

PART – I URBAN LOCAL BODIES

CHAPTER – I

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

1.1 Introduction

Article 243W 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 Constitution (74th Amendment) Act, 1992, 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 reorganised these institutions into three types of ULBs namely Municipal Corporations for large urban areas, Municipal Councils for smaller urban areas and Nagar Parishads for a transitional areas¹.

The basic information about the State of Madhya Pradesh is given below:

	Unit	State figure	All India figure
Population*	Crore	7.26	121.02
Share in country's population*	per cent	6.00	--
Urban population*	Crore	2.00	38.00
Share of Population*	per cent	28.00 ²	31.00
Literacy rate of State*	per cent	71.00	74.00
Sex ratio of State*	Ratio	930/1000	940/1000
Municipal Corporations	Number	14 [#]	139 [@]
Municipal Councils	Number	100 [#]	1595 [@]
Nagar Parishads	Number	263 [#]	2108 [@]

Source: * provisional census 2011

Administrative report of Madhya Pradesh for the year 2011-12

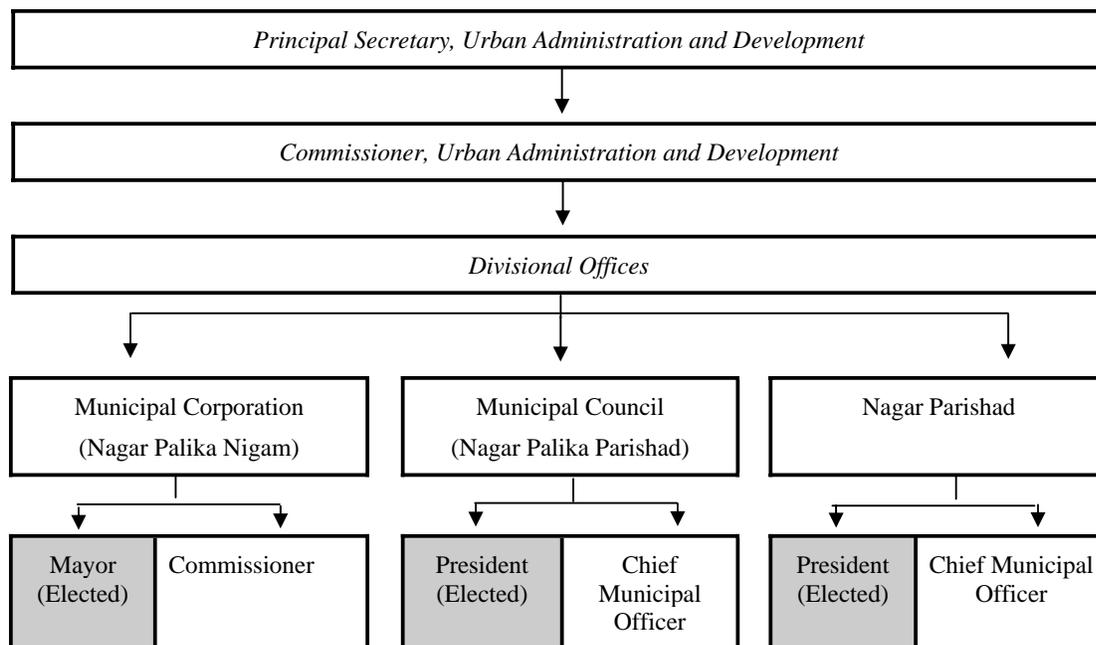
@ Thirteenth Finance Commission Report

¹ It means such area as the Governor may decide as per population density, revenue generation, agricultural activities, economic importance etc

² $2 \times 100 / 7.26 = 27.548$ (rounded off to 28)

1.2 Administrative arrangements

All the ULBs are empowered to discharge the functions devolved under the provisions of Madhya Pradesh Municipal Corporation Act, 1956 and Madhya Pradesh Municipalities Act, 1961 subject to monitoring powers vested in state authorities provided therein. The organisational structure of the Urban Administration and Development Department and ULBs is as follows:



1.3 Audit Coverage

Out of 377 ULBs (14 Municipal Corporations, 100 municipal councils and 263 Nagar Parishads) in the State, records of 85 ULBs (9 Municipal Corporations, 27 Municipal councils and 49 Nagar Parishads) were scrutinised during the year 2010-11 (**Appendix-I**).

1.4 Accounting arrangements

As per recommendations of the Eleventh Finance Commission (EFC) and the guidelines issued by the Ministry of Finance, Government of India, the Comptroller and Auditor General of India (C&AG) had constituted a Task Force to recommend budget and accounting formats for ULBs. The Task Force in its report, *inter alia*, suggested adoption of accrual basis of accounting by ULBs. The UADD³ published the Madhya Pradesh Municipal Accounts Manual (MPMAM) in July-2007 adopting such formats.

