

## **CHAPTER-III**

### **AN OVERVIEW OF ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES**

#### ***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 (RMA), 2009 was enacted by repealing all the prevailing municipal laws and enactments<sup>1</sup>.

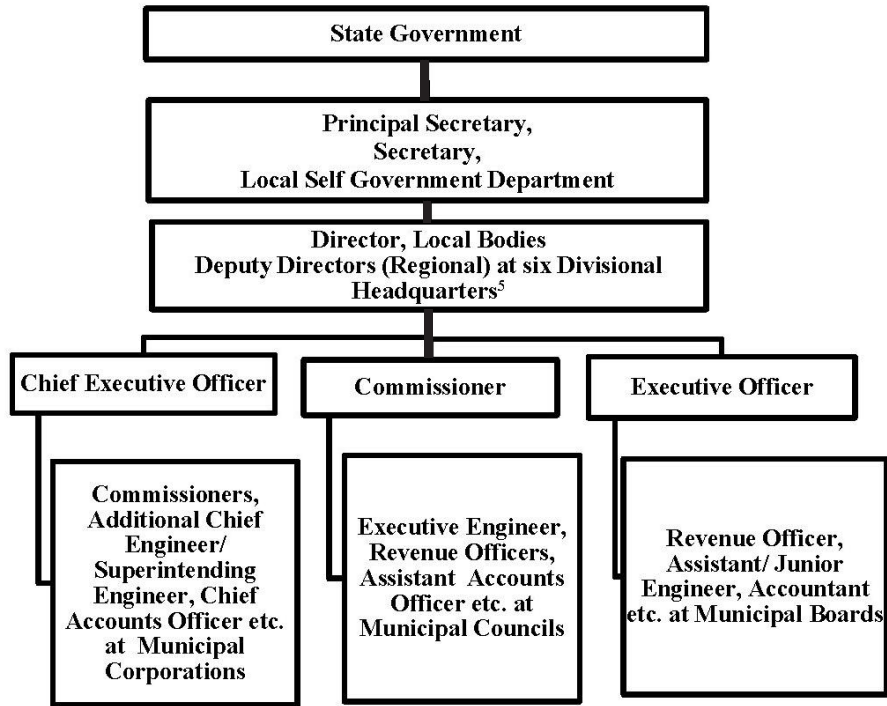
As per census 2001, the urban population of Rajasthan State was 1.32 crore, which constituted 23.36 *per cent* of the total population (5.65 crore) of the State. In Rajasthan State, there were 184 Urban Local Bodies (ULBs) i.e., five Municipal Corporations<sup>2</sup> (M Corps), 13 Municipal Councils<sup>3</sup> (MCs) and 166 Municipal Boards<sup>4</sup> (MBs) as of March 2010. The last elections of the ULBs in Rajasthan State were held in five phases during November 2009 to February 2011.

#### ***3.2 Organisational set up***

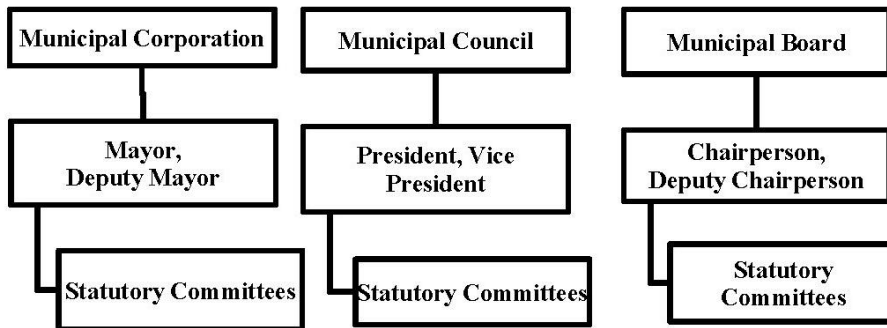
The administrative department dealing with affairs of the ULBs is Local Self Government Department (LSGD). The department is headed by Principal Secretary, LSGD at Government level and by Director at Directorate Local Bodies level. An organisational chart combining the State Government administrative machinery with ULBs is given below:

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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, Ajmer, Bikaner, Jaipur, Jodhpur and Kota.
  3. Municipal Councils, Alwar, Beawar, Bharatpur, Bhilwara, Churu, Hanumangarh, Jhunjhunu, Kishangarh, Pali, Sikar, Sriganganagar, Tonk and Udaipur.
  4. Municipal Boards, Class-II (with population 50,000-99,999): 36, Class-III (with population 25,000-49,999): 58 and Class-IV (with population less than 25,000): 72.

