

**PART – I URBAN LOCAL BODIES**

**CHAPTER – I**

**OVERVIEW ON FINANCES OF THE URBAN LOCAL BODIES INCLUDING THE ACCOUNTING PROCEDURES**

**1.1 Introduction**

Article 243 (W) of the Constitution of India envisages that the State Government may, by law, endow the municipalities with such powers and authority as may be necessary to enable them to function as institutions of self Government and such law may contain provisions for devolution of powers and responsibilities upon municipalities.

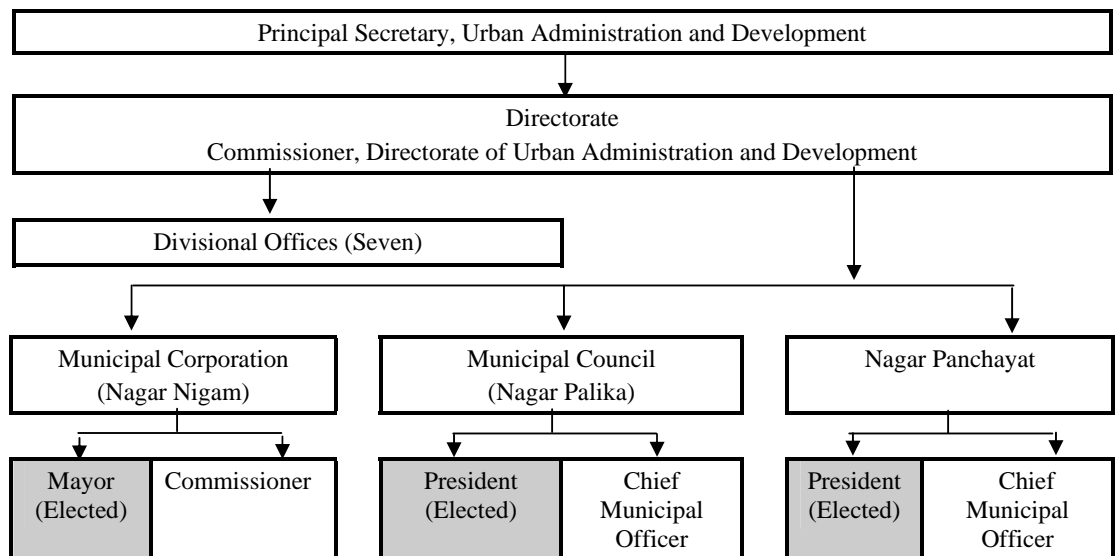
After the 74<sup>th</sup> Constitution Amendment, the Urban Local Bodies (ULBs) were made full fledged and vibrant institutions of Local Self Government by vesting them with clearly defined functions and responsibilities. Accordingly, the State Government reorganized (1993) these institutions into three type of ULBs namely Municipal Corporations for a larger urban area, Municipal Councils for smaller urban area and Nagar Panchayats for a transitional area.

At present, there are 14 Municipal Corporations, 96 Municipal Councils and 250 Nagar Panchayats. The last elections for the ULBs were held during 2009-10. All 360 ULBs as shown above cover 1.52 crore urban population of the state i.e. 25 percent of the total population of the state.

**1.2 Administrative arrangements**

All the ULBs are distinct legal authority to discharge the functions devolved under the provisions of Acts and Rules subject to monitoring powers vested in state authorities provided therein. The organisational structure of the Department is given below.

**Organisational Chart of ULBs**



### **1.3 Accounting arrangements**

**1.3.1** Consequent upon adoption of the budget and accounts format for ULBs as prescribed by the Task Force constituted by Government of India in association with the Comptroller & Auditor General of India (CAG), the UADD published Madhya Pradesh Municipal Accounts Manual (MPMAM) in July 2007. However, as per orders of the UADD (July 2007) the accrual system of accounting was to be implemented with effect from April 2008 in 14 Municipal Corporations only. The above system is yet to be implemented in the remaining ULBs. However, during test check (February 2011) it was observed that the Municipal Corporation Ujjain did not prepare their accounts in the accrual based system of accounting (2009-10).

