

PART – B
URBAN LOCAL BODIES

CHAPTER-III

**AN OVERVIEW OF THE FUNCTIONING,
ACCOUNTABILITY MECHANISM AND
FINANCIAL REPORTING ISSUES OF
URBAN LOCAL BODIES**

CHAPTER-III

AN OVERVIEW OF THE FUNCTIONING, ACCOUNTIBILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF URBAN LOCAL BODIES

An Overview of the Functioning of the Urban Local Bodies(ULBs) in the State

3.1 Introduction

Consequent upon the 74th Constitutional Amendment, the Urban Local Bodies (ULBs) were made full-fledged institutions of Local Self Governments and witnessed a significant increase in responsibilities with greater powers and distinct sharing of resources with the State Government. The amendment empowered ULBs to function efficiently and effectively and to deliver services for economic development and social justice with regard to 18 subjects listed in the XIIth Schedule of the Constitution. Government of Sikkim enacted the Sikkim Municipalities Act, 2007 empowering ULBs to function as institutions of Self Government and to accelerate economic development in urban areas.

The category-wise ULBs in the State as of March 2015 are shown in table 3.1:

Table - 3.1
Category-wise ULBs in Sikkim

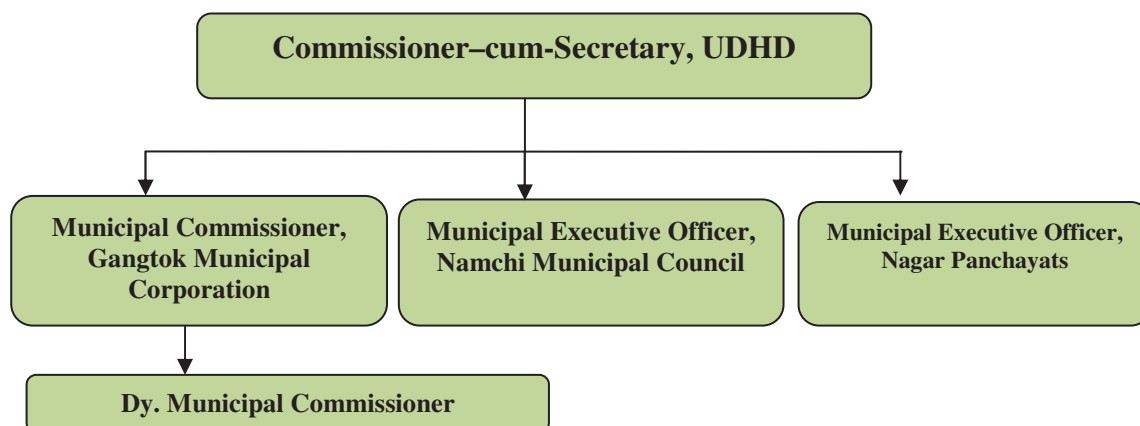
Sl. No.	ULBs	Number of ULBs
1	Municipal Corporation	1
2	Municipal Council	1
3	Nagar Panchayats	5
	Total	7

The ULBs are governed by the Sikkim Municipalities Act, 2007. Each ULB area is divided into a number of wards, which is determined and notified by State Government. Important statistics relating to urban population, sex ratio, literacy etc. is given in *Appendix 1.6*.

