

CHAPTER-III
AN OVERVIEW OF ACCOUNTS AND FINANCES OF
URBAN LOCAL BODIES

3.1 Introduction

Consequent on the 74th 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.

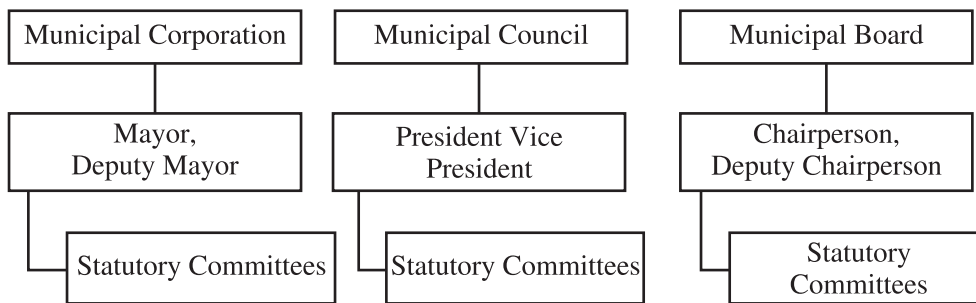
As per census 2011, the total population of Rajasthan State was 6.86 crore. The urban population of the State was 1.71 crore, which constituted 24.93 *per cent* of the total population of the State. In Rajasthan State, there were 184 Urban Local Bodies (ULBs) i.e., five Municipal Corporations¹ (M Corps), 13 Municipal Councils² (MCs) and 166 Municipal Boards³ (MBs) as of March 2012. 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). An organisational chart combining the State Government administrative machinery with ULBs is given in **Chart 3.1** below:

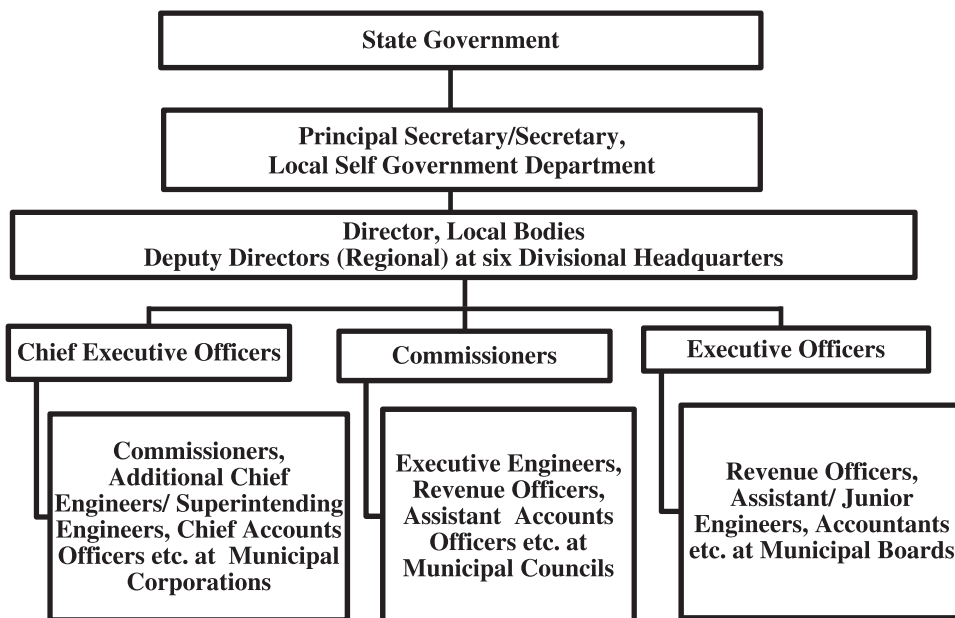
Chart 3.1: Organisational chart of ULBs

ELECTED MEMBER LEVEL



1. Municipal Corporations: Ajmer, Bikaner, Jaipur, Jodhpur and Kota.
 2. Municipal Councils: Alwar, Beawar, Bharatpur, Bhilwara, Churu, Hanumangarh, Jhunjhunu, Kishangarh, Pali, Sikar, Sriganganagar, Tonk and Udaipur.
 3. 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