**1.3.2** As per the decisions taken in the National Seminar organized (September 2003) by the Ministry of Urban Development, GOI, a Steering Committee was to be formed in all the States to oversee the implementation of budget and accounting formats as suggested by the CAG's Task Force. Even after regular correspondence, the committee was not formed so far (January 2011).

**1.3.3** Government of India (GOI) forwarded (September 2004) extracts of section 93 to 96 of Model Municipal Law (MML) along with CAG's suggestions thereon for adoption by State Government. Commissioner (UADD) stated in the meeting (November 2008) that some progress in this regard has been made and assured to appraise audit accordingly. Reminders were issued to Principal Secretary (FD) in September 2009 and January 2010, but reply has not been received so far.

#### **1.3.4 Misclassification of grants released to the ULBs.**

Eleventh Finance Commission recommended the classification of the funds transferred to ULBs in proposed minor heads as:-

<b>1.</b>	Municipal Corporations	191
<b>2.</b>	Municipalities / councils	192
<b>3.</b>	Nagar Panchayats	193

During scrutiny of budget and detailed appropriation account of State budget it was observed that during 2009-10, the budgetary provision and expenditure was booked in only one Minor Head 191- Assistance to Local Bodies and Municipalities etc. without specifying Municipal Corporations, Municipalities / councils and Nagar Panchayats. On being pointed out the UADD stated that the system would be adopted from the year 2010-11 (January 2011).

#### **1.3.5 Database on finances of ULBs**

The data is to be collected, compiled and maintained in standard formats prescribed by CAG. UADD agreed (June 2004) in principle to adopt the formats of database. In compliance it was stated (September 2009) that the database on finances is being maintained in standard formats in Nagar Nigam and action will be taken to maintain the database in other ULBs also. However, during test check it was observed that the data base on finance of ULBs were not maintained at the Directorate level till January 2011.

## 1.4 Audit arrangements

**1.4.1** The State Govt. has appointed Director/Commissioner of Local Fund Audit (DLFA) as a primary auditor of accounts of Urban Local Bodies. The office of the Senior Deputy Accountant General, (Local Body Accounts and Audit) is conducting audit of ULBs under TGS module. 66 ULBs including 4 Municipal Corporations were test checked by audit during 2009-10.

## 1.4.2 Internal Audit System

According to para 7.2 of the recommendations submitted (July 1996) by the First SFC and decision of the Finance Department (FD), an Internal Audit System was to be set up to ensure the accountability of ULBs. Such provision for creation of internal audit department was also mentioned in para 2.2.1 of MPMAM. However Directorate UADD (January 2011) stated that apart from the arrangement of pre-audit in 50 ULBs units, there was no system of internal audit in the ULBs. It may be mentioned here that the pre-audit in certain ULBs is being carried out by DLFA under State Government instructions.

## 1.5 Source of revenue

There were mainly two sources of revenue for local bodies (i) Government grants and (ii) own revenues. Own revenue resources of ULBs comprise of tax and non-tax revenues realised by them. Government grants comprise of funds released by the State Government and Government of India (GOI) on the recommendation of SFC, Central Finance Commission and State and GOI share for implementation of various schemes. The ULBs also obtain loans for implementation of various schemes relating to urban development.

## 1.6 Budgetary Allocation and Expenditure

**1.6.1** Funds (share of tax revenue of the state, schemes funds & grants etc.) allocated to ULBs by the State Government through budget including State share of the GOI schemes & grants recommended by Twelfth Finance Commission (TFC) were as under:-

(₹ in crore)

Sl. No.	Budgetary Allocation						Expenditure			Excess (+)/ Saving (-)
	Year	Share of Tax	Scheme funds	Grant	Pay & Allowance of Directorate	Total	Revenue	Capital	Total	
1.	2006-07	1047.30	304.45	531.93	8.22	1891.90	1614.57	28.81	1643.38	(-) 248.52
2.	2007-08	1300.39	395.02	635.04	2.93	2333.38	1695.40	305.55	2000.95	(-) 332.43
3.	2008-09	1531.07	502.07	563.14	22.34	2618.62	2112.90	205.43	2318.33	(-) 300.29
4.	2009-10	1617.51	936.06	711.73	5.28	3270.58	2726.60	208.54	2935.14	(-) 335.44