### EXECUTIVE LEVEL



### ELECTED MEMBER LEVEL



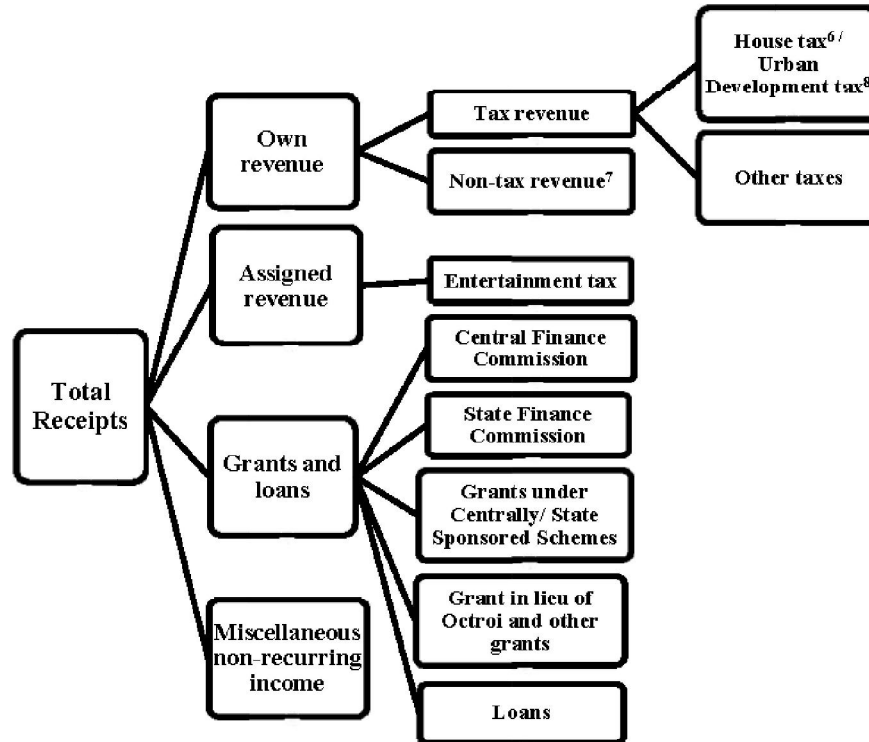
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5. Ajmer, Bikaner, Jaipur, Jodhpur, Kota and Udaipur.

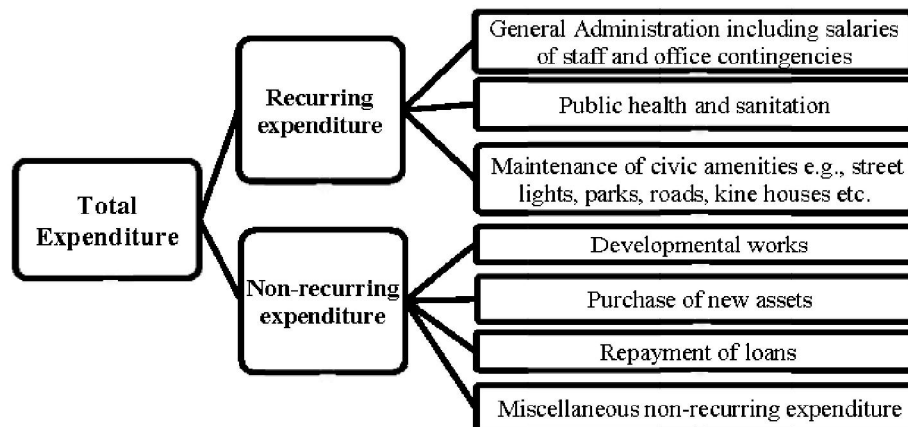
### 3.3 Financial management

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

Various sources of receipts of ULBs are depicted as under :



Various items of expenditure of ULBs are depicted as under:



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

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

8. Urban Development tax was introduced from 29 August 2007 on abolition of House tax from 24 February 2007.

### 3.3.2 Receipts and expenditure

The position of receipts and expenditure of the ULBs during 2005-10 is given in Tables 3.1 to 3.3 below:

**Table 3.1: Receipts of ULBs**

(₹ in crore)