Financial management

3.3 Receipts and expenditure

3.3.1 Receipts

The position of receipts under various heads of the ULBs⁴ during 2006-07 to 2010-11 is given in **Table 3.1** and break-up of receipts and expenditure of ULBs is given in **Table 3.2** below:

Table 3.1: Receipts of ULBs

(₹ in crore)

Sources of receipts	2006-07	2007-08	2008-09	2009-10	2010-11
(A) Own revenue					
(a) Tax revenue					
(i) House tax	19.50	8.38	7.03	39.90	17.59
(ii) Urban development tax ⁵	-	-	11.99	21.61	38.94
(iii) Octroi/Margasth fee	2.50	3.66	4.00	54.49	25.51
(iv) Tax on vehicles	0.24	2.59	0.67	0.46	0.20
(v) Passenger tax	2.24	2.73	2.02	2.23	3.52
(vi) Terminal tax	0.14	0.54	0.12	0.10	0.08
(vii) Other taxes	2.94	4.97	3.00	4.42	21.26
(viii) Outsourcing	-	-	-	41.13	44.33
Total of tax revenue (a)	27.56 (2.31)	22.87 (1.53)	28.83 (1.54)	164.34 (7.55)	151.43 (7.38)

4. Excluding MBs: Aklera, Bandikui, Barmer, Bhinmal, Chaksu, Deeg, Deshnok, Gangapur, Hindaun, Kishangarh-Renwal, Laxmangarh, Malpura, Mandawa, Nava, Parbatsar, Pindwada, Piparcity, Sanchore, Sirohi, Surajgarh and Vair (information of receipts (except Sirohi) and expenditure for 2010-11 not received in Directorate, Local Bodies, Jaipur).

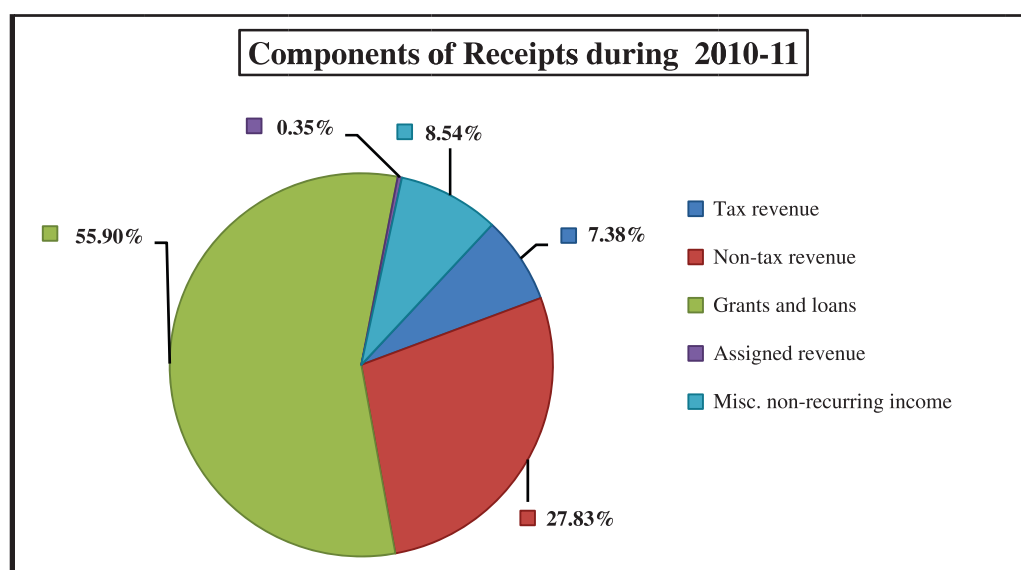
5. Urban Development tax was introduced from 29 August 2007 on abolition of House tax from 24 February 2007.