**Source:-** Detailed appropriation Accounts.

The above figures indicate that the budget provisions increased by 73 per cent in ULB sector during the year 2009-10 as compared to the year 2006-07 but the ULBs could not spend the amount, resulting in saving during 2006-07 to 2009-10. Details of receipts of ULBs from their own sources and expenditure was not available with Directorate, UADD. The Commissioner, (UADD) stated (January 2011) that the same would be collected and furnished to audit.

### **1.6.2 Submission of Utilisation Certificates (UCs)**

Directorate UADD circular (December 2004) stipulated that grants should not be released to the ULBs before obtaining UCs for grants released during of previous years. Audit scrutiny (January 2011) of records relating to the release of grants by the Directorate UADD Bhopal revealed that grants were released without obtaining UCs from ULBs concerned for the previous years. On being pointed out, the Commissioner UADD stated (January 2011) that the information of the expenditure incurred by the ULBs were not available. It was the failure on the part of Directorate UADD.

### **1.6.3 Non clearance of Liabilities by ULBs**

Liabilities of the ULBs were to be cleared every year by making provision in their annual budget. Scrutiny of records of UADD it was observed that the UADD made adhoc payment of electricity bills amount ₹ 75 crore on the demand of Energy Department (March 2010) for payment of liabilities of 247 ULBs from the amount of assigned revenue i.e. octroi payable to the ULBs. The ULBs failed to clear their liabilities in due time. Thus, the expenditure of ₹ 75 crore remained out of control of concerned Parishad.

### **1.7 Position of outstanding loans**

During 2009-10 a development loans of ₹ 1092 lakh was provided by state to the ULBs as shown in table given below. As the concerned ULBs did not repay the amount of loans and interest in the year from their budgets, the repayment of principal ₹ 38.88 lakh and interest ₹ 9.73 lakh was made by the UADD from the amount of assigned revenue<sup>1</sup> payable to the ULBs during the year.

(₹ in lakh)

Sl. No.	Name of ULB	Balance as on 1.4.09	Fresh loan during 09-10	Repayment during 09-10		Outstanding Principal as on 31 March 2010.
				Principal	As Interest	
1.	Indore	72.66	--	--	1.96	70.70
2.	Bhopal	151.99	592.00	--	2.84	741.15
3.	Rewa	27.40	--	--	0.17	27.23
4.	Sagar	27.34	--	--	0.17	27.17
5.	Ujjain	1138.93	500.00	38.88	3.64	1596.41
6.	Janbalpur	25.77	--	--	0.51	25.26
7.	Gwalior	12.50	--	--	0.44	12.06
	<b>Total</b>	<b>1456.59</b>	<b>1092</b>	<b>38.88</b>	<b>9.73</b>	<b>2499.98</b>

### **1.8 Position of outstanding audit objections**

The position of outstanding audit objections of ULBs included in the Inspection Reports (IRs) of AGs Inspection Reports are as under:-

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<sup>1</sup> Assigned revenue- Compensation in lieu of Octroi

**Outstanding audit objections of AGs Inspection Reports.**

(As on 31 March 2010)

Sl. No.	Financial Year	ULB			
		Total No. of outstanding audit objections	Addition	No. of objections settled	No. of objections Outstanding
1.	2006-07	2508	601	0	3109
2.	2007-08	3109	514	0	3623
3.	2008-09	3623	778	61	4340
4.	2009-10	4340	598	0	4938

These outstanding objections require active pursuance by DLFA for early settlement.