Sources of receipts	2005-06	2006-07	2007-08	2008-09	2009-10
<b>(A) Own revenue</b>					
<b>(a) Tax revenue</b>					
(i) House tax	34.12	19.50	8.38	7.03	39.90
(ii) Urban development tax	-	-	-	11.99	21.61
(iii) Octroi	3.34	2.50	3.66	3.90	7.52
(iv) Morgasth fee	-	-	-	0.10	46.97
(v) Tax on vehicle	0.20	0.24	2.59	0.67	0.46
(vi) Passenger tax	2.03	2.24	2.73	2.02	2.23
(vii) Terminal tax	0.09	0.14	0.54	0.12	0.10
(viii) Other taxes	1.45	2.94	4.97	3.00	4.42
(ix) Outsourcing	-	-	-	-	41.13
<b>Total of tax revenue (a)</b>	<b>41.23</b> <b>(3.89)</b>	<b>27.56</b> <b>(2.31)</b>	<b>22.87</b> <b>(1.53)</b>	<b>28.83</b> <b>(1.54)</b>	<b>164.34</b> <b>(7.55)</b>
<b>(b) Non-tax revenue</b>					
(i) Revenue from bye-laws	48.40	70.21	67.93	68.30	83.72
(ii) Revenue from assets	13.59	13.55	14.42	17.22	46.43
(iii) Revenue from Acts	12.95	13.25	18.93	18.37	35.06
(iv) Revenue from penalties	2.73	4.15	6.71	6.09	8.66
(v) Revenue from waterworks	1.26	0.25	1.06	2.30	1.84
(vi) Interest on investments	10.65	7.15	61.37	14.21	8.61
(vii) Misc non-tax revenue	39.56	50.30	63.96	91.92	81.85
(viii) sale of land	104.70	141.67	210.38	249.33	210.52
<b>Total of non-tax revenue (b)</b>	<b>233.84</b> <b>(22.09)</b>	<b>300.53</b> <b>(25.15)</b>	<b>444.76</b> <b>(29.84)</b>	<b>467.74</b> <b>(24.91)</b>	<b>476.69</b> <b>(21.89)</b>
<b>Total of Own revenue (A)</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>496.57</b> <b>(26.45)</b>	<b>641.03</b> <b>(29.44)</b>
<b>(B) Assigned revenue</b>	1.07 (0.10)	- -	- -	3.00 (0.16)	7.12 (0.33)
<b>(C) Grants and loans</b>					
(i) General and special grant	27.91	44.80	41.93	65.27	51.91
(ii) Grant in lieu of octroi	494.97	544.46	566.64	627.65	747.70
(iii) Special assistance and loans	143.36	160.35	254.68	417.37	484.79
<b>Total of Grants and loans (C)</b>	<b>666.24</b> <b>(62.93)</b>	<b>749.61</b> <b>(62.74)</b>	<b>863.25</b> <b>(57.91)</b>	<b>1,110.29</b> <b>(59.13)</b>	<b>1,284.40</b> <b>(58.99)</b>
<b>(D) Miscellaneous non-recurring income<sup>9</sup></b>	<b>116.37</b> <b>(10.99)</b>	<b>117.02</b> <b>(9.80)</b>	<b>159.80</b> <b>(10.72)</b>	<b>267.81</b> <b>(14.26)</b>	<b>244.62</b> <b>(11.24)</b>
<b>Grand Total (A to D)</b>	<b>1,058.75*</b>	<b>1,194.72*</b>	<b>1,490.68*</b>	<b>1,877.67</b>	<b>2,177.17</b>

(Source: As per data provided by Directorate Local Bodies Department, 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 Department, Rajasthan, Jaipur (August 2010) respectively.

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

Table 3.2: Expenditure of ULBs

(₹ in crore)

Items of Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
<b>(A) Recurring expenditure</b>					
(i) General administration	137.03 (14.15)	160.44 (14.85)	178.54 (13.28)	237.21 (13.08)	324.43 (14.42)
(ii) Public health and sanitation	288.13 (29.75)	316.91 (29.32)	355.25 (26.43)	440.33 (24.28)	623.40 (27.71)
(iii) Maintenance of civics amenities	99.82 (10.30)	117.18 (10.84)	132.51 (9.86)	147.35 (8.12)	230.60 (10.25)
<b>Total of Recurring expenditure (A)</b>	<b>524.98 (54.20)</b>	<b>594.53 (55.01)</b>	<b>666.30 (49.57)</b>	<b>824.89 (45.48)</b>	<b>1,178.43 (52.38)</b>
<b>(B) Non-recurring expenditure</b>					
(i) Expenditure on developmental works	282.08 (29.12)	330.38 (30.57)	538.63 (40.08)	820.58 (45.24)	805.94 (35.82)
(ii) Purchase of new assets	8.91 (0.92)	7.41 (0.69)	4.29 (0.32)	9.27 (0.51)	11.69 (0.52)
(iii) Repayment of loans	13.92 (1.44)	8.42 (0.78)	13.42 (1.00)	13.69 (0.76)	40.76 (1.81)
(iv) Miscellaneous non-recurring expenditure <sup>10</sup>	138.69 (14.32)	139.98 (12.95)	121.43 (9.03)	145.32 (8.01)	213.12 (9.47)
<b>Total of Non-recurring expenditure (B)</b>	<b>443.60 (45.80)</b>	<b>486.19 (44.99)</b>	<b>677.77 (50.43)</b>	<b>988.86 (54.52)</b>	<b>1,071.51 (47.62)</b>
<b>Grand Total (A+B)</b>	<b>968.58*</b>	<b>1,080.72*</b>	<b>1,344.07*</b>	<b>1,813.75</b>	<b>2,249.94</b>

(Source: As per data provided by Directorate Local Bodies Department, Rajasthan, Jaipur)  
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 Department, Rajasthan, Jaipur (August 2010) respectively.