³ Urban Administration and Development Department

During test check of accounts of 85 ULBs in the year 2010-11 it was noticed that the accounts were prepared on accrual basis in nine Municipal Corporations only⁴

On being pointed out in audit (January 2011), the Commissioner, UADD replied in January 2011 that necessary instructions have been issued (July 2010) to the ULBs to adopt the accrual basis of accounting.

The matter was again brought in to the notice of Commissioner, UADD, Bhopal in August 2012, who stated that the work is in progress. The reply is not acceptable as audit found that the accounts were not being prepared on accrual basis.

1.5 Audit arrangements

1.5.1 As per recommendations of the Eleventh Finance Commission (EFC), audit by Director Local Fund Audit (DLFA) has been brought (November 2001) under the Technical Guidance and Supervision (TGS) of the C&AG. Accordingly, 85 ULBs including nine Municipal Corporations were test checked during 2010-11 and inspection reports were sent to DLFA for providing Technical Guidance.

Para 10.121 of recommendations of the Thirteenth Finance Commission (TFC) envisages that the C&AG be entrusted with the TGS of all Local Bodies in the State and Annual Technical Inspection Report (ATIR) of the C&AG as well as the Annual Report of the Director of Local Fund Audit (DLFA) should be placed before the State Legislature. Accordingly, the State Government amended the Madhya Pradesh Municipal Corporation Act, 1956 and Madhya Pradesh Municipalities Act, 1961 in January 2012.

1.5.2 Approval of Audit Plan of Director Local Fund Audit

As per section 152 (1) of Regulations on Audit and Accounts 2007, the DLFA was required to prepare an Annual Audit Plan and forward it to the Principal Accountant General (PAG) as a part of the TGS arrangement. The matter was discussed with Principal Secretary (Finance) by the PAG in a meeting held in November 2008 wherein it was agreed that the Annual Audit Plan of the DLFA would be submitted to the PAG for his consent. However, the Audit Plan 2010-11 was not got approved by PAG.

1.5.3 Internal Audit System

Para 2.2 of Chapter 2 of Madhya Pradesh Municipal Accounts Manual (MPMAM) envisages that an internal audit department would be created. The scope of internal audit would cover propriety audit, financial audit, ensuring internal control and transparency in operations.

⁴ Indore, Khandwa, Burhanpur, Bhopal, Jabalpur, Rewa, Satna, Singroli and Ratlam.

During test check of the records of ULBs and UADD, it was found that an internal audit department was not created.

On being pointed out (October 2011), the Commissioner UADD replied in October 2011 that the system of internal audit in the ULBs could not be established. The position remained same till date (August 2012).

1.6 Source of revenue

As per Section 105 of MP Municipalities Act, 1961 and Section 87 of MP Municipal Corporation Act, 1956, there are 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.

The Government grants comprise of funds released by the State Government and Government of India (GOI) on the recommendation of State Finance Commission, Central Finance Commission and State and GOI share for implementation of various schemes.

The ULBs also obtain loans from State Government or any other sources with prior permission of State Government for the purpose of urban development.

1.7 Budgetary Allocation and Expenditure

Funds allocated to ULBs by the State Government through budget including State share of the GOI schemes and grants recommended by Central Finance Commission were as under:-

(₹ in crore)

Sl. No	Budgetary Allocation				Expenditure			Savings (5-8)	Percentage of Savings
	Year	Revenue	Capital	Total	Revenue	Capital	Total		
1	2	3	4	5	6	7	8	9	10
1.	2006-07	1662.66	229.26	1891.92	1614.57	28.81	1643.38	248.54	13
2.	2007-08	2027.08	306.30	2333.38	1695.40	305.55	2000.95	332.43	14
3.	2008-09	2263.38	355.24	2618.62	2112.90	205.42	2318.32	300.30	11
4.	2009-10	2878.76	391.83	3270.59	2726.60	208.54	2935.14	335.45	10
5.	2010-11	3577.21	323.15	3900.36	2983.60	202.64	3186.24	714.12	18

Source:- Appropriation Accounts

The above table shows that the savings were ranging between 10 to 18 per cent during 2006-07 to 2010-11.

Details of receipts and expenditure of ULBs from their own sources were not maintained at Directorate Level. The Commissioner (UADD) stated (October 2011 and June 2012) that the same would be collected and furnished to audit. The information was again sought from UADD through the State Government (November 2012) but their reply is awaited.

1.8 Submission of Utilisation Certificates (UCs)

Rule 212 (1) of General Financial Rules provides that in respect of recurring grants, Ministry or Department concerned should release any amount sanctioned for the subsequent financial year only after UC in respect of grants of the preceding financial year is submitted. The guidelines of TFC also envisage that the release of any installment will be subject to a utilisation certificate being furnished for the previous installment drawn.