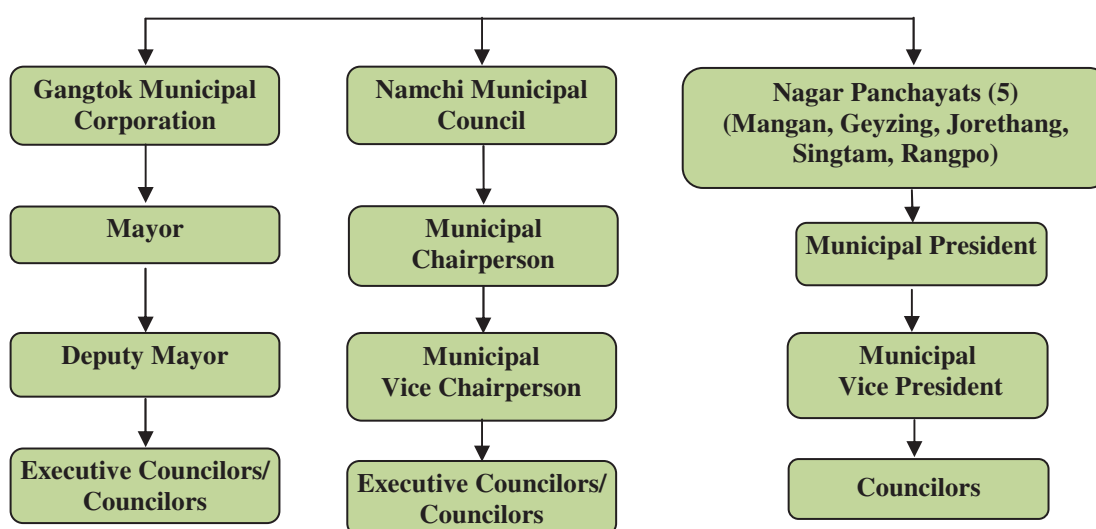
3.2 Organisational set up

The Commissioner-cum-Secretary, Urban Development & Housing Department (UDHD) is the overall in charge of Urban Local Bodies in the State. The organisational structure with respect to functioning of ULBs in the State is as follows:

Administrative Body



Elected Body



All the ULBs have a body comprising of Councillors /Members elected by the people under their jurisdiction. The Mayor presides over the meetings of Municipal Corporation and the Chairperson/President presides over the meetings of the Council/Nagar Panchayats and is responsible for overall functioning of the body.

The Municipal Commissioner is the executive head of the Gangtok Municipal Corporation (GMC) while the Council/Nagar Panchayats (NP) is headed by the Municipal Executive Officer. They exercise such powers and perform such functions as prescribed in the Act and as per instructions of the UDHD.

3.3 Functioning of ULBs

The Sikkim Municipalities Act, 2007 envisages transfer of functions of various departments of the State Government to ULBs. Only three functions (viz. Public health, sanitation conservancy and solid waste management; Urban poverty alleviation; and public amenities including street lighting, parking lots, bus stops and public conveniences) out of 18 functions listed in the XIIth Schedule of the Constitution (*Appendix 1.7*) had been partially transferred by the State Government to the ULBs as of March 2015.

3.4 Formation of various Committees

As per Section 27 (1) of Sikkim Municipality Act 2007, a Municipal Corporation may constitute a Subject Committee consisting of Councillors to deal with the issues like, (a) water-supply, drainage and sewerage, and solid waste management, (b) urban environment management and land use control, and (c) slum services. Besides, a Municipal Corporation or a Municipal Council or a Nagar Panchayat, singly or jointly, may constitute an *ad hoc* Committee or a Joint Committee to perform such functions as the State Government may direct.

However, the Municipal Corporation, the Municipal Council, the Nagar Panchayats had not constituted any committees as of March 2015.

3.5 Audit arrangement

3.5.1 Primary Auditors

According to Section 60(1) of the Sikkim Municipalities Act, 2007, municipal accounts as contained in the financial statements including the accounts of special funds, if any, and the balance sheet shall be examined and audited by the Director of Local Fund Audit, or any other person, as may be appointed by the State Government or an Auditor appointed by the Municipality from the panel of professional Chartered Accountants prepared in that behalf by that Government. According to Section 61(1) of the Sikkim Municipalities Act, 2007, as soon as practicable after the completion of audit of the accounts of the Municipality, but not later than the thirtieth day of September each year, the Auditor shall prepare a report of the accounts audited and examined and shall send such report along with the report of the results of the test check of accounts by the Comptroller & Auditor General (C&AG) of India to the Chief Municipal Officer.

3.5.2 Audit of Comptroller and Auditor General of India

Based on the recommendations of the 13th Finance Commission, the State Government entrusted (June 2011) audit of all ULBs in the State under Technical Guidance and Support (TGS) arrangement to the C&AG as per standard terms and conditions under section 20(1) of CAG's DPC Act, 1971. Accordingly, the audit of ULBs is being conducted from 2012-13, by the Accountant General (Audit), Sikkim.

3.5.3 Placement of Annual Technical Inspection Report (ATIR)

The ATIR for the year 2013-14 was placed in the State Legislature. However, the State Government had not amended the Sikkim Municipalities Act, 2007 to provide mechanism for discussion of ATIR in the Legislative Assembly. Neither the Public Accounts Committee discussed the ATIR nor a separate committee of State Legislature was constituted to discuss the same as recommended by Second Administrative Reforms Commission as, of March 2015.