Table 3.3: Break-up of receipts and expenditure of ULBs

(₹ in crore)

Category of ULBs	2006-07		2007-08		2008-09		2009-10		Percentage of increase (+) / decrease (-) of 2008-09 with reference to 2007-08		Percentage of increase (+) / decrease (-) of 2009-10 with reference to 2008-09	
	Receipts	Exp	Receipts	Exp	Receipts	Exp	Receipts	Exp	Receipts	Exp	Receipts	Exp
<b>(A) Municipal Corporations</b>												
(i) Ajmer*	-	-	-	-	55.43	54.13	48.65	55.13	-	-	(-) 12.23	(+) 1.85
(ii) Bikaner*	-	-	-	-	49.97	42.60	37.10	37.92	-	-	(-) 25.76	(-) 10.99
(iii) Jaipur	283.27	244.19	389.24	326.99	457.56	486.50	400.30	367.54	(+) 17.55	(+) 48.78	(-) 12.51	(-) 24.45
(iv) Jodhpur	54.40	52.80	62.77	65.42	84.46	71.18	93.28	110.09	(+)34.55	(+) 8.80	(+) 10.44	(+) 54.66
(v) Kota	65.50	62.56	85.74	76.95	85.52	96.22	89.45	95.53	(-) 0.26	(+) 25.04	(+) 4.60	(-) 0.72
<b>Total (A)</b>	<b>403.17</b>	<b>359.55</b>	<b>537.75</b>	<b>469.36</b>	<b>732.94</b>	<b>750.63</b>	<b>668.78</b>	<b>666.21</b>	<b>(+)36.30</b>	<b>(+) 59.93</b>	<b>(-) 8.75</b>	<b>(-) 11.25</b>
(B) Municipal Councils	234.48	215.31	274.04	272.07	338.87	347.98	353.71	342.68	(+) 23.66	(+) 27.90	(+) 4.38	(-) 1.52
(C) Municipal Boards	557.07	505.86	678.89	602.64	805.86	715.14	1,154.68	1,241.05	(+) 18.70	(+) 18.67	(+) 43.29	(+) 73.54
<b>Grand Total (A+B+C)</b>	<b>1,194.72</b>	<b>1,080.72</b>	<b>1,490.68</b>	<b>1,344.07</b>	<b>1,877.67</b>	<b>1,813.75</b>	<b>2,177.17</b>	<b>2,249.94</b>	<b>(+) 25.96</b>	<b>(+) 34.94</b>	<b>(+) 15.95</b>	<b>(+) 24.05</b>

(Source: As per data provided by Directorate Local Bodies Department, Rajasthan, Jaipur)  
\* M Corps, Ajmer and Bikaner came into existence with effect from July 2008 and August 2008 respectively, hence figures of these M Corps in respect of years 2006-07 and 2007-08 have been included in MCs.

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



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 62.74 per cent, 57.91 per cent, 59.13 per cent and 58.99 per cent during 2006-07, 2007-08, 2008-09 and 2009-10 respectively.
- There were excess receipts of ₹ 90.17 crore, ₹ 114 crore, ₹ 146.61 crore and ₹ 63.92 crore over expenditure in ULBs during the year 2005-06, 2006-07, 2007-08 and 2008-09 respectively but in the year 2009-10 there was excess expenditure of ₹ 72.77 crore over receipts due to increase in expenditure on general administration, public health and expenditure from grants of the State Finance Commission and Twelfth Finance Commission. Director, Local Bodies (DLB) intimated (January 2012) that excess expenditure was possibly met from saving of the preceding years. As annual accounts of the ULBs were not certified, audit could not identify the sources from which excess expenditure was met. The above is indicative of weakness of internal control over assurance derivable from accounts of the ULBs.
- There were decreasing trends in part of non-tax revenue to the total receipts for the year 2008-09 (24.91 per cent) and 2009-10 (21.89 per cent) in comparison to 2007-08 (29.84 per cent).
- Receipts of M Corp, Bikaner had decreased by 25.76 per cent from ₹ 49.97 crore in 2008-09 to ₹ 37.10 crore in 2009-10 due to less receipts of income from bye-laws and assets, sale of land and specific assistance and loans from governments while its expenditure had decreased 10.99 per cent from ₹ 42.60 crore in 2008-09 to ₹ 37.92 crore in 2009-10 due to decrease of expenditure on development works.
- Expenditure of M Corp, Jodhpur had increased by 54.66 per cent from ₹ 71.18 crore in 2008-09 to ₹ 110.09 crore in 2009-10 due to increase in expenditure on public welfare and health, developmental works, purchase of new assets, repayment of loans and miscellaneous works while its receipts had increased only 10.44 per cent from ₹ 84.46 crore in 2008-09 to ₹ 93.28 crore in 2009-10.
- In 2009-10, while expenditure of MBs increased by 73.54 per cent in comparison of 2008-09, the receipts increased by 43.29 per cent only.
- There was difference in some figures of receipts and expenditure of M Corps maintained at Directorate level (Table 3.3) and at concerned M Corp level (Table 4.2), which need to be reconciled.

