
CHAPTER-3

PROFILE OF URBAN LOCAL BODIES

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3.1 Background of Urban Local Bodies

The 74th constitutional amendment paved the way for decentralization of power and transfer of 18 functions, listed in the twelfth schedule of the Constitution along with funds and functionaries to the Urban Local Bodies (ULBs). Though all the 18 functions stands transferred (August 1994) to ULBs except fire services, the corresponding funds and functionaries were yet to be transferred to the ULBs. To incorporate the provisions of the 74th constitutional amendment, the Government of Himachal Pradesh enacted the Himachal Pradesh Municipal Corporation Act, 1994 and the Himachal Pradesh Municipal Act, 1994 for transferring the powers and responsibilities to the ULBs. However, some obligatory and discretionary functions like maintenance of roads and streets, street lights, cleanliness, etc., were being implemented by the ULBs prior to enactment of these Acts.

3.2 Audit mandate

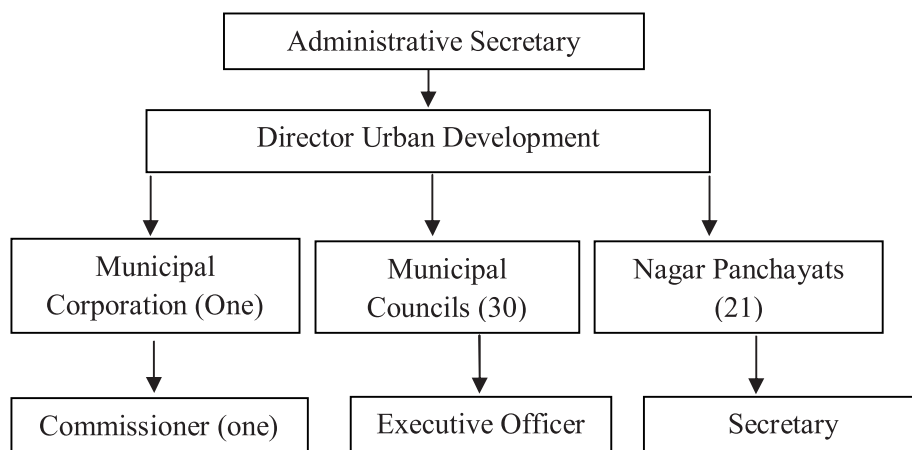
In Himachal Pradesh, audit of ULBs is being conducted by the Director, Local Audit Department. The State Government had entrusted (March 2011) audit of ULBs to CAG of India with the responsibility of providing Technical Guidance and Support (TGS) under Section 20(1) of the CAG's DPC Act, 1971. The results of audit are included in this Report.

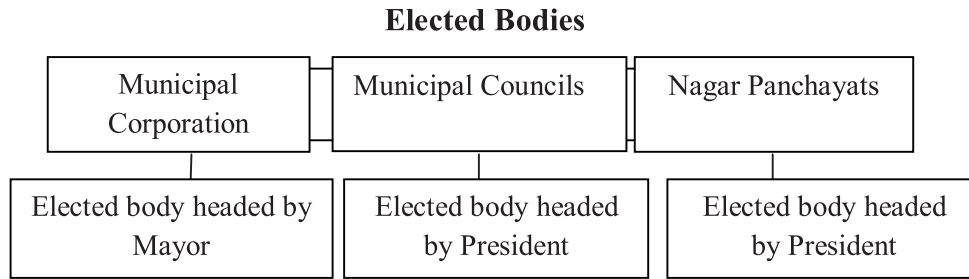
3.3 Organisational structure of Urban Local Bodies

There is one Municipal Corporation, 30 Municipal Councils (MCs) and 21 Nagar Panchayats (NPs) in the State.

The overall control of the ULBs rests with the Principal Secretary (Urban Development) to the Government of Himachal Pradesh through Director, Urban Development Department. The organisational set-up of Urban Local Bodies is as under:-

Administrative set up of ULBs





3.3.1 Standing committees

Various standing committees involved in financial matters and implementation of schemes are detailed in **Table-8**:

Table-8
Roles and responsibilities of the standing committees

Level of ULBs	Name of the standing committee	Standing committee headed by	Roles and responsibilities of the standing committee
Urban Local Bodies (ULBs)	General Standing Committee	Mayor in Municipal Corporation and President in Municipal Council/ Nagar Panchayat	Performs functions relating to establishment matters, communications, buildings, urban housing and provision of relief against natural calamities, water supply and all residuary matters.
	Finance, Audit and Planning Committee		Performs functions relating to the finances of municipality, framing of budget, scrutinising prospects of increase of revenue and examination of receipts and expenditure statements.
	Social Justice Committee	Deputy Mayor in Municipal Corporation and President in Municipal Council/ Nagar Panchayat	Performs functions relating to promotion of education and economic, social, cultural and other interests of SC, ST, backward classes, women and other weaker sections of the society.

