
CHAPTER-III

A. AN OVERVIEW OF URBAN LOCAL BODIES

B. FINANCIAL REPORTING

CHAPTER-III

Section 'A' An Overview of Urban Local Bodies

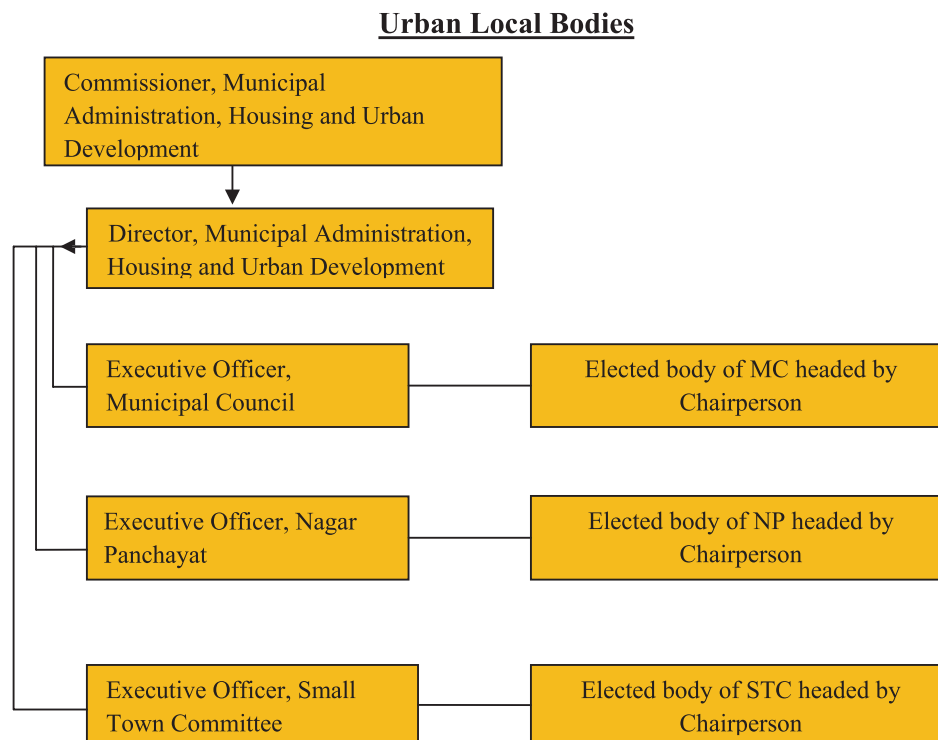
3.1 Introduction

The 74th Constitutional Amendment Act, 1992 empowered Urban Local Bodies (ULBs) to function as local self-government and to deliver services for economic development and social justice more effectively with regard to 18 subjects listed in the XII Schedule of the Constitution. The ULBs are spread out in the four valley districts of the State. The urban population as per 2011 Census is 8.22 lakh which is 30 *per cent* of the total population of the State.

In the State, there are 9 Municipal Councils (MCs), 18 Nagar Panchayats (NPs) and one Small Town Committee (STC). Imphal Municipal Council (IMC) having an area of 31 sq. km. with a population of 2.65 lakh (2011 census) is the largest and the most populous among the MCs. The smallest NP is Sekmai with an area of one sq. km. Each ULB is governed by the Manipur Municipalities Act, 1994 which specify the obligatory and discretionary functions to be discharged by these ULBs. The Act empowers ULBs to function as institution of local self-government in delivering social and economic development in urban areas.