### 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 and recurring expenditure is given in Table 3.4 below:

Table 3.4 : Own Revenue of ULBs

(₹ in crore)

Category of ULBs	2007-08					2008-09					2009-10				
	Tax	Non-Tax	Total own revenue	Percentage of own revenue to		Tax	Non-Tax	Total own revenue	Percentage of own revenue to		Tax	Non-Tax	Total own revenue	Percentage of own revenue to	
				Total receipt	Recurring expenditure				Total receipt	Recurring expenditure				Total receipt	Recurring expenditure
(A) Municipal Corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(i) Ajmer*	-	-	-	-	-	0.66	18.58	19.24	34.71	53.31	1.61	10.18	11.79	24.23	28.02
(ii) Bikaner*	-	-	-	-	-	0.37	9.33	9.70	19.41	37.99	1.28	8.32	9.60	25.88	33.90
(iii) Jaipur	6.59	195.59	202.18	51.94	128.68	12.28	158.94	171.22	37.42	87.63	61.30	65.71	127.01	31.73	53.00
(iv) Jodhpur	0.09	19.25	19.34	30.81	43.64	0.28	11.82	12.10	14.33	25.58	42.53	21.76	64.29	68.92	104.23
(v) Kota	2.70	19.12	21.82	25.45	42.47	0.13	14.47	14.60	17.07	22.93	0.30	11.86	12.16	13.59	16.20
Total (A)	9.38	233.96	243.34	45.25	96.25	13.72	213.14	226.86	30.95	61.65	107.02	117.83	224.85	33.62	50.33
(B) Municipal Councils (13)	3.72	49.61	53.33	19.46	35.07	3.13	72.48	75.61	22.31	46.53	20.62	87.04	107.66	30.44	56.11
(C) Municipal Boards (166)	9.77	161.19	170.96	25.18	65.40	11.98	182.12	194.10	24.09	65.93	36.70	271.82	308.52	26.72	57.16
Grand Total (A+B+C)	22.87	444.76	467.63	31.37	70.18	28.83	467.74	496.57	26.45	60.20	164.34	476.69	641.03	29.44	54.40

(Source: As per data provided by Directorate Local Bodies Department, Rajasthan, Jaipur)

\* M Corps, Ajmer and Bikaner came into existence with effect from July 2008 and August 2008 respectively, hence figures of these M Corps in respect of year 2007-08 have been included in MCs.

The analysis of the above indicates that:

- Although there was increasing trend in own revenue of ULBs during the years 2007-10 but it was sufficient to meet out only 70.18 per cent, 60.20 per cent and 54.40 per cent of recurring expenditure of the ULBs for the years 2007-08, 2008-09 and 2009-10 respectively.
- Non-tax revenue of M Corp, Jaipur had decreased from ₹ 195.59 crore in 2007-08 to ₹ 158.94 crore in 2008-09 and ₹ 65.71 crore in 2009-10 due to less revenue from bye-laws, penalties, interest on investments, miscellaneous income. Besides revenue from sale of land had also sharply decreased by 93.83 per cent from ₹ 101.34 crore in 2008-09 to ₹ 6.25 crore in 2009-10.

