

PART – B
URBAN LOCAL BODIES

Chapter-III

Overview of Urban Local Bodies

3.1 Background of Urban Local Bodies

Government of Punjab implemented the system of democratic governance down to grass root level in Urban Local Bodies (ULBs) through Punjab Municipality Act, 1911. The objective was to make the ULBs self reliant and to provide better civic facilities to the people of areas under their jurisdiction. Further, 74th Constitutional Amendment paved the way for decentralization of power, transfer and devolution of more functions and funds to the ULBs. Consequently, more diversified responsibilities were devolved through three levels namely Municipal Corporation, Municipal Committee and Town Council. To incorporate the provisions of 74th Amendment, State legislature enacted/amended the Punjab Municipal Corporation Act, 1976 (amended in 1994) for Municipal Corporations and Punjab Municipal Act, 1911 (amended in 1994) for Municipal Committees and Town Councils. The ULBs are governed by the elected representatives with a five years tenure normally. The latest elections of ULBs were held in February 2015.

3.1.1 Audit Mandate of CAG of India

The Thirteenth Finance Commission (TFC) recommended that the State Government must put in place an audit system for all categories of ULBs. Based on the recommendations of TFC, the State Government entrusted (August 2011) the test audit of ULBs to Comptroller and Auditor General of India (CAG) under section 20(1) of the CAG's (Duties, Powers and Condition of Service) Act, 1971 and for providing Technical Guidance and Support (TGS) over the work of the ELFA, with regard to audit of ULBs. ATIR on the audit of ULBs conducted during preceding year is sent by the Pr. Accountant General (Audit) to the State Government to be laid before the State Legislature.

3.1.2 Accounting system in Urban Local Bodies

In terms of the Eleventh Finance Commission recommendations, Government of India (GOI), Ministry of Urban Development in consultation with the CAG, developed (November 2004) the National Municipal Accounts Manual (NMAM) with a view to not only increasing transparency and accountability in the utilization of public funds but also to assist ULBs to play their role more effectively and ensure better service delivery.

In accordance with this manual, a draft of the State specific manual had been prepared for maintenance of accounts as per the formats and patterns mentioned in the NMAM and the same had been forwarded (October 2012) to the Examiner, Local Fund Accounts, Punjab for necessary vetting and amendment thereof. Some discrepancies in the draft manual were pointed out by the ELFA Punjab and the departmental Council constituted for the purpose. The draft manual was sent for review to M/s CRISIL who had been engaged for this purpose. M/s CRISIL has now re-submitted (September 2015) the draft manual after sorting out the discrepancies pointed out to it. The draft manual was being re-examined by the department. However, the fact remains

that even after a lapse of more than 10 years, NMAM could not be adopted till September 2015. The reply of the department regarding the latest status of the manual was awaited (May 2016).

The accounts of the ULBs are monitored by the Commissioner in case of Municipal Corporations and the President in case of Municipal Committees and Town Councils. However, there is no provision for certification of accounts of the ULBs in the Punjab Municipal Corporation Act, 1976.

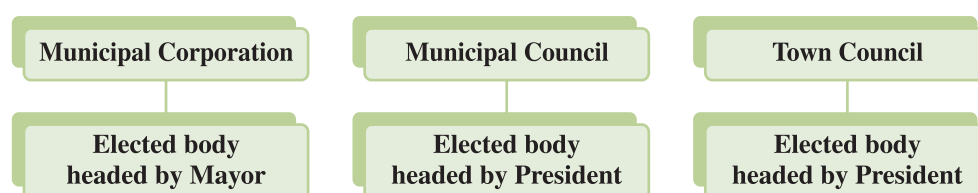
3.2 Organizational structure of Urban Local Bodies

The organizational structure of ULBs in Punjab State is as under:

(i) Executive Level



(ii) Elected Level



3.2.1 Standing Committees

Brief introduction to the working of ULBs and various Standing Committees involved in financial matters and implementation of schemes are given in Table 3.1.

Table 3.1: Roles and responsibilities of the Standing Committees

Level of ULBs	Roles and responsibilities of the Standing Committees
Municipal Corporation	Each Municipal Corporation can constitute as many committees, namely Finance and Contract Committee, Water Supply and Sewerage Disposal Committee, etc. for the exercise of any power or discharge of any function which the Corporation may by resolution delegate to them or for inquiring into, reporting or advising upon any manner which the Corporation may refer to them as per provision of Section 42 of the Punjab Municipal Corporation Act, 1976.
Municipal Committee/ Town Council	Section 34 of the Punjab Municipal Act, 1911 provides that a committee may appoint a sub-committee consisting of such members as it may deem fit for the management of any or more wards and may delegate to the sub-committee all or any of the powers of the Committee to be exercised within the wards.