Sources of receipts	2006-07	2007-08	2008-09	2009-10	2010-11
(b) Non-tax revenue⁶					
(i) Revenue from bye-laws	70.21	67.93	68.30	83.72	99.39
(ii) Revenue from assets	13.55	14.42	17.22	46.43	26.75
(iii) Revenue from Acts	13.25	18.93	18.37	35.06	49.05
(iv) Revenue from penalties	4.15	6.71	6.09	8.66	11.73
(v) Revenue from waterworks	0.25	1.06	2.30	1.84	0.32
(vi) Interest on investments	7.15	61.37	14.21	8.61	22.13
(vii) Misc. non-tax revenue	50.30	63.96	91.92	81.85	56.29
(viii) Sale of land	141.67	210.38	249.33	210.52	305.34
Total of non-tax revenue (b)	300.53 (25.15)	444.76 (29.84)	467.74 (24.91)	476.69 (21.89)	571.00 (27.83)
Total of Own revenue (A)	328.09 (27.46)	467.63 (31.37)	496.57 (26.45)	641.03 (29.44)	722.43 (35.21)
(B) Assigned revenue (Entertainment tax)	-	-	3.00 (0.16)	7.12 (0.33)	7.21 (0.35)
(C) Grants and loans					
(i) General and special grant	44.80	41.93	65.27	51.91	40.87
(ii) Grant in lieu of octroi	544.46	566.64	627.65	747.70	754.09
(iii) Special assistance and loans	160.35	254.68	417.37	484.79	351.67
Total of Grants and loans (C)	749.61 (62.74)	863.25 (57.91)	1,110.29 (59.13)	1,284.40 (58.99)	1,146.63 (55.90)
(D) Miscellaneous non-recurring income⁷	117.02 (9.80)	159.80 (10.72)	267.81 (14.26)	244.62 (11.24)	175.11 (8.54)
Grand Total (A to D)	1,194.72*	1,490.68*	1,877.67	2,177.17	2,051.38

(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 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.



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

7. Including deposits and recoveries of loans and advances.

Table 3.2: Break-up of receipts and expenditure of ULBs

(₹ in crore)

Category of ULBs	2007-08		2008-09		2009-10		2010-11		Percentage of increase (+)/ decrease (-) of 2010-11 with reference to 2009-10	
	Receipts	Exp.	Receipts	Exp.	Receipts	Exp.	Receipts	Exp.	Receipts	Exp.
(A) Municipal Corporations										
(i) Ajmer*	-	-	55.43	54.13	48.65	55.13	79.67	60.91	(+)63.76	(+)10.48
(ii) Bikaner*	-	-	49.97	42.60	37.10	37.92	42.91	42.30	(+)15.66	(+)11.55
(iii) Jaipur	389.24	326.99	457.56	486.50	400.30	367.54	369.30	342.23	(-)7.74	(-)6.89
(iv) Jodhpur	62.77	65.42	84.46	71.18	93.28	110.09	115.43	109.33	(+)23.75	(-)0.69
(v) Kota	85.74	76.95	85.52	96.22	89.45	95.53	120.38	80.04	(+)34.58	(-)16.21
Total (A)	537.75	469.36	732.94	750.63	668.78	666.21	727.69	634.81	(+)8.81	(-)4.71
(B) Municipal Councils	274.04	272.07	338.87	347.98	353.71	342.68	427.74	384.53	(+)20.93	(+)12.21
(C) Municipal Boards	678.89	602.64	805.86	715.14	1,154.68	1,241.05	895.95	803.99	(-)22.41	(-)35.22
Grand Total (A+B+C)	1,490.68	1,344.07	1,877.67	1,813.75	2,177.17	2,249.94	2,051.38	1,823.33	(-)5.78	(-)18.96
<i>(Source: As per data provided by Directorate Local Bodies Department, Rajasthan, Jaipur)</i>										
<i>* 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.</i>										

The above financial trends indicate that:

- The receipts and expenditure figures for the year 2011-12 were not made available by Director Local Bodies due to non-finalisation of accounts for the same year.
- ULBs were dependent on grants and loans from Central and State Governments, which ranged from 55.90 per cent to 62.74 per cent of total receipts during 2006-07 to 2010-11.
- The fall in own revenue in 2010-11 from 2009-10 was under various heads like house tax by ₹ 22.31 crore, revenue from assets by ₹ 19.68 crore, octroi/margasth fee by ₹ 28.98 crore and miscellaneous non-tax revenue by ₹ 25.56 crore.
- Non-tax revenues of M Corp, Kota decreased by 92.83 per cent from ₹ 11.86 crore in 2009-10 to ₹ 0.85 crore in 2010-11 due to less receipts of income from bye-laws/acts, assets, miscellaneous recurring income and sale of land.
- Receipts of M Corp, Jaipur decreased by 7.74 per cent from ₹ 400.30 crore in 2009-10 to ₹ 369.30 crore in 2010-11 due to less receipts of income from house tax, revenue from assets, revenue from acts and miscellaneous recurring income.
- Receipts of MBs decreased by 22.41 per cent from ₹ 1154.68 crore in 2009-10 to ₹ 895.95 crore in 2010-11 due to less receipts of income from house tax, revenue from assets, sale of land as well as less receipts from special grant, grant in lieu of octroi and special assistance and loan.

- ULBs received lesser general and special grants in 2010-11 as compared to the years 2008-09 and 2009-10. The general and special grant in 2010-11 was ₹ 40.87 crore while it was ₹ 65.27 crore and ₹ 51.91 crore in 2008-09 and 2009-10 respectively.
- There were differences in some figures of receipts and expenditure of M Corps maintained at Directorate level and at concerned M Corp level (*Appendix-XIII*), which need to be reconciled.

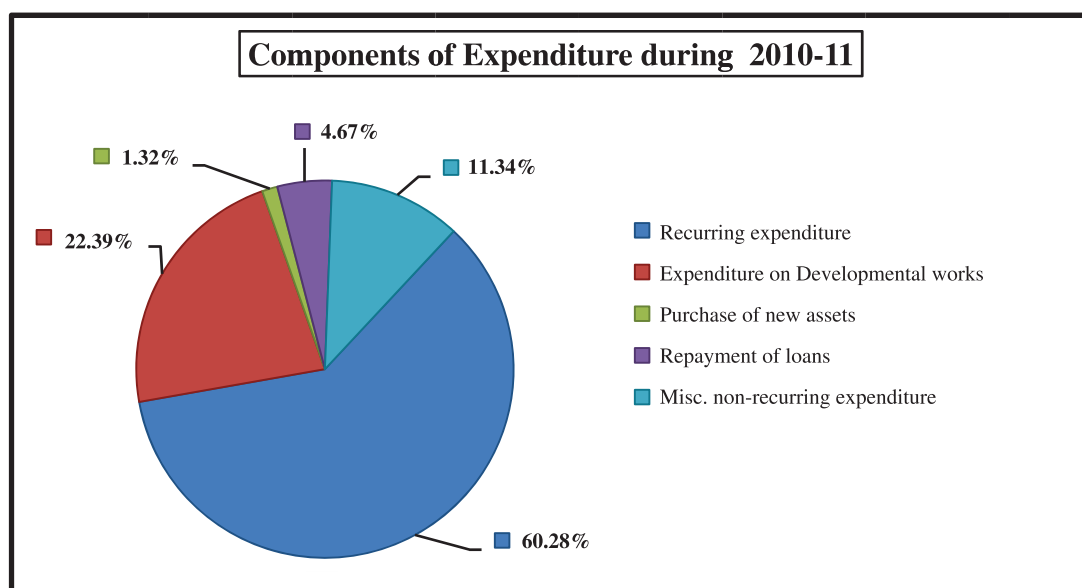
3.3.2 Expenditure

The position of expenditure in ULBs during 2006-07 to 2010-11 is given in **Table 3.3** below:

Table 3.3: Expenditure of ULBs

		(₹ in crore)									
Items of Expenditure		2006-07		2007-08		2008-09		2009-10		2010-11	
(A) Recurring expenditure											
(i)	General administration	160.44	(14.85)	178.54	(13.28)	237.21	(13.08)	324.43	(14.42)	519.03	(28.47)
(ii)	Public health and sanitation	316.91	(29.32)	355.25	(26.43)	440.33	(24.28)	623.40	(27.71)	359.19	(19.70)
(iii)	Maintenance of civic amenities	117.18	(10.84)	132.51	(9.86)	147.35	(8.12)	230.60	(10.25)	220.89	(12.11)
Total of Recurring expenditure (A)		594.53	(55.01)	666.30	(49.57)	824.89	(45.48)	1,178.43	(52.38)	1099.11	(60.28)
(B) Non-recurring expenditure											
(i)	Expenditure on developmental works	330.38	(30.57)	538.63	(40.08)	820.58	(45.24)	805.94	(35.82)	408.33	(22.39)
(ii)	Purchase of new assets	7.41	(0.69)	4.29	(0.32)	9.27	(0.51)	11.69	(0.52)	24.03	(1.32)
(iii)	Repayment of loans	8.42	(0.78)	13.42	(1.00)	13.69	(0.76)	40.76	(1.81)	85.08	(4.67)
(iv)	Miscellaneous non-recurring expenditure ⁸	139.98	(12.95)	121.43	(9.03)	145.32	(8.01)	213.12	(9.47)	206.78	(11.34)
Total of Non-recurring expenditure (B)		486.19	(44.99)	677.77	(50.43)	988.86	(54.52)	1,071.51	(47.62)	724.22	(39.72)
Grand Total (A+B)		1,080.72*		1,344.07*		1,813.75		2,249.94		1,823.33	

(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 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.



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

The above financial trends indicate that:

- Non-recurring expenditure of ULBs decreased by 32.41 *per cent* from ₹ 1071.51 crore in 2009-10 to ₹ 724.22 crore in 2010-11 due to decrease in expenditure on developmental works.
- Expenditure on general administration increased to 28.47 *per cent* of total expenditure in 2010-11 from 14.42 *per cent* in 2009-10 due to inflation and progress in departmental works.

Similarly, expenditure on repayment of loan increased to 4.67 *per cent* of total expenditure in 2010-11 from previous years expenditure of 1.00 *per cent* (2007-08), 0.76 *per cent* (2008-09) and 1.81 *per cent* (2009-10) due to increase in repayment of loans of ₹ 48.58 crore by four M Corps (Ajmer: ₹ 5.73 crore, Bikaner: ₹ 2.61 crore, Jaipur: ₹ 25.96 crore and Jodhpur: ₹ 14.28 crore) in 2010-11 in comparison to 2009-10.

- Recurring expenditure in M Corp, Kota increased by 6.52 *per cent* in 2010-11 from the year 2009-10 due to increase in expenditure on general administration, public health and sanitation, while non-recurring expenditure decreased by 99.51 *per cent* in 2010-11 from 2009-10 due to decrease in expenditure on developmental works and miscellaneous expenditure.
- Expenditure on primary functions such as public health and sanitation decreased to 19.70 *per cent* of total expenditure in 2010-11 from the previous year expenditure of 26.43 *per cent* (2007-08), 24.28 *per cent* (2008-09) and 27.71 *per cent* (2009-10). Similarly, expenditure on developmental works decreased to 22.39 *per cent* of total expenditure in 2010-11 from previous year's expenditure of 40.08 *per cent* (2007-08), 45.24 *per cent* (2008-09) and 35.82 *per cent* (2009-10).

3.3.3 Devolution of functions

Accounts Officer, Directorate Local Bodies Department (DLBD) intimated (February 2013) that out of 18 functions listed in the Twelfth Schedule of the Constitution, 16 functions (*Appendix-XIV*) other than water supply and urban planning were being performed by ULBs.

3.3.4 Finance Commission grants

3.3.4.1 Thirteenth Finance Commission grants

The period of Thirteenth Finance Commission (13th FC) is from 2010-11 to 2014-15. After recommendations of 13th FC, GoI released ₹ 111.36 crore in 2010-11 (July 2010 and January 2011) and ₹ 209.49 crore in 2011-12 (July 2011 to March 2012) as general basic grant, general performance grant, special area basic grant and special area performance grant. However, Director, Local Bodies stated (January 2013) that even after fulfilling conditions laid down by GoI for release of special area performance grant, the GoI did not release the grant of ₹ 0.09 crore during 2011-12.