3.2 Organizational Set up

The following organogram depicts the organizational set-up at State level and LB level with linkage between Administrative Set up and elected body:



3.2.1 The broad details of responsibilities of functionaries are as under:

Table 3.1: Detail of responsibilities of functionaries

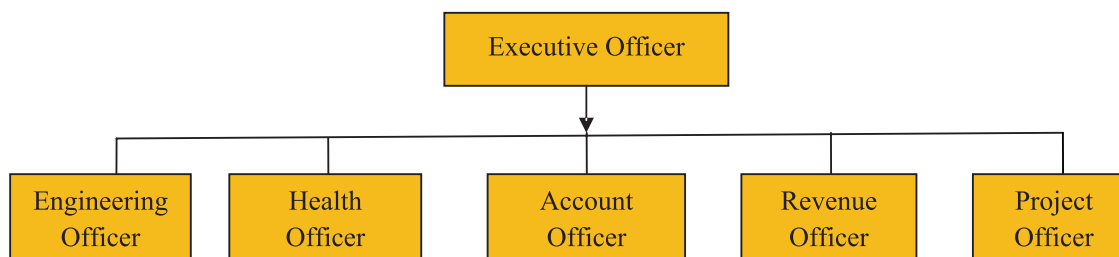
Authority	Functions
Municipal Administration, Housing & Urban Development Department (MAHUD).	Administers the overall monitoring and implementation of schemes related to ULBs.
Small Town Committee/Nagar Panchayat/Municipal Council (elected body)	Preparation of Plans for economic development and social justice.
Executive Officer	Monitors the financial, executive and administrative functions of STC/NP/MC and performs all duties imposed or conferred upon him under the Manipur Municipalities Act.

3.2.2 Composition of ULBs

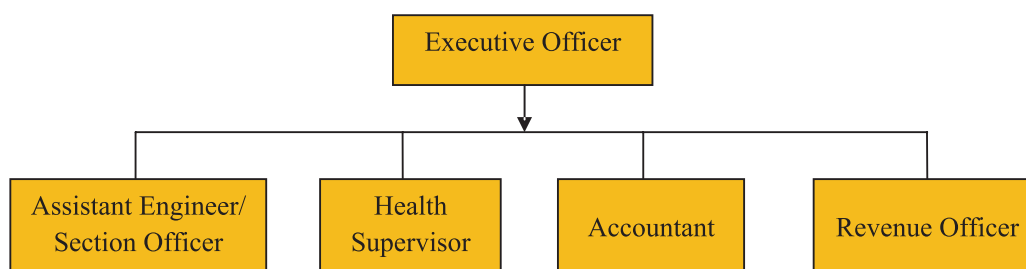
All the ULBs have a body comprising of Councillors elected by the people under their respective jurisdiction. The Chairperson elected by the majority of Councillors presides over the meetings of the MC/NP/STC and is responsible for the governance of the body.

The Executive Officer (EO) appointed by the State Government is a whole time Principal EO of the body for administrative control of a ULB. Other officers are also appointed to exercise such powers and perform such functions as notified by the State Government from time to time. The Executive set-up of the ULBs is depicted in the following organograms.

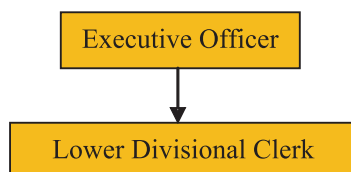
Executive set-up of Imphal Municipal Council



Executive set-up of Other Municipal Councils



Executive set-up of Nagar Panchayats/Small Town Committee



Source: Compiled from the list of staff strength furnished by ULBs

3.3 Staffing pattern

Under Section 43 (1) of the Manipur Municipalities Act, 1994, every Nagar Panchayat or Council, as the case may be, shall have a Health Officer, a Revenue Officer and the Engineer for the efficient discharge of its functions and duties. The Act further provides that a Nagar Panchayat or a Council may, by a special resolution determine the category and strength of employees required by it.

However, neither Engineers nor Officers were appointed in any of the NPs/STC. On daily wage basis, persons were engaged to carry out the tasks

required to be performed by Lower Divisional Clerks. From this it emerges that provision of adequate staff for maintenance of accounts was not at all considered for the NPs/STC. The existing staff is quite insufficient for the NPs/STC to carry out their functions in view of their ever increasing financial and developmental activities. Engagement of casual staff in NPs/STC may have been unavoidable to make the bodies operational. However, engagement of casual staff is bound to have adverse impact on working of an organization as very little accountability and responsibility may be expected from persons who are engaged purely on temporary basis.