Source: Information provided by Director, Local Government

3.2.2 Staff position in ULBs

The Local Government Department, Punjab directs, supervises and controls the functioning of all the ULBs in the State. On being enquired (October 2015

and January 2016), regarding staff position in ULBs, no reply was furnished by the department. The matter was again taken up (May 2016) demi-officially with Director, Local Government. However, the information was still awaited (May 2016).

3.2.3 Devolution of functions

As a follow up to the 74th Constitutional Amendment (1992), the Government of Punjab entrusted all 18 functions to ULBs under Section 50-B of the Punjab Municipality Act. The functions entrusted to the ULBs and being performed by them are urban planning including town planning, regulation of land-use and construction of buildings, planning for economic and social development, roads and bridges, water supply for domestic, industrial and commercial purposes, public health, sanitation, conservancy and solid waste management, fire services, urban forestry, protection of the environment and promotion of ecological aspects, safeguarding the interests of weaker sections of society including the handicapped and mentally retarded, slum improvement and upgradation, urban poverty alleviation, provision of urban amenities and facilities such as parks, gardens, playgrounds, promotion of cultural, educational and aesthetic aspects, burials and burial grounds; cremations, cremation grounds and electric crematoriums, cattle ponds; prevention of cruelty on animals, vital statistics including registration of births and deaths, public amenities including street lighting, parking lots, bus stops and public conveniences and regulation of slaughter houses and tanneries.

3.3 Financial profile

3.3.1 Fund flow to Urban Local Bodies

For execution of developmental works, ULBs receive funds mainly from GOI and the State Government in the form of grants. GOI grants include grants assigned under the recommendations of the Central Finance Commission and grants for implementation of schemes. The State Government grants are received through devolution of net proceeds of the total tax revenue on the recommendation of the State Finance Commission (SFC) and grants for implementation of State sponsored schemes. Besides, revenue is also mobilized by the ULBs in the form of taxes, rent, fees, issue of licenses, etc. While Central and State grants are utilized by the ULBs for execution of Central and State sponsored schemes as per the guidelines issued by GOI and State Government respectively in this regard, the own receipts of ULBs are utilized for administrative expenses and execution of schemes/works formulated by the ULBs. The source of fund is given in **Table 3.2**.

Table 3.2: Fund flow arrangement in major Centrally Sponsored Schemes

Sr. No.	Scheme	Fund flow arrangement
1.	Swaran Jayanti Shahri Rojgar Yojana (SJSRY)	Funding under SJSRY is shared between the Centre and the State in the ratio of 75:25. The Central share is released to the nodal agency in the form of demand draft and State share is apportioned through State budget.

Sr. No.	Scheme	Fund flow arrangement
2.	Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	Grants-in-aid is to be shared by Central and State Government in the ratio of 80:10. The Central share is released to the nodal agency and balance 10 <i>per cent</i> to be arranged by the ULBs from own sources.
3.	Integrated Housing and Slum Development Programme (IHSDP)	Eighty <i>per cent</i> of the cost of the scheme flows from the Centre in the form of grants-in-aid to the nodal agency. The remaining 20 <i>per cent</i> is shared by the State Government, ULBs and parastatal agencies. The ULBs raise their contribution from their own resources or from beneficiary's contributions.
4.	Urban Infrastructure and Governance (UIG)	Funding under UIG is shared between the Centre, State and ULBs/parastatal agencies in the ratio of 80:10:10. The ULBs raise their contribution from financial institutions. The funds are released to nodal agency which disburses the assistance to ULBs/parastatal agencies.
5.	Basic Service to the Urban Poor (BSUP)	Eighty <i>per cent</i> of the cost of the scheme flows from the Centre in the form of grants-in-aid. The remaining 20 <i>per cent</i> is shared by the State Government, ULBs and parastatal agencies. The ULBs raise their contribution from beneficiary's contributions. The funds are released to nodal agency which disburses the assistance to ULBs/parastatal agencies.

Source: Departmental data

3.3.2 Resources: Trends and Composition

The resources of ULBs for the period from 2010-15 are detailed in **Table 3.3**.

Table 3.3: Time series data on resources of Urban Local Bodies

	2010-11	2011-12	2012-13	2013-14	2014-15
Own Revenue:					
(a) Tax	1,300.87	1,366.36	1,565.21	1,723.42	1,791.75
(b) Non-Tax	315.63	381.36	379.57	627.97	484.06
Total own revenue	1,616.50	1,747.72	1,944.78	2,351.39	2,275.81
CFC transfers (Central Finance Commission devolutions)	46.34	29.09	119.81	55.29	266.68*
SFC transfers (State Finance Commission devolutions)	0.00	5.68	0.00	0.67	0.00
Grants from State Government	97.46	5.13	62.84	29.79	53.58
GOI grants for CSS	22.39	0.00	92.67	105.68	174.80
Other Receipt:					
PIDB, PMIDC, PUDA, etc.	32.05	209.12	53.01	253.34	264.74
Capital Receipt (sale of property, etc.)	66.60	91.57	49.61	96.84	37.78
Total	1,881.34	2,088.31	2,322.72	2,893.00	3,073.39

Source: Figures provided by Director, Local Government, Punjab

*The substantial increase in 2014-15 under CFC than earlier years is due to release of 13th Central Finance Commission grant of ULBs by the State.