The position of release of grants under 13th FC and their utilisation by ULBs for the years 2010-11 and 2011-12 is given in **Table 3.4** below:

Table 3.4: Grants of 13th FC to ULBs

Year	Grants to be released by GoI	Actual grants released by GoI	Grants released to ULBs by State Government	UCs received from ULBs		UCs pending	
				Amount	Percentage	Amount	Percentage
2010-11	111.36	111.36	111.36	51.96	46.66	59.40	53.34
2011-12	173.30	209.49	187.56	81.28	43.34	106.28	56.66
Total	284.66	320.85	298.92	133.24		165.68	

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

Accounts Officer, DLBD intimated (February 2013) that the GoI released excess grants of ₹ 36.19 crore in 2011-12 due to redistribution of share of States which did not fulfill terms and conditions of general performance grant. Further, in respect of short release of ₹ 21.93 crore to ULBs (₹ 209.49 crore – ₹ 187.56 crore) in 2011-12, the Financial Advisor, DLBD stated (January 2013) that due to short provision in State budget for 2011-12, funds could not be released during 2011-12 and this amount was released to ULBs on 5 April 2012.

Further, during 2010-11, it was observed that in five ULBs⁹, out of grants of ₹ 7.07 crore, ₹ 1.22 crore were diverted to works other than appropriate heads and ₹ 2.70 crore were lying unutilised as on 31 March 2012.

3.3.4.2 State Finance Commission grants

The period of Fourth SFC is from 2010-11 to 2014-15. The Fourth SFC was constituted on 11 April 2011. In the interim report (July 2011) the Commission recommended three *per cent* of State's net own tax revenue (excluding entertainment tax) for devolution to local bodies (Rural and Urban) in the ratio of 75.7:24.3 (PRIs:ULBs) for the year 2010-11 and 2011-12 on provisional basis and budgeted figures were to be adopted for quantifying the divisible pool. As per budget document, the State's net own tax revenue (excluding entertainment tax) for the year 2010-11 and 2011-12 worked out to ₹ 18,500.66 crore and ₹ 20,295.14 crore respectively and the amount to be transferable to ULBs for the year 2010-11 and 2011-12 works out to ₹ 134.87 crore and ₹ 147.95 crore respectively.

The position of grants released and utilisation under the Fourth SFC during 2010-11 and 2011-12 is given in **Table 3.5** below:

9. M Corp: Jodhpur (Total grants - ₹ 2.96 crore, grants diverted - ₹ 0.78 crore), MC: Udaipur (Total grants - ₹ 3.02 crore, grants not utilized - ₹ 2.68 crore), MC: Beawar (Total grants - ₹ 0.43 crore, grants diverted - ₹ 0.25 crore), MB: Mertacity (Total grants - ₹ 0.41 crore, grants diverted - ₹ 0.19 crore) and MB: Shri Dungargarh (Total grants - ₹ 0.25 crore, grants not utilized - ₹ 0.02 crore).

Table 3.5: Grants of Fourth SFC to ULBs

(₹ in crore)

Year	Grant to be released by the State Government	Grants released by the State Government	Grants released to ULBs	Short (-)/ Excess(+) release of grants	UCs received from ULBs		UCs pending	
					Amount	Percentage	Amount	Percentage
2010-11	134.87	132.12	45.00	(-) 87.12	15.60	34.67	29.40	65.33
2011-12	147.95	150.70	237.82	(+) 87.12	11.75	4.94	226.07	95.06
Total	282.82	282.82	282.82	-	27.35		255.47	

(Source: As per data provided by CAO, DLBD, Jaipur)

The CAO, DLBD attributed (October 2012) less utilisation of grants in 2010-11 to release of grants in last quarter of the financial year for specific purposes such as repair work of roads and drains and in respect of 2011-12 to delayed issue (October 2011) of guidelines by the Department for utilisation of grants by ULBs.

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 Comptroller & Auditor General of India (CAG) of India was introduced in February 2005. On the lines of NMAM, Rajasthan Municipal Accounting Manual has been prepared. The State Government has decided to maintain accounts in Double Entry Accounting System. Accordingly, the LSGD directed (December 2009) all ULBs to maintain the accounts on Accrual Based (Double Entry) Accounting System from 1 April 2010. However, during audit it was observed that none of the ULBs was preparing the accounts on accrual basis.