3.3.3.2 The position of tax and non-tax revenue (excluding miscellaneous receipt of which no targets/projections for collection were made) projected and actually realised by Municipal Corporations during 2007-10 is given in Table 3.5 below:

Table 3.5 : Tax and non- tax revenue of M Corps

(₹ in crore)

Name of Corporation	Tax Revenue						Non-tax Revenue (Excluding miscellaneous receipts)					
	2007-08		2008-09		2009-10		2007-08		2008-09		2009-10	
	P	A	P	A	P	A	P	A	P	A	P	A
Ajmer*	-	-	8.56	0.66 (8)	8.56	1.61 (19)	-	-	7.05	3.17(45)	8.86	4.92(56)
Bikaner*	-	-	2.01	0.37(18)	1.21	1.28(106)	-	-	3.06	1.34(44)	3.49	0.89(26)
Jaipur	5.00	6.59(132)	40.00	12.28(31)	29.00	18.60(64)	133.75	53.45(40)	123.73	46.58(38)	82.05	61.15(75)
Jodhpur	13.62	0.09(1)	13.62	0.47(3)	24.00	1.13(5)	8.16	2.78(34)	12.08	9.69(80)	15.55	9.10(59)
Kota	4.06	2.70(67)	1.22	0.13 (11)	2.00	0.30 (15)	7.43	7.58(102)	5.68	6.21(109)	6.52	6.45(99)

(Source: As per figures adopted in the annual accounts of respective Municipal Corporations)

P : Projected and A : Actual

Note: Figures in brackets denote the percentage of actual realisation to the projected revenue.

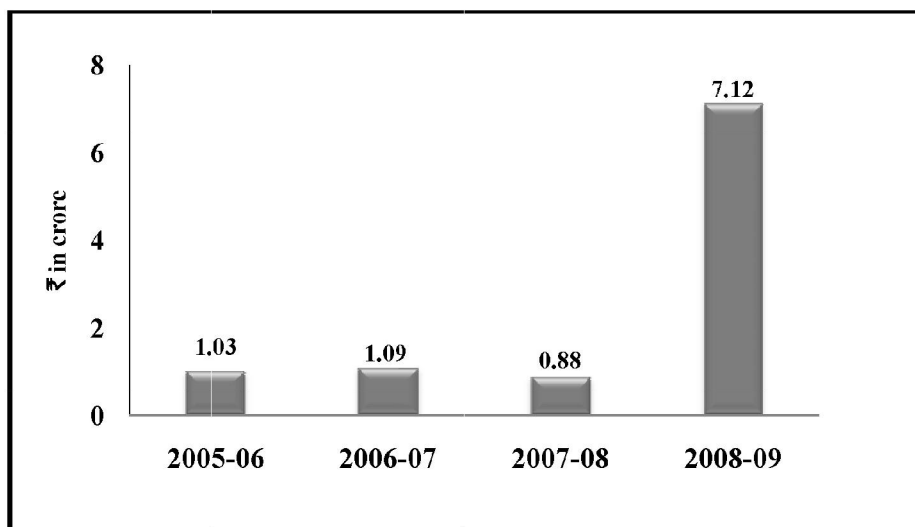
\* M Corps, Ajmer and Bikaner came into existence with effect from July 2008 and August 2008 respectively, hence figures of these M Corps in respect of 2007-08 have not been given.

The above trend indicates that during 2008-09 and 2009-10 the realisation of tax revenue against the revenue projected in respect of five Municipal Corporations ranged between three *per cent* to 31 *per cent* and five *per cent* to 106 *per cent* respectively whereas realisation of non-tax revenue ranged between 38 *per cent* to 109 *per cent* and 26 *per cent* to 99 *per cent* respectively. This indicated that targets need to be fixed realistically.

### 3.3.4 Assigned Revenue (Entertainment Tax)

The Third State Finance Commission (SFC) in his final report (February 2008) recommended 100 *per cent* transfer of net proceeds of entertainment tax to ULBs collected within its jurisdiction. The State Government accepted (March 2008) recommendation from the year 2008-09 and transferred the entire amount of entertainment tax for the years 2008-09 and 2009-10 while for the years 2005-07 it was transferred at the rate 15 *per cent* of net proceeds of that tax as per recommendation of Second SFC. The position of due share of entertainment tax for the year 2005-09 is given below:

**Due share of entertainment of ULBs**



(Source: As per data provided by Financial Advisor, Commercial Taxation Department, Government of Rajasthan, Jaipur)

The State Government had released due share of Assigned revenue for the years 2005-07 of ₹ 3 crore in January 2009 and due share of 2008-09 of ₹ 7.12 crore in March 2010.

### 3.3.5 Finance Commissions grants

#### 3.3.5.1 Twelfth Finance Commission grants

Under recommendations of Twelfth Finance Commission (TFC), every year grants of ₹ 44 crore was to be released to ULBs. The Government of India (GoI) released ₹ 220 crore during 2005-10. The comments on release and utilisation of TFC grants are commented in paragraph 4.3 of the report.