3.3.3 Application of Resources: Trends and Composition

The application of resources of ULBs for the period from 2010-15 are detailed in **Table 3.4**.

Table 3.4: Application of resources (sector-wise)

	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Expenditure from own revenue	1,863.92	2,134.39	2,045.81	2,586.73	2,466.18
Expenditure from CFC transfers(Central Finance Commission devolutions)	46.34	29.09	119.81	55.29	266.68
Expenditure from SFC transfers (State Finance Commission devolutions)	-	5.68	-	0.67	-
Expenditure from grants from State Government.	97.46	5.13	62.84	29.79	53.58
Expenditure on CSS	22.39	0.00	92.67	105.68	174.80
TOTAL	2,030.11	2,174.29	2,321.13	2,778.16	2,961.24

Source: Figures provided by Director, Local Government, Punjab

(Excess expenditure during 2010-11 and 2011-12 was met from the saving of ₹540.96 crore made during 2007-09).

Table 3.5: Statement showing expenditure under major CSS

	(₹ in crore)				
Schemes	2010-11	2011-12*	2012-13	2013-14	2014-15
SJSRY	0.40	0.00	7.58	0.00	0.00
UIDSSMT	20.69	0.00	19.17	77.26	30.35
IHSDP	0.58	0.00	10.92	0.00	0.00
UIG	0.00	0.00	30.27	28.41	114.25
BSUP	0.72	0.00	24.73	0.00	9.04

Source: Figures provided by Director, Local Government, Punjab

* The Department attributed (June 2016) the reasons for 'nil' expenditure during 2011-12 to non-release of funds by the State Government under these schemes.

3.4 Accountability framework of Urban Local Bodies (Internal Control System)

A sound internal control system significantly contributes to efficient and effective governance of the ULBs by the State Government. Compliance with financial rules, procedures and directives as well as timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. The reports on compliance and controls, if effective and operational, assist the ULBs and the State Government in meeting its basic stewardship responsibilities, including strategic planning, decision making and accountability of the stakeholders. The following deficiencies were found in the internal control system:

3.4.1 Primary Audit of Urban Local Bodies

Examiner, Local Fund and Accounts has been empowered to conduct the audit of Municipal Corporation as per Section 176 (2) of the Punjab Municipal Corporation Act, 1976. The audit of Municipal Committees/Town Councils has been empowered under Rule XVII. 17(I)(a) of the Municipal Account Code, framed under Section 240 of the Punjab Municipal Act. The position of internal audit conducted during 2014-15 is given in **Table 3.6**.

Table 3.6: Position of internal audit

Name of the institution	Total units	No. of units to be audited as per manual*	No. of units planned	No. of units audited	No. of units not audited	Percentage of shortfall
Municipal Corporation	10	10	10	10	Nil	Nil
Municipal Committee/ Town Council	164	164	56	51	113	68.90
Total	174	174	66	61	113	64.94

Source: Information supplied by Examiner, Local Fund and Accounts, Punjab

* Manual of the Local Audit Department, Punjab

The department attributed the shortfall to shortage of staff. On being enquired about the follow up action taken on the audit findings, it was stated (March 2016) that a two member committee namely, the Regional Deputy Director of Local Government, Punjab and Regional Deputy Director of Examiner, Local Fund and Accounts had been constituted¹ for pursuing and settlement of audit objections.

3.4.2 Lack of response to audit observations

Details of audit paragraphs issued by ELFA and outstanding as on 31 March 2015 are given in **Table 3.7**.

Table 3.7: Details of outstanding paras

Sr. No.	Since pending	Municipal Corporation	Municipal Committee/ Town Council	Total
1.	Up to 5 years old	2,149	5,430	7,579
2.	5 to 10 years old	1,443	3,569	5,012
3.	More than 10 years old	4,670	11,680	16,350
	Total	8,262	20,679	28,941

Source: Information supplied by Examiner, Local Fund and Accounts, Punjab

Besides this, on the entrustment of audit of ULBs to CAG in August 2011, the audit of three levels of ULBs in Punjab State was taken up by Pr. Accountant General (Audit) Punjab. During the year 2014-15, 23 units of ULBs were audited and Inspection Reports (IRs) containing 364 audit observations were issued (between April 2014 and March 2015) to the concerned audit entities with a copy to ELFA and Director Local Government, Punjab for their comments. Four ULBs (Dina Nagar, Zirakpur, Samana and Mukatsar) submitted their replies in respect of 40 paras whereas replies of the remaining 19 ULBs in respect of 324 paras were awaited (May 2016). The audit findings are summarized in Chapter-IV.

¹ Date of constitution of committee was not supplied by the department.