As none of the ATIR could be discussed in the State Legislature, accountability and financial control in the functioning of ULBs could not be ensured by the State Government.

3.6 Response to Audit Observations

The Audit of ULBs commenced in the State from the financial year 2012-13. Position of outstanding Inspection Reports and paras are given in the following table:

Table - 3.2
Outstanding IRs and Paragraphs

Year	No. of Inspection Reports	No. of outstanding paras	Money value (₹ in lakh)
2013-14	-	-	-
2014-15	3	14	2.45
Total	3	14	2.45

Source: Outstanding para register maintained in Office of the AG (Audit), Sikkim

Total number of five Inspection Reports (IRs) and 40 paras were issued to ULBs during the years 2013-15, out of which two IRs and 26 paras were settled.

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

3.7 Ombudsman

The State government was yet to appoint Ombudsman for making investigations and enquiries, in respect of charges on any action involving corruption, maladministration or irregularities in the discharge of administrative functions by ULBs and Public Servants working under them, in accordance with the provisions of Prevention of Corruption Act, 1988 (Central Act 49 1988) Act (Sec. 268) for disposal of complaint.

3.8 Social Audit

The arrangement for Social Audit of schemes/projects executed by ULBs in Sikkim had not been commenced by the State Government as of March 2015.

3.9 Lokayukta

The State Government had appointed (February 2014) *Lokayukta* in pursuance to the sub section of the section 1 of the Sikkim *Lokayukta* Act, 2014. The *Lokayukta* comprised of chairperson, one judicial functionary, one administrative and one *ad hoc* administrative member. However, functions of *Lokayukta* were not defined in the notification issued in February 2014.

3.10 Property Tax Board

Property Tax Board, although required to be set up as recommended in 13th Finance Commission Report, had not been set up in Sikkim as of March 2015.

3.11 Service Level Benchmark

As a follow-up to reforms stipulated by 13th Finance Commission and also to provide good service to the public, the State Government had set up (September 2013) service level benchmark for solid waste management service provided by Gangtok Municipal Corporation. The details are shown in *Appendix 1.8*

3.12 Submission of Utilisation Certificates

The ULBs receive grants-in-aid from State Government through UDHD. Utilisation certificates (UC) are required to be submitted within three months of receiving grants. The details of grants received *vis-à-vis* utilisation certificate submitted to State Government is given below:

Table - 3.3

Year	Name of the Scheme	Amount (in ₹ lakhs)	Due date of submission of U.C	Actual date of submission of U.C
2012-13	TFC	16.66	April 2013	January 2014
	State Fund	275.08	October 2013	October 2014
2013-14	TFC	18.12	April 2014	March 2015
	State Fund	330.60	October 2014	October 2014
2014-15	TFC	17.14	April 2015	Not submitted
	State Fund	375.32	October 2015	-do-

The delay in submission of UCs ranged from 9 to 13 months primarily due to lack of monitoring by UDHD.

3.13 Internal Audit and Internal Control System of ULBs

Internal Audit of ULBs is done by Chartered Accountants and also by Director, Local Fund Audit (DLFA). Chartered Accountants have completed audit of ULBs upto 2013-14.

It was noticed that observation relating to non-maintenance of Fixed Assets Registers and absence of physical verification of fixed assets had not been attended to by two ULBs (Gangtok Municipal Corporation and Singtam Nagar Panchayat) against whom the observations were recorded in the Audit Report on Financial Statements from 2010-11 to 2014-15 by Chartered Accountants.

Similarly, audit of six ULBs by DLFA had been taken up from 2013-14 and a total of six¹² units have been audited upto March 2015.

It was noticed that observation relating to variation in accounts figures, excess payments, non-remittance of deductions, wasteful expenditure, violation of rules etc. were recorded by DLFA in the Annual Consolidated Report for the year 2012-13 to 2014-15. However, adequate corrective actions had not been initiated by ULBs as of March 2015.