### 3.3.5.2 State Finance Commission grants

The State Government had released grants to the local bodies at the rate of 3.5 per cent of the net State tax revenue (excluding of entertainment tax) from the year 2008-09 on the basis of recommendations of Third SFC and for the years 2005-07 it continued release of grants on the basis of Second SFC. Of this, 24.3 per cent share was released to ULBs. The grants released to ULBs by the State Government under recommendations of the SFCs during 2005-10 are given in **Table 3.6** below:

**Table 3.6: Grants of SFCs to ULBs**

(₹ in crore)			
Year	Grants to be released	Grants actually released	Short(-)/ excess (+) release of grants
2005-06	50.58	53.75	(+) 3.17
2006-07	60.30	60.30	-
2007-08	57.85	57.85	-
2008-09	75.41	75.41	-
2009-10	139.95	139.95	

### 3.3.6 Recurring and non-recurring expenditure

The position of recurring expenditure (RE) and non-recurring expenditure (NRE) incurred in ULBs during 2005-10 is given in **Table 3.7** below:

**Table 3.7 : Expenditure of ULBs**

(₹ in crore)															
Category of ULBs	2005-06			2006-07			2007-08			2008-09			2009-10		
	RE	NRE	Total	RE	NRE	Total	RE	NRE	Total	RE	NRE	Total	RE	NRE	Total
<b>(A) Municipal Corporation</b>															
(i) Ajmer*	-	-	-	-	-	-	-	-	-	36.09 (67)	18.05	54.14	42.07 (76)	13.06	55.13
(ii) Bikaner*	-	-	-	-	-	-	-	-	-	25.53 (60)	17.07	42.60	28.32 (75)	9.60	37.92
(iii) Jaipur	116.78 (57)	89.78	206.56	146.44 (60)	97.75	244.19	157.12 (48)	169.87	326.99	195.39 (40)	291.11	486.50	239.63 (65)	127.91	367.54
(iv) Jodhpur	34.87 (82)	7.69	42.56	38.30 (73)	14.50	52.80	44.32 (68)	21.10	65.42	47.31 (66)	23.87	71.18	61.68 (56)	48.42	110.10
(v) Kota	40.58 (65)	22.25	62.83	43.07 (69)	19.49	62.56	51.38 (67)	25.57	76.95	63.66 (66)	32.56	96.22	75.05 (79)	20.47	95.52
<b>Total (A)</b>	<b>192.23 (62)</b>	<b>119.72</b>	<b>311.95</b>	<b>227.81 (63)</b>	<b>131.74</b>	<b>359.55</b>	<b>252.82 (54)</b>	<b>216.54</b>	<b>469.36</b>	<b>367.98 (49)</b>	<b>382.66</b>	<b>750.64</b>	<b>446.75 (67)</b>	<b>219.46</b>	<b>666.21</b>
<b>(B) Municipal Councils</b>	113.10 (63)	65.15	178.25	132.57 (62)	82.74	215.31	152.06 (56)	120.01	272.07	162.49 (47)	185.49	347.98	191.89 (56)	150.79	342.68
<b>(C) Municipal Boards</b>	219.65 (46)	258.73	478.38	234.14 (46)	271.72	505.86	261.42 (43)	341.22	602.64	294.42 (41)	420.71	715.13	539.79 (43)	701.26	1,241.05
<b>Grand Total (A+B+C)</b>	<b>524.98 (54)</b>	<b>443.60</b>	<b>968.58</b>	<b>594.52 (55)</b>	<b>486.20</b>	<b>1,080.72</b>	<b>666.30 (50)</b>	<b>677.77</b>	<b>1,344.07</b>	<b>824.89 (45)</b>	<b>988.86</b>	<b>1,813.75</b>	<b>1,178.43 (52)</b>	<b>1,071.51</b>	<b>2,249.94</b>

(Source: As per data provided by Directorate Local Bodies Department, Rajasthan, Jaipur)

Note: RE: Recurring expenditure and NRE: Non-recurring expenditure.

Figures in brackets denote the percentage of recurring expenditure to the total expenditure.

\* M Corps, Ajmer and Bikaner came into existence with effect from July 2008 and August 2008 respectively, hence figures of these M Corps in respect of years 2005-06 to 2007-08 have been included in MCs.

The above financial trend indicates that:

- Recurring expenditure in M Corp, Jaipur increased by 24.36 per cent and 22.64 per cent during the years 2008-09 and 2009-10 respectively in

comparison to respective preceding year due to increase in expenditure on general administration, public health services etc. while non-recurring expenditure increased by 71.37 per cent in 2008-09 due to increase in expenditure on developmental works and purchase of new assets but decreased sharply by 56.06 per cent in 2009-10 due to lesser expenditure on development works.