3.3.2 Institutional arrangements for implementation of the schemes

In the Directorate of Urban Development, one Project Officer and two Statistical Assistants have been posted in the project section to oversee implementation of various schemes by the ULBs. Against 3,330 sanctioned posts, 872 posts (26 per cent) were lying vacant in various categories in the ULBs and 13 employees were in excess in three ULBs (NP Chowari: two; NP Joginder Nagar: eight and NP Mehatpur: three) as on 1st October 2015 (**Appendix-10**). The Additional Director (ULB) stated (January 2016) that staff in newly created MC Ner Chowk and NP Baijnath-Paprola was not sanctioned at the time of their creation.

3.4 Financial profile

3.4.1 Fund flow to ULBs

For execution of various developmental works, the 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 various schemes. The State Government grants are received through devolution of net proceeds of the total tax revenue on the recommendations of the State Finance Commission (SFC) and grants for implementation of State sponsored schemes. Besides, revenue is also mobilised by the ULBs in the form of taxes, rent, fees, issue of licenses, etc. The funds allotted to the ULBs through various resources are kept in banks.

While Central and State grants are utilised by the ULBs for execution of Central and State sponsored schemes as per the guidelines issued by GOI and the State Government, the own receipts of ULBs are utilised for administrative expenses and execution of schemes/ works formulated by the ULBs. The fund flow arrangements in flagship schemes are given in **Table-9:**

Table-9
Fund flow arrangements in major centrally sponsored flagship schemes

Sl. No.	Scheme	Fund flow Arrangements
1.	Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	GOI provides 100 <i>per cent</i> financial assistance under JNNURM as additional central assistance to the implementing agencies.
2.	Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	Grant-in-aid is to be shared by Central and State Government in the ratio of 80:10 and balance 10 <i>per cent</i> to be arranged by the ULBs from their own sources.
3.	Rajiv Awas Yojana(RAY)	Himachal Pradesh being the special category State, the funding pattern is to be shared in the ratio of 80:10:10 by GOI, State Government and beneficiaries for Housing and GOI, State Government and ULBs for Infrastructure.

3.4.2 Resources: Trends and Composition

The resources of ULBs for the period from 2010-11 to 2014-15 are detailed in **Table-10:**

Table-10
Time series data on resources of ULBs

	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Own Revenue	54.54	58.78	44.23	50.10	NA
CFC transfers (Finance Commission devolutions) including Central sponsored schemes (CSS)	7.77	24.30	30.97	46.88	22.52
SFC transfers (State Finance Commission devolutions)	46.12	51.88	57.07	68.08	72.40
GOI grants for CSS	19.50	25.83	3.90	149.16	91.64
State Government grants for State schemes	85.19	109.90	78.01	8.84	34.55
Total	213.12	270.69	214.18	323.06	221.11

NA: Not available; Source: Director, Urban Development.

3.4.3 Application of Resources: Trends and Composition

The application of resources of ULBs for the period from 2010-11 to 2014-15 are detailed in **Table-11**:

Table-11
Application of resources sector-wise

	2010-11	2011-12	2012-13	2013-14	2014-15
Expenditure from own revenue	55.97	59.14	31.04	19.35	NA
Expenditure from CFC transfers (Central Finance Commission devolutions)	7.77	24.30	30.97	35.39	22.52
Expenditure from SFC transfers (State Finance Commission devolutions)	46.12	51.88	57.07	68.08	72.40
Expenditure from grants from State Government and Centre Government.	85.81	110.45	78.01	169.49	126.19
Total	195.67	245.77	197.09	292.31	221.11

NA: Not available; Source: Director, Urban Development.

The Directorate of Urban Development had not compiled receipt and expenditure figures from own revenue for the year 2014-15 as of April 2016.

3.5 Audit Coverage

Scrutiny of records of Municipal Corporation, Shimla, six Municipal Councils⁹ and seven Nagar Panchayats¹⁰ was conducted during 2014-15 (**Appendix-1**). Important audit findings have been incorporated in Chapter-4 of this Report.

3.6 Technical Guidance and Support (TGS)

The audit of ULBs has been entrusted to the CAG of India under Section 20 (1) of the CAG's (DPC) Act, 1971 with the responsibility of providing TGS. Two days training programme was organised by O/O the Principal Accountant General for the audit staff of Local Audit Department of the State Government on 17th and 18th November 2014 in which the participants were apprised of audit scope, objectives, criteria and methodology for taking up of audit of works, grants-in-aid, etc. Further, during the year 2014-15, five Inspection Reports of ULBs have been reviewed by Principal Accountant General (Audit) and necessary suggestions were provided for further improvement.

3.7 Financial reporting and accounting framework of ULBs (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 the timeliness and quality of reporting on the status of

⁹ Baddi, Dalhousie, Dharamshala, Ghumarwin, Parwanoo and Theog.