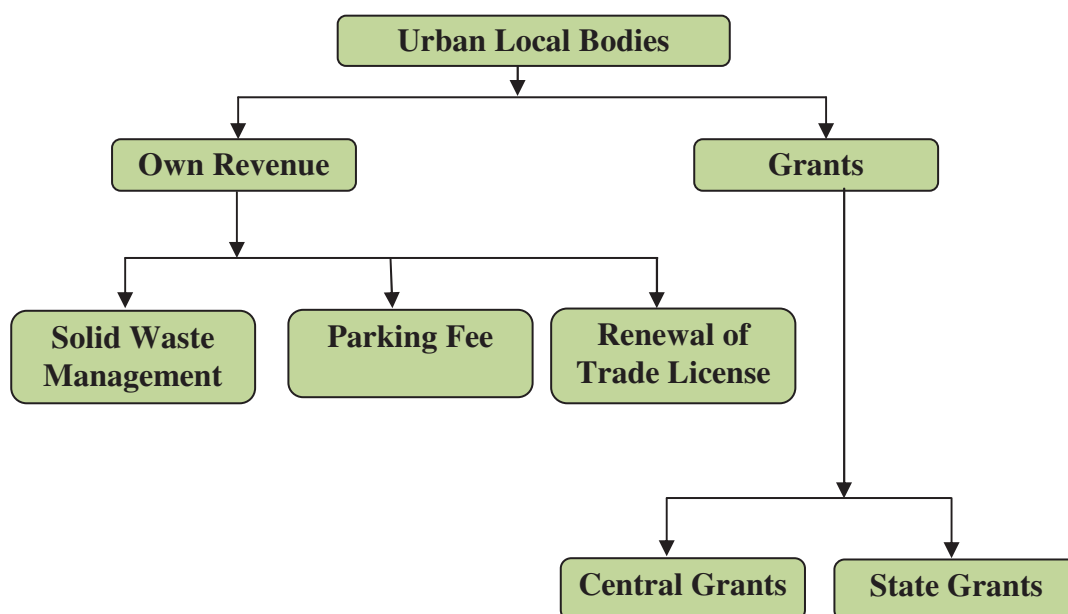
¹² *Mangan Nagar Panchayat, Rangpo Nagar Panchayat, Singtam Nagar Panchayat, Gyalshing Nagar Panchayat, Jorethang Nagar Panchayat and Namchi Municipal Council.*

3.14 Financial Reporting Issues

3.14.1 Source of Funds

The Finances of ULBs comprise of receipts from own sources, grants and assistance from Government of India (GOI) and State Government. State Government Grants are received through devolution of net proceeds of the total tax revenue on the recommendations of the State Finance Commission. While power to collect certain taxes is vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemption, concessions, etc. are vested with the State Government. The own non-tax revenue of ULBs comprise of fee for solid waste management, parking fee and renewal of trade license, etc.

Grants and assistance released by the Governments are utilised for extending civic facilities to the urban population. Flow chart of finance of ULBs is as follows:



➤ Custody of funds in ULBs

The grants received for implementation of various schemes/programmes are kept in bank accounts of the ULBs duly authorised by the State Government. The Drawing & Disbursing Officers under ULBs are empowered to draw the funds from the banks after obtaining sanction from the Municipal Commissioner/Municipal Executive Officer.

➤ *Position of funds of ULBs*

The detailed position of funds of ULBs for the period from 2010-11 to 2014-15 are shown in the following table :

Table - 3.4
Statement showing the position of funds of ULBs for the last five years

(₹ in lakh)

ULBs Year	GMC				Council / NPs			
	Central Grants	State Grants	Own Revenue	Total	Central Grants	State Grants	Own Revenue	Total
2010-11	0	282.84	64.14	346.98	1.02	132.77	32.44	166.23
2011-12	51.25	505.13	277.47	833.85	85.27	168.14	117.27	370.68
2012-13	54.82	387.93	554.15	996.90	155.74	109.53	151.89	417.16
2013-14	11.70	204.25	391.27	607.22	48.36	133.61	234.96	416.93
2014-15	134.48	221.39	378.06	733.93	90.41	170.46	224.45	485.32

Source: Information furnished by the ULBs

➤ *Own revenue of ULBs*

Own revenue of ULBs includes revenues from solid waste management, parking fee and renewal of trade license, etc. Collection of own revenue in respect of seven ULBs during the last three years is shown in table 3.5:

Table 3.5
Statement showing collection of own revenue of seven ULBs

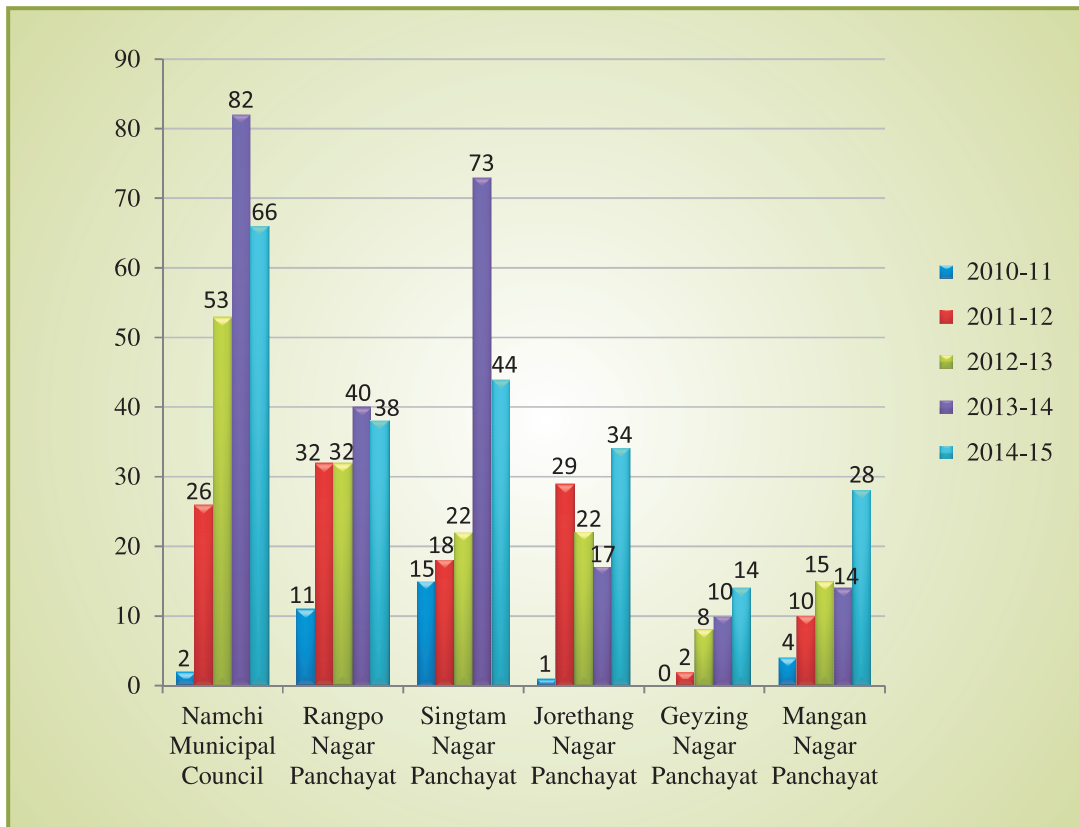
(₹ in lakh)

Sl. No.	Name of the ULB	2010-11	2011-12	2012-13	2013-14	2014-15
1	Gangtok Municipal Corporation	64.14	277.47	554.15	391.27	378.06
2.	Namchi Municipal Council	2.24	25.60	53.05	81.76	65.84
3.	Rangpo Nagar Panchayat	10.63	32.28	31.73	39.92	38.49
4.	Singtam Nagar Panchayat	14.62	18.11	21.65	72.98	43.87
5.	Jorethang Nagar Panchayat	0.96	29.42	22.13	16.65	33.92
6.	Geyzing Nagar Panchayat	0.29	1.62	8.27	9.96	14.41
7.	Mangan Nagar Panchayat	3.70	10.24	15.06	13.69	27.92
	Total	96.58	394.74	706.04	626.23	602.51