Scrutiny of records of Grants-in-aid (GIA) released to ULBs under the recommendations of the Central and the State Finance Commission revealed that the UC of GIAs were not received by the Directorate UADD from the ULBs as on date (August 2012) as depicted below:-

(₹ in crore)

Year	State Finance Commission	Central Finance Commission	Total
2008-09	93.74	72.20	165.94
2009-10	106.15	72.20	178.35
2010-11	110.46	139.39	249.85
Total	310.35	283.79	594.14

(Source: Data of pending UCs furnished by the UADD as on August 2012)

1.9 Status of outstanding audit objections

According to TGS arrangement, the DLFA would pursue the compliance of paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports.

The status of outstanding audit objections of ULBs included in the AG's Inspection Reports was as under:-

(As on 31 March 2011)

Sl. No.	Financial Year	ULB			
		Opening balance 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
5.	2010-11	4938	453	193	5198

(Source: Monthly Arrear Report of LB wing)

Despite regular correspondence made with DLFA by PAG, no active pursuance was made by DLFA for settlement of outstanding objections.

1.10 Non preparation of Bank-reconciliation statement

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.

It was noticed that the difference of cash balance of ₹2.14 crore between Cash book and Bank Pass Book balance at the end of the year (2010-11) was not reconciled by Municipal Corporations Rewa, Sagar and Satna. Due to non-preparation of bank reconciliation statement, the actual financial status of the ULBs could not be depicted.

The position of the difference is shown in **Appendix- II**.

1.11 Non recovery of tax/ non-tax revenue

As per Section 87 of MP Municipal Corporation Act, 1956, ULBs earn revenue from their own resources through taxes, rent, fees, issue of licenses etc.

In two test checked Municipal Corporations (Rewa and Satna) a sum of ₹ 11.12 crore as tax revenue pertaining to property tax and rent of the buildings and shops as shown in **Appendix-III** was outstanding against the taxpayers (March 2011). Similarly non-tax revenue amounting to ₹ 12.51 crore pertaining to water charges in three Municipal Corporations (Rewa, Sagar and Satna) as shown in **Appendix – IV** remained unrecovered (March 2011). Although the ULBs had powers under section 173 to 183 of the above Act to take suitable action for recovery by distress and sale of any movable property and attachment and sale of immovable property belonging to defaulters, they failed to invoke these powers to recover the outstanding taxes. The ULBs had not furnished year-wise break-up of the arrears.

Failure to take action to recover the outstanding dues resulted in resource crunch leading to hindrance in development works.

1.12 Non adjustment of advances

Rule 112 (2) of the MP Municipal Accounts Rules, 1971 stipulates that no advance shall be drawn unless expenditure is likely to be incurred within one month. Sub rule (6) of the rules *ibid* specifies that the accounts in the Advances Ledger shall be balanced quarterly and signed by the Accounts Officer.

Scrutiny of records of test checked Municipal Corporations of Rewa and Satna revealed that during 2010-11 temporary advances with individuals and agencies of ₹2.79 crore⁵ outstanding from one to 26 years were not adjusted in the books of accounts as per existing accounting rules of the Municipal Corporations.

⁵ Municipal Corporation Rewa ₹198.70 lakh
Municipal Corporation Satna ₹80.43 lakh

On being pointed out, Commissioner, MC, Rewa replied (July 2011) that adjustment of advances was in process, whereas Commissioner, MC, Satna replied (August 2011) that the recovery would be initiated. Further scrutiny of records revealed that ₹ 66.04 lakh was recovered by MC Rewa during the year 2011-12. A sum of ₹ 1.83 crore is still outstanding as shown in **Appendix-V**.

1.13 Non deposit of amount in General Provident Fund (GPF) Accounts

Rule 24 of Madhya Pradesh Municipal Corporation Employees (Recruitment & Conditions of service) Accounting Rules, 1968 provides that the Madhya Pradesh General Provident Fund Rules, as amended from time to time, shall apply to a Municipal employee in the same way as are applicable to a Government servant of similar status.

During scrutiny of records, it was noticed that MC, Sagar did not deposit the GPF subscription of its employees since 1977-78 amounting to ₹ 3.69 crore in the Bank which resulted in creation of liabilities in the shape of interest which is being paid by MC to the employees at the time of retirement.

On being pointed out, the Deputy Commissioner, MC stated (July 2011) that due to financial crisis, the amount of subscription of the employees was not credited in the bank. However, at the time of retirement the final payment of GPF is made with interest at the rate of five *per cent* per annum.

The reply of the Deputy Commissioner was not according to the Rules as the amount of GPF subscription, being a public account, should be credited in the bank regularly to avoid the loss of interest and creation of liabilities.

1.14 Conclusion

Budget and Accounts in the format prescribed by the C&AG, were not maintained by the ULBs. The information regarding receipts and expenditure from own sources of all ULBs was not being maintained by the Directorate, UADD. An internal audit system was not established in ULBs. Approval of the PAG on Audit Plan was not obtained by the DLFA.