3.4 Standing Committee

Section 56 of the Manipur Municipalities Act, 1994, provides for constitution of a Standing Committee in each NP or Council to assist it in the discharge of any specific duties devolved upon it under this Act. Each Committee shall consist of the members of Councillors as members. However, none of the ULBs in the State has constituted any Standing Committee.

3.5 Annual Action Plan

All the ULBs in the State are required to prepare Annual Action Plan (AAP), which are to be consolidated at the district level by the DPC into a draft development plan for the district as a whole. The main purpose of preparing such plans is to avoid plurality in planning on various developmental issues. During audit, it was observed that no such action plan was prepared in any of the test-checked ULBs. Also, in the absence of AAP, the overall district plan could not emerge. Preparation of AAP by ULBs and their consolidation along with the plans of the PRIs is crucial to ensure incorporation of local needs and wants in the development process. In the absence of planning, the element of popular participation was compromised.

3.6 Transfer of Funds, Functions and Functionaries to ULBs

The 74th Constitutional Amendment provides for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice relating to 18 subjects listed in XII Schedule for municipalities. However, the State Government has not issued any notification in case of transfer of funds, functions and functionaries to ULBs.

3.7 Financial profile

3.7.1 Source of funds

The finances of the ULBs comprise of own sources, grants and assistance from Government of India (GoI) and State Government. Sections 74 and 75 of the Manipur Municipalities Act, 1994, empower the ULBs, being the local self-government, to impose taxes and collect fees for various services rendered by them. The details of own fund of ULBs in the State were not collected and

consolidated by the State Government. As such the details of own fund collection of all ULBs were not available.

The grants/assistance released to ULBs by the State and Central Government and their Own Sources of Revenue (OSR) during 2007-08 to 2011-12 are shown in Table below:

Table 3.2: Time series data on resources of ULBs (₹ in crore)

Source of Revenue	2007-08	2008-09	2009-10	2010-11	2011-12
Gol/State grants for Centrally sponsored Schemes	1.05	1.09	4.56	15.14	36.20
CFC	1.80	1.80	3.60	3.81	3.72
SFC	Nil	17.79	18.68	11.25	Nil
Salaries/Honorariums	4.75	4.08	4.77	4.94	6.07
Own Revenue	0.19*	0.06*	Not available	Not available	Not available
	7.79	24.82	31.61	35.14	45.99

*The figures indicate resources of the Municipal Councils as furnished during audit.

Source: Compiled from the records furnished by MAHUD Department.

The enhancement in release of funds against CSS during 2010-11 was due to more release of funds for Basic Services to the Urban Poor (BSUP)/Integrated Housing and Slum Development Programme (IHSDP) under the Jawahar Lal Nehru National Urban Renewal Mission (JnNURM) Scheme.

3.7.2 Release of Second State Finance Commission Grant

The 73rd and 74th Constitutional Amendments mandated the constitution of State Finance Commission every five years to determine sharing of revenue between the State and local bodies. As of March 2012, two State Finance Commissions were constituted in the State. The period of the Second State Finance Commission (SSFC) covered upto 31.03.2010. The 3rd SFC is yet to be constituted. However, funds were released in line with the recommendations of SSFC during 2010-11 under the head “ Compensation and Assignment.”

The SSFC recommended a 10 *per cent* share of the State’s own revenue including from the State’s share in the central taxes for the Rural Local Bodies including Autonomous District Councils (ADCs) and Urban Local Bodies. Out of 10 *per cent*, 20.62 *per cent* was to be transferred to ULBs.