Source: Information furnished by the ULBs

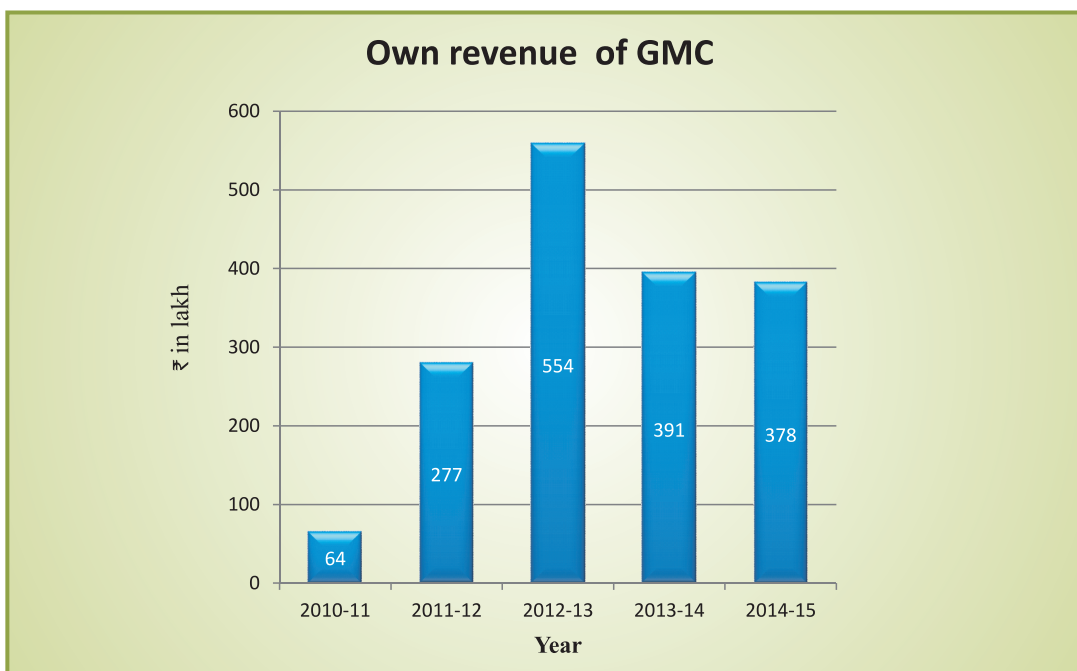
The above table indicates that the revenue collection had shown an increasing trend in case of three Nagar Panchayats (Mangan, Geyzing and Jorethang) and decreasing trend in Gangtok Municipal Corporation, Namchi Municipal Council and two Nagar Panchayats (Rangpo and Singtam) during the period 2014-15 as compared to 2013-14. The trend of own revenue collection by GMC, Namchi Municipal Council and NPs are shown in the following bar graphs:

**Trend of own Revenue Relation
Chart - 3.1**



In case of GMC, the own revenue collection decreased from ₹ 391.27 lakh to ₹ 378.06 lakh during the period 2014-15 as compared to 2013-14 as shown in the following bar graph:

Chart - 3.2



➤ **Grants received and expenditure therefrom**

Receipts and expenditure by the GMC, Namchi Municipal Council and five NPs during the year 2014-15 are shown in table 3.6:

Table - 3.6
Statement showing grants received and expenditure therefrom of ULBs during 2014-15

(₹ in lakh)

Type of ULBs	Grants received (Central and State)	Expenditure	Balance
Gangtok Municipal Corporation	355.87	233.87	122.00
Namchi Municipal Council	71.47	70.86	0.61
Nagar Panchayats	189.88	203.39	(-) 13.51 ¹³
Total	617.22	508.12	109.10

Source: Information furnished by ULBs

From the above, it is seen that GMC could not utilise all the funds received during 2014-15. Analysis of closing balances revealed that unutilised funds of *Swarna Jayanti Sahari Rojgar Yojana* (SJSRY), Backward Region Grand Fund (BRGF), Disaster Management and Gangtok Municipal Corporation Relief Fund were kept in various Banks without being utilised.

➤ **Implementation of Major schemes**

Receipt vis-a-vis expenditure incurred for major schemes implemented by ULBs during 2011-12 to 2014-15 are given in table 3.7:

Table - 3.7
Statement showing receipts and expenditure of major schemes

(₹ in lakh)

Name of the Scheme	2011-12		2012-13		2013-14		2014-15		Total	
	Receipts	Exp	Receipts	Exp	Receipt	Exp	Receipt	Exp	Receipt	Exp
SJSRY	60.52	2.49 (4.11)	13.09	31.92* (243.85)	4.27	9.48* (222.01)	0.60	3.00* (500)	78.48	46.89 (60)
BRGF	75.27	53.93 (71.65)	172.36	78.40 (45.49)	65.30	68.20 (104.44)	85.72	87.52* (102.09)	398.65	288.05 (72.25)
13 th F.C	0.73	0	9.49	3.46 (36.46)	6.18	3.54 (57.28)	4.57	4.21* (92.12)	20.97	11.21 (53.46)
NRHM	0	0	0	0	0	0	9.48	9.48 (100)	9.48	9.48 (100)
Total	136.52	56.42 (41.33)	194.94	113.78 (58.37)	75.75	81.22 (107.22)	100.37	104.21 (103.82)	507.58	355.63 (70.06)

Source: Information furnished by ULBs

* Expenditure also incurred from the previous year's unspent balances available under the schemes. Figures in bracket indicate percentage.