- During 2009-10, non-recurring expenditure in M Corps, Ajmer, Bikaner, Kota and MCs decreased by 27.65 per cent, 43.76 per cent, 37.13 per cent and 18.71 per cent respectively due to decrease in expenditure on development works but it was increased in M Corp, Jodhpur and MBs by 102.85 per cent and 66.68 per cent due to increase in expenditure on developmental works, repayment of loans and miscellaneous expenditure etc.

### **3.4 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. Under the provisions contained in RMA, 2009, Municipal Accounting Manual has been prepared. In accordance with this manual the State Government has decided to maintain accounts in Double Entry Accounting System. Accordingly, the LSGD directed (December 2009) to 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>11</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). The position of maintaining the accounts on Accrual Based Accounting System by ULBs with effect from 1 April 2010 though called for (September 2011) by audit was not made available by Director, Local Bodies Department. Although as per RMA, 2009 read with Rajasthan Local Fund Audit Rules, 1955, Local Fund Audit Department (LFAD) is to certify the annual accounts of ULBs but the annual accounts of ULBs are not being certified by Director, LFAD. The consequences are absence of assurance about the financial statements of the ULBs.

• The Ministry of Urban Development, GoI has issued (April 2011) database formats to be adopted by ULBs as prescribed by the 13<sup>th</sup> Central Finance Commission to Principal Secretary, Department of Urban Development of the State Government. Chief Accounts Officer, Director Local Bodies Department intimated (June 2011) that prescribed database formats have been furnished to all 184 ULBs of the State and relevant information regarding database is being collected.

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11. Municipal Corporations, Ajmer, Bikaner, Jaipur, Jodhpur, Kota and MC, Udaipur.

### **3.5 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) to the C&AG over audit of local bodies. The State Government had amended RMA, 2009 by inserting a new Section 99(A) which provides for Audit of accounts of the municipalities by the C&AG.

### **3.6 Arrears of Audit of Director, Local Fund Audit Department**

Director, LFAD is the Statutory Auditor for accounts of ULBs.

Audit of five M Corps, 12 MCs and 100 MBs due as on 31 March 2010 by the Director, LFAD was pending as of December 2010 due to shortage of staff and deployment of staff for election duties as intimated by Director, LFAD (May 2011).

### **3.7 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:

**3.7.1** At the end of December 2011, 5,110 IRs issued by Director, LFAD containing 59,611 paragraphs remained pending for settlement. These included 217 cases of embezzlement of ₹ 1.57 crore.

**3.7.2** Nine hundred thirty five IRs containing 9,421 paragraphs involving monetary value of ₹ 3,306.41 crore issued during the years 2002-10 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 2010 were also pending for settlement as of May 2011 due to lack of satisfactory compliance of the paragraphs from ULBs/department. Besides first compliance report of 172 IRs containing 2,597 paragraphs were still awaited. The year-wise position of outstanding paragraphs is given in **Table 3.8** below:

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



**Table 3.8: Outstanding paragraphs of ULBs**

(₹ in crore)

Year	Pending			Outstanding first compliance reports	
	IRs	Paragraphs	Monetary value		
2002-03	3	47	165.72	-	-
2003-04	73	448	79.96	-	-
2004-05	127	1,276	582.14	-	-
2005-06	180	1,633	536.11	3	239
2006-07	184	1,883	589.13	3	285
2007-08	134	1,494	302.37	19	201
2008-09	146	1,588	387.94	90	1,128
2009-10	88	1,052	663.04	57	744
<b>Total</b>	<b>935</b>	<b>9,421</b>	<b>3,306.41</b>	<b>172</b>	<b>2,597</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 authorities. The State Government stated (November 2011) that ULBs have been instructed (February 2010) to invariably furnish first compliance of IRs issued by Accountant General and Director, LFAD.

### 3.8 Impact of Audit

During 2008-10, recoveries amounting to ₹ 1.09 crore were made at the instance of C&AG's audit in 52 cases.

Besides above, on being pointed out in Performance Audit of Financial Management and Public Utility Services in M Corps, Jaipur, Jodhpur and Kota, recoveries of ₹ five crore (Jodhpur) and ₹ 7.13 lakh (Jaipur) have been made.

### 3.9 Conclusion

While the receipts of ULBs showed an increasing trend, they were largely dependent on Government funds because of low 'Own Revenue' base.

In 2009-10, the expenditure of ULBs was higher than its receipts and the expenditure on developmental works actually declined in comparison to the increase in recurring expenditure.

Annual accounts of ULBs (except six ULBs) for the year 2008-09 and 2009-10 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.