The position of funds released and shortfall in release of funds during 2008-12 are as shown in table below:

Table 3.3: Funds transferred vis-à-vis actual funds transferred

Year	State's revenue including State's Share of net Proceeds of Union Taxes	Amount transferable to Local Bodies including ADCs (10 per cent)	Amount transferable to ULBs (20.62 per cent)	(₹ in crore)	
				Amount released	Short released (per cent)
2008-09	1004	100	20	18	2 (10)
2009-10	1033	103	21	19	2 (9)
2010-11	1517	152	31	11	20 (64)
2011-12	1831	183	38	Nil	(100)

Source: MAHUD Department

As it is evident from the table above that the release of funds to the ULBs was much lower than that of the recommendation of SSFC during the period from 2008-09 to 2010-11. During 2011-12 no fund was released to ULBs. As such, without devolving due share to ULBs, decentralisation of power and function at grass root level was frustrated.

3.8 Audit Mandate

3.8.1 Primary Auditor

The Director, Local Fund Audit (DLFA) conducts audit of accounts of MCs, NPs and STC under Sections 72(1) of the Manipur Municipalities Act, 1994. In August 2012, the DLFA intimated that the audit of accounts of 18 units out of 28 auditable ULBs units was conducted up to March 2012.

3.8.2 Audit by the C&AG of India

The Accountant General (Audit), Manipur conducts the audit of the accounts of ULBs under Section 20(1) of the C&AG's DPC Act, 1971. The State Government had entrusted audit of ULBs to the C&AG under Technical Guidance and Support (TGS) arrangements in pursuance of the recommendation of the Thirteenth Finance Commission. The State Gazette notification regarding entrustment of TGS to C&AG was issued in March 2012. However, necessary amendment in the relevant State Acts/Rules to facilitate implementation of terms and conditions of TGS is yet to be carried out.

3.9 Audit Coverage

Test audit of the accounts of 7 ULBs were conducted during the year 2011-12 (Appendix-III 'B'). Results of the audit are given in the succeeding chapter.

3.10 Response to audit observations

Inspection Reports (IRs) of all the ULBs test-audited as of March 2012 were forwarded to the State Government and the respective Chairpersons/Executive Officers of the concerned ULBs. The Chairpersons/Executive Officers are required to comply with the observation contained in the IRs and rectify the defects. However, concerned officers of ULBs failed to ensure prompt and timely action for compliance. The year-wise break up of outstanding paras is as given in Table below:

Table 3.4: Detail of outstanding paras

Year	No. of IRs issued	No. of para issued under part II-A	No. of paras issued under part II-B	Total	Clearance	Outstanding
2006-07	3	Nil	16	16	Nil	16
2007-08	3	2	25	27	Nil	27
2008-09	10	Nil	66	66	Nil	66
2009-10	8	Nil	59	59	Nil	59
2010-11	5	2	50	52	Nil	52
2011-12	7	Nil	48	48	Nil	48
Total				268		268

It is evident from the above table that all the 268 paras remained outstanding as of March 2012. The trend of outstanding paras in each year indicated that the audited entities were not serious in complying with the audit observation.

3.11 Conclusion

Neither Standing Committees were constituted nor were AAPs prepared in all the test-audited ULBs. Non-preparation of AAPs indicated lack of seriousness of concerned authority in incorporation of local needs and wants in the development process. State Government has not issued any notification in case of transfer of functions listed in XII Schedule of the Constitution to ULBs. There was no mechanism to watch over collection of taxes and fees in all the test-audited ULBs. Non settlement of audit observations indicated weak internal control system in ULBs. Release of funds to ULBs by the State Government was lower than that of the recommendation of SSFC.

SECTION 'B'

FINANCIAL REPORTING

3.12 Framework

Financial Reporting by ULBs is a key element of accountability. Section 72 (1) of the Manipur Municipalities Act, 1994, stipulates that every ULB shall maintain such accounts for every financial year in such form as may be prescribed for submission of such statement to the Deputy Commissioner, the Director of MAHUD and the State Government. The ULBs were required to prepare their budget and maintain their accounts in the formats prescribed in National Municipal Accounts Manual (NMAM) with appropriate codifications and classifications.