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. The Director, LFAD intimated (January 2013) that his Regional offices have been instructed (September 2012) to certify the correctness of the accounts of ULBs while conducting audit. This indicates that accounts were not certified by Director, LFAD.

- The Ministry of Urban Development, GoI has issued (April 2011) database formats to be adopted by ULBs as prescribed by the 13th FC. The CAO, DLBD intimated (June 2011 and August 2012) that prescribed database formats have been forwarded to all 184 ULBs of the State and relevant information regarding database is being collected.

3.5 Arrears of Audit of Director, Local Fund Audit Department

Director, LFAD is the Statutory Auditor for audit of accounts of ULBs. The Director, LFAD intimated (August 2012) that out of 184 ULBs, audit of 84 ULBs (four M Corps¹⁰, 11 MCs¹¹ and 69 MBs) was pending for the period

10. M Corps: (2007-11) Ajmer and Bikaner and (2008-11) Jaipur and Kota.

11. MCs: (2007-11) Churu, Hanumangarh and Tonk, (2008-11) Beawer, Bhilwara, Kishangarh, Pali, Sikar and Sriganganagar and (2010-11) Bharatpur and Udaipur.

2007-08 to 2010-11 as on 31 May 2012 due to shortage of staff and deployment of staff in election duties.

3.6 Audit arrangements and position of entrustment of TGS to CAG

The CAG conducts audit under Section 14 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Section 99(A) of RMA, 2009, as amended in 2011 provides for audit of accounts of municipalities by the CAG. Further, the State Government has entrusted (February 2011) Technical Guidance and Supervision to CAG over audit of ULBs by the Director, LFAD.

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).

It was observed that:

3.7.1 At the end of May 2012, 57,967 paragraphs of 5,027 IRs of ULBs issued by Director, LFAD were pending for settlement. Audit observations include 234 outstanding embezzlement cases (upto March 2012) involving monetary value of ₹ 1.49 crore were pending for settlement.

3.7.2 Similarly, 1,045 IRs containing 10,151 paragraphs of ULBs issued by Office of the Principal Accountant General (Civil Audit) involving monetary value of ₹ 4,338.86 crore, were also pending for settlement as of May 2012. Out of this, even first compliance report of 2,770 paragraphs of 230 IRs was not furnished (May 2012). The year-wise position of outstanding paragraphs is given in **Table 3.6** below:

Table 3.6: Outstanding paragraphs of ULBs

(₹ in crore)

Year	Pending			Outstanding first compliance reports	
	IRs ¹²	Paragraphs	Monetary value		
Upto 2003-04	76	471	241.92	-	-
2004-05	129	1,229	570.97	-	-
2005-06	183	1,583	528.03	1	112
2006-07	192	1,842	573.02	1	142
2007-08	141	1,495	296.97	17	174
2008-09	150	1,508	269.54	74	873
2009-10	92	1,046	657.36	51	97
2010-11	41	545	705.98	33	801
2011-12	41	432	495.07	53	571
Total	1,045	10,151	4,338.86	230	2,770

12. It includes IRs of Secretary, LSGD, Director, Local Bodies and Deputy Directors (Regional) while IRs of these departments/offices were not included in the previous Audit Report (Civil - Local Bodies) 2008-10.

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. Only one meeting of Audit Committee was held on 7 December 2010, but no para was discussed and settled.

3.8 Impact of Audit

During 2010-12, recovery of ₹ 27.43 lakh in 20 cases was made at the instance of CAG's audit.

3.9 Conclusion

- Own resources of ULBs were not adequate and they were largely dependent on grants and loans from Central/State Government.
- The receipts of ULBs showed an increasing trend till 2009-10 but it decreased during 2010-11 due to less realisation of income mainly from house tax, assets and miscellaneous non-tax revenue. Expenditure on developmental works decreased in 2010-11 from previous years.
- The absence of timely finalisation of accounts in the formats prescribed and prompt audit of the same resulted in denial of information to stakeholders.
- The huge pendency of audit observations and delay in their settlement are fraught with the risk of continuance of irregularities/deficiencies observed during audit.