**1.9 Bank-reconciliation statement not prepared**

Rules 97-98 of Madhya Pradesh Nagar Palika Lekha Niyam 1971, provide that the reconciliation of any difference between the balances of cash book and bank accounts is required to be conducted every month. However, it was noticed that the difference of cash balance of ₹ 2.41 crore between Cashbook and Bank pass book balance at the close of the year (2009-10) was not reconciled by six ULBs. Due to non-reconciliation of cash balance, possibility of temporary misappropriation or fictitious booking of expenditure could not be ruled out. The authenticity of cash balance of ULBs in the cashbook also remained doubtful in the absence of reconciliation with bank account.

The position of the difference is given in **Appendix- I**.

**1.10 Non-recovery of advances from individuals**

Temporary advances were paid to Staff/ officials for making petty payments. Rule 112 of Madhya Pradesh Lekha Niyam 1971 and Madhya Pradesh Finance Department orders (2001) provides that the temporary advances should be adjusted or recovered at the earliest but in no case later than three months of payment of advance or last month (March) of financial year. In case of non-adjustment/recovery penal interest @ of interest payable by Banks on fixed deposits shall also be recovered. Audit of three ULBs revealed that a sum of ₹ 26.65 lakh paid to officials/ staff for various purposes were outstanding against them for the last one to four years as shown in **Appendix-II**. Lack of effective action to recover/ adjust the old outstanding advances may lead to loss with the passage of time.

**1.11 Non recovery of tax/ non-tax revenue**

Urban Local Bodies (ULBs) earn revenue from their own resources through taxes, rent, fees, issue of licenses etc. In (10) test checked ULBs a sum of ₹ 245.87 crore as shown in **Appendix-III** was outstanding against the taxpayers (March 2010), although the ULBs had powers under section 165 of Madhya Pradesh Municipalities Act, 1961 to approach a Magistrate to seek orders for recovery by distress and sale of any movable property of attachment and sale of immovable property belonging to defaulters, they failed to invoke these power to recover the outstanding taxes.

Failure to invoke its powers resulted in non-recovery of outstanding taxes and resource crunch leading to hindrance in development works.

### **1.12 Non-creation of Reserve Fund of ULBs**

Sub rule 3 (3) of Madhya Pradesh Nagar Palika Budget Rules, 1962 provides that every Nagar Palika is required to create a reserve fund account (Sanchit Nidhi) by depositing five per cent of net income every year, so that it may be used in special circumstances in the interest of the ULB.

Scrutiny of records of six ULBs revealed that due to financial crisis a sum of ₹ 1.22 crore was not deposited in the reserve fund account from their net income during 2009-10 as shown in **Appendix-IV**.

### **1.13 Non recovery of rent and premium of shops**

Shops were constructed at various places by the ULBs to increase the revenue by way of premium and monthly rent of these shops.

Test check of records of Nagar Palika, Mandasour for the period 2006-10 revealed that the premium of 22 shops amounting to ₹ 56.91 lakh was not recovered (August 2010).

### **1.14 Non preparation of draft development plan for the districts**

As a tool of local self government – to consolidate the annual plan prepared by the Panchayats and Municipalities in the district and prepare a draft development plan for the district, the District Planning Committees (DPC) were constituted as per MP Zila Yojna Samiti Adhinyam 1995. The committee for each districts shall consist of the number as specified in the schedule i.e. between 15 to 25 for each districts. On the verification of fact the Nagar Nigam Ujjain stated that no committee relating to planning was constituted the information in this regard will be presented separately. The reply was not acceptable to audit as the district planning committee was in place though the draft development plan for the district was not prepared for the period from 2007-08 to 2009-10.

### **1.15 Conclusion**

Budget and accounts in the format, prescribed by the CAG, were not maintained by ULBs. Database in the formats prescribed by the CAG on finances of ULBs is yet to be compiled. The provisions of Model Municipal Law (MML) along with suggestion of CAG on section 93 to 96 of MML have not yet been incorporated in the concerned Acts. The information regarding receipts and expenditure of all ULBs was not being maintained by the Directorate UADD. Approval of PAG on audit plan was not obtained by the DLFA. The Steering Committee and State Legislature Committee were not yet formed.