¹⁰ Arki, Bhota, Bhunter, Chopal, Chowari, Gagret and Jubbal.

such compliance is 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 their basic stewardship responsibilities including strategic planning, decision making and accountability towards stakeholders. The weaknesses/ gaps noticed in the internal control system are mentioned in the succeeding paragraphs.

3.7.1 Non-certification of Accounts

Specific provision regarding certification of accounts by an independent agency is not provided in the State's Acts/ Rules. However, instructions have been issued (2007) by the Director, Urban Development Department to all the ULBs to maintain accounts on accrual basis with effect from April 2009. The ULBs were also directed (April 2009) to switch over to the double entry system. It was however, noticed that accrual based accounting system had not been adopted by any of the ULBs as of December 2015. The Additional Director (ULB) stated (December 2015) that the Himachal Pradesh Municipal Accounting Manual for ULBs on the basis of National Municipal Accounts Manual (NMAM) is under process. However, in the absence of specific provisions in the State's Acts/ Rules, certification of accounts by an independent agency remained non-existent in the ULBs.

3.7.2 Internal audit of ULBs

Under Section 161 (3) of Himachal Pradesh Municipal Corporation Act and Section 255 (1) of Himachal Pradesh Municipality Act, 1994, the accounts of the ULBs are to be audited by a separate and an independent agency. The State Government issued (February 2008) a notification, according to which the Director, Local Audit was required to prepare an annual plan for conduct of audit of ULBs. As per audit plan for the year 2014-15, 22 ULBs were planned for audit, of which, 21 ULBs were covered upto 31st March 2015. The Additional Director stated that it was observed by them during audit that only MC Shimla has been maintaining annual accounts.

3.7.3 Budget estimates

The budget estimates of ULBs are to be prepared as per Himachal Pradesh Municipal Accounts Code, 1975 in the prescribed form, keeping in view the budget estimates of expected income and expenditure for the next financial year and are placed before the House of the elected representatives of the Municipality (House). After passing of the budget by the House, it is submitted to the Director, Urban Development for approval. The year-wise position of budget provision and the expenditure by the test-checked Municipal Corporation, MCs and NPs during 2011-14 is given in **Table-12:**

Table-12
Budget estimates vis-a-vis expenditure

Year	Budget Estimate	Actual Expenditure	Savings (-) Excess (+)		Percentage of saving
			₹ in crore)		
2011-12	23.79	19.44	(-) 4.35		18
2012-13	32.57	27.87	(-) 4.70		14
2013-14	28.95	22.43	(-) 6.52		23

Note: Unit-wise position is given in **Appendix-11.**

It is evident from **Table-12** that preparation of budget estimates was not done in a realistic manner which resulted in persistent savings ranging between 14 and 23 *per cent* during 2011-12 and 2013-14.

3.7.4 Non-preparation of bank reconciliation statements

As per rule 19 (2) of the State Municipal Accounts Code 1975, general cash book shall be checked item-wise, closed and signed by the Executive Officer each day. At the end of each month it shall be compared and agreed with the bank pass book. Every item of receipt and expenditure shall be checked with the entries in the cash book and differences shall be explained and accounted for in the general cash book.

It was, however, noticed that there was a difference of ₹ 1.44 crore (**Appendix-12**) between cash books and bank pass books at the close of the year 2013-14 which was not reconciled by five ULBs as of March 2014. The authenticity of accounts of these ULBs could not be ascertained in the absence of reconciliation with bank statements. The Executive Officers of the concerned ULBs stated (October 2014-February 2015) that the differences would be reconciled in future.

3.7.5 Pending audit observations

Inadequate response to Audit findings and observations resulted in erosion of accountability.

The Commissioner, Executive Officer, Secretary of the Municipal Corporation, Municipal Council and Nagar Panchayat, respectively, are required to comply with the observations, contained in the Inspection Reports (IRs) issued by the Principal Accountant General (Audit), Himachal Pradesh, rectify the defects/ omissions and report their compliance to settle the observations. The details of IRs and paragraphs issued, settled and outstanding as on 31st March 2015 are as detailed in **Table-13**:

Table-13
Position of pending IRs/ Paras

Sl. No.	Year of issue of Inspection Reports	Outstanding IRs/ Paras as on 31 March 2014		Addition		Total		No. of IRs/ paras settled during 2014-15		No. of outstanding IRs/Paras as on 31 03.2015.	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	Upto 2010-11	99	673	-	-	99	673	-	48	99	625
2.	2011-12	14	138	-	-	14	138	-	20	14	118
3.	2012-13	15	175	-	-	15	175	1	36	14	139
4.	2013-14	17	218	-	-	17	218	-	-	17	218
5.	2014-15	-	-	14	144	14	144	-	-	14	144
	Total	145	1,204	14	144	159	1,348	1	104	158	1,244

The large number of pending inspection reports and outstanding paras is indicative of inadequate response to audit observations, which resulted in erosion of accountability.

Audit findings were referred to the Government in March 2016. Reply had not been received (April 2016).