3.13 Financial Reporting issues

3.13.1 Non-preparation of Budget

Section 71 of the Manipur Municipalities Act, 1994, stipulates that local bodies shall prepare Budget in such form and in such manner as may be prescribed. Proposal of the Budget containing detailed estimates of receipts and disbursement for the ensuing year and after such revision as may appear requisite shall be passed and submitted to the State Government for its approval. The Act further states that no expenditure shall be incurred unless the Budget is approved by the prescribed authority.

Test-check of records of seven ULBs revealed that none of the ULBs prepared Budget. In the absence of the approved Budget proposal, the expenditure incurred by the ULBs was irregular.

3.13.2 Non-maintenance of Accounts in prescribed formats

The Ministry of Urban Development, GoI and C&AG developed NMAM (December 2004) which is based on accrual based double entry accounting system for greater transparency and control over finances. The ULBs were required to prepare their budget and maintain their accounts in the formats as prescribed in NMAM with appropriate codifications and classifications. The State Government also issued an order to all ULBs in March 2011 for adoption of NMAM in maintenance of their accounts with immediate effect. It was, however, observed in audit that none of the test-audited ULBs had adopted NMAM as of March 2012. All ULBs test-audited kept their accounts in conventional method without following any acceptable accounting standards. Thus, correctness of accounts could not be ascertained.

3.13.3 Non-reconciliation of Cash Balances

Test-check of records of seven ULBs revealed that none of the ULBs prepared monthly or quarterly Bank Reconciliation Statements. Instances of the difference of cash balances as per Bank Pass Books and Cash Books in respect of two ULBs are detailed in **Appendix-V**.

In the absence of Bank Reconciliation Statement, the correctness of financial position of ULBs could not be ascertained and incidence of fraud, embezzlement and misappropriation of funds could not be ruled out.

3.13.4 Deficiencies in maintenance of Cash Books

All moneys received by the ULBs shall immediately and without exception be brought to account in the Cash Book under the direct supervision of the finance officer, or in his absence the officer authorized for the purpose. The following deficiencies in maintenance of Cash Books of Imphal MC, Moirang MC and Ningthoukhong MC were noticed:

- There was no certification regarding the number of pages contained in the Cash Books;
- Entries in the Cash Book were not authenticated by the competent authority;
- Daily Cash Balance was not verified and certified by the concerned authority;
- Transactions were not entered in the Cash Book on the date of occurrence;
- Corrections and alterations in the Cash Book were made without the initials and verification of the competent authority;
- Narration for a number of transactions was not mentioned in the Cash Book; and
- Voucher number and Head of Accounts were not indicated against numerous transactions.

Due to such deficiencies, the incidence of fraud, embezzlement and misappropriation cannot be ruled out.

3.13.5 Non-maintenance of records

For transparency, accountability of ULBs' functionaries and adequate disclosure of local funds, accounting records/registers had to be maintained. Audit however, observed that none of the ULBs test-audited maintained the following Registers:-

- Issue Registers of Receipt Books;
- Demand Register for collection of taxes and fees;

- Cheque Issue Register;
- Advance Register; and
- Work Register.

The status of tax collection against the total demand of tax for a particular year could not be ascertained in the absence of Demand Register. Receipt book for collection of taxes is fraught with the possibility of using duplicate receipt books; hence a register needs to be maintained for its proper use. Due to non-maintenance of above vital accounting records, actual position of fund receipt and utilization thereof by ULBs lacked transparency. The accountability of the ULB's authority could not also be ensured.

3.14 Conclusion

None of the test-audited ULBs maintained their accounts in the formats prescribed in NMAM. The expenditure incurred by the ULBs in the absence of Budgets was irregular. Bank Reconciliation Statements (BRS) were not prepared by all the test-audited ULBs. In the absence of BRS, incidence of fraud, embezzlement, misappropriation, etc., could not be ruled out. Deficiencies in maintenance of Cash Book and non-maintenance of basic records indicated that internal control mechanism was not adequate to ensure proper accounting of substantial Public funds dealt with by ULBs. The concerned authorities need to take expeditious measures to take care of the shortcomings.