</b>	<b>264.90</b>	<b>122.14</b>	<b>142.76</b>

Test check of records revealed that out of available balance of ₹264.90 crore during 2009-10 expenditure incurred for ₹122.14 crore restricting the expenditure below 50 per cent (*Appendix-3.1*). Huge unspent balances were noticed in schemes viz. IHSDP, BRGF, TFC, RD etc. (*Appendix-3.2*).

Specific reasons for the poor utilization of funds by the ULBs, could not be explained by concerned municipal authorities. This is indicative of poor monitoring and low spending efficiency by these ULBs.

#### **3.10.2 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 as envisaged in the Rules.

Though draft Orissa Municipal Accounting Manual (OMAM) for maintenance of accounts under accrual systems of accounting has been prepared for ULBs, yet the manual has not yet been issued for which the accrual accounting system is yet to be implemented excepting in one ULB (BMC, Bhubaneswar).

Though ELFA is the statutory auditor, the annual accounts of the ULBs are not being certified by that authority and the reason was attributed to want of enabling provision in Local Fund Audit Act.