¹³ Excess expenditure done from last year's savings and own revenue.

Out of ₹ 78.48 lakh available for SJSRY, ₹ 46.89 lakh was utilised indicating 60 per cent utilisation. Similarly, ₹ 288.05 lakh and ₹ 11.21 lakh were utilised for BRGF and TFC as against the availability of ₹ 398.65 lakh and ₹ 20.97 lakh respectively. The expenditure of BRGF and TFC was 72.25 per cent and 53.46 per cent respectively. Reasons for low utilisation of funds were neither reflected in records nor furnished to Audit.

3.14.2 Recommendation of State Finance Commission (SFC)

At the time of constitution of Third State Finance Commission ULBs were not formed. So, State Finance Commission did not comment or provide any recommendation in respect of Urban Local Bodies.

3.14.3 Recommendation of Central Finance Commission (CFC)

The year wise budget provision and expenditure relating to Central Finance Commission (13th FC) is given in the following table:

Table - 3.8
Statement showing utilisation of TFC fund

<i>(₹ in lakh)</i>				
Year	Amount Released by GOI	Date of receipt of Fund from GOI	Date of release of fund to ULBs	Delay (in days)
2010-11	12.03	15.7.2010	21.9.2010	52
2011-12	11.77	22.3.2012	31.3.2012	--
2012-13	15.00	21.8.2012	12.9.2012	8
	1.66	31.3.2012	30.4.2012	15
2013-14	15.00	12.3.2014	31.3.2014	4
	3.12	24.4.2013	02.5.2013	--
2014-15	17.14	19.3.2015	31.3.2015	--
	5.17	24.3.2015	02.5.2015	24
Total	80.89			

Source: Information furnished by State Government (UDHD)

As would be noticed from the above table, fund amounting to ₹ 80.89 lakh was released belatedly (delay ranging from 4 to 52 days) during 2010-15 which is in contravention to TFC recommendations (Para 10.157) to release funds to ULBs within 15 days of receipt of funds from Government of India.

3.14.4 Maintenance of Accounts by ULBs

Financial reporting is a key element of accountability. According to Section 57(1) and 58(1) of the Sikkim Municipalities Act, 2007, the ULBs should prepare the Annual Financial Statements which would include Income and Expenditure Accounts for the preceding year within four months of the close of a financial year. The annual Balance

Sheet of assets and liabilities in the prescribed form should be prepared within three months of the close of the financial year.

Based on the recommendation of XIth Finance Commission, the Ministry of Urban Development, GOI in consultation with Comptroller and Auditor General of India developed the National Municipal Accounts Manual (NMAM) which is based on double entry accrual based system of accounting. The Urban Development & Housing Department, Government of Sikkim had drafted (March 2008) the Sikkim Urban Local Bodies Accounting Manual based on the NMAM. The Manual was not approved by the Government as of March 2015. The accounts of ULBs were being maintained under cash based Double Entry System. However, certification of accounts was not done, for any year, by the Primary auditor (DLFA) since its formation in June 2012.

3.14.5 Maintenance of records

According to the Sikkim Municipality Act, 2007 (Rule 56), the State Government shall prepare and maintain a Manual to be called the Municipal Accounting Manual containing details of all financial matters and procedures relating thereto, in respect of the Municipality. Accordingly, Sikkim Urban Local Bodies Accounting Manual (SULBAM) had been drafted by the State Government (which is in the process of approval) and distributed to all ULBs for maintenance of registers such as Demand and Collection Register for rent, Register for bill payment, Register of movable property, Register of dishonoured cheques and drafts, Register of Security Deposits, Deposit Work Register etc. It was, however, noticed that none of the above registers were maintained by ULBs.

Gangtok

**(Vanlal Chhuanga)
Accountant General (Audit)
Sikkim**