

**PART-B
URBAN LOCAL BODIES**

CHAPTER-3

PROFILE OF URBAN LOCAL BODIES

3.1 Background

The 74th Constitution Amendment Act paved the way for decentralisation of power and transfer of 18 functions (**Appendix-1**) listed in the Twelfth Schedule of the Constitution alongwith funds and functionaries to the Urban Local Bodies (ULBs). In Himachal Pradesh, although 17 functions stand transferred (August 1994) to ULBs (except fire services); however, the corresponding funds and functionaries were yet to be made available to the ULBs. The Government of Himachal Pradesh enacted the Himachal Pradesh Municipal Corporation Act, 1994 and the Himachal Pradesh Municipal Act, 1994 for transferring powers and responsibilities to ULBs.

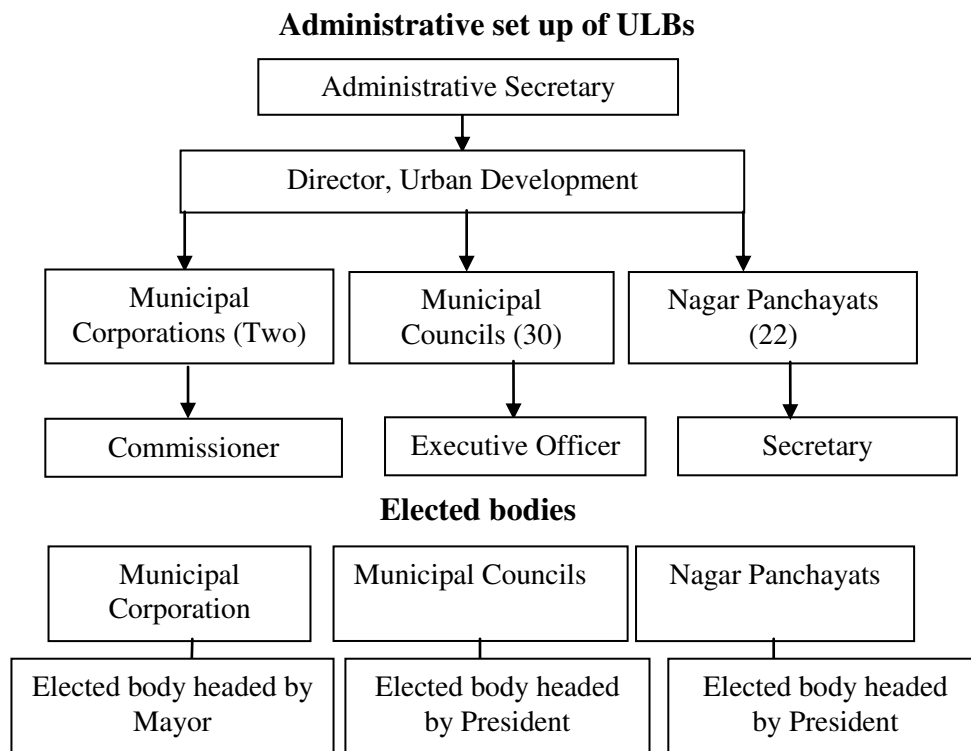
3.2 Audit mandate

In Himachal Pradesh, primary audit of ULBs is being conducted by the Director, Local Audit Department. The State Government entrusted (March 2011) audit of ULBs to CAG 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 Chapter-4.

3.3 Organisational structure of Urban Local Bodies

There are two Municipal Corporations, 30 Municipal Councils (MCs) and 22 Nagar Panchayats (NPs) in the State.

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



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

Name of the standing committee	Standing committee headed by	Roles and responsibilities of the standing committee
General Standing Committee	Mayor in Municipal Corporation and President in Municipal Council and 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 and Nagar Panchayat	Performs functions relating to promotion of education and economic, social, cultural and other interests of SC, ST, other 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 3,729 sanctioned posts, 1,047 posts (28 *per cent*) were lying vacant in various categories in the ULBs and 38 employees were in excess in three ULBs¹⁴.

3.4 Financial profile

3.4.1 Fund flow to ULBs

For execution of various development 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 (CFC) 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, etc. The funds allotted to the ULBs through various sources are kept in banks.

While Central and State grants are utilised by the ULBs for execution of Central and State sponsored schemes as per 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**.

¹⁴ Municipal Corporation, Dharamshala: 27, Municipal Council Hamirpur: one and Municipal Council Dalhousie: 10.

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

Sl. No.	Scheme	Fund flow Arrangements
1.	Smart City Mission	The Smart City Mission is a centrally sponsored scheme (CSS) and the Central Government proposes to give financial support to the Mission at an average of ₹ 100 crore per city per year. An equal amount, on a matching basis, will have to be contributed by the State/ULB.
2.	Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	Grants-in-Aid is to be shared by Centre and State Government in the ratio of 80:10 and balance 10 <i>per cent</i> is to be contributed by the ULBs.
3.	Atal Mission for Rejuvenation and Urban Transformation (AMRUT)	Funding pattern of the schemes in Himachal Pradesh is in the ratio of 90:10 between Centre and State Government.
4.	Swacch Bharat Mission	Himachal Pradesh being a Special Category State, the funding is to be shared in the ratio of 90:10 by centre and State Government.

3.4.2 Resources: Trends and Composition

The resources of ULBs for the period from 2012-13 to 2015-16 are detailed in **Table-10**.

Table-10: Time series data on resources of ULBs

	(₹ in crore)			
	2012-13	2013-14	2014-15	2015-16
Own Revenue	44.23	50.10	119.38	153.14
CFC transfers (Finance Commission devolutions) including Central sponsored schemes (CSS)	30.97	46.88	22.52	24.55
SFC transfers (State Finance Commission devolutions)	57.07	68.08	72.40	85.51
GOI grants for CSS	3.90	149.16	91.64	159.62
State Government grants for State schemes	78.01	8.84	34.55	67.15
Total	214.18	323.06	340.49	489.97

It may be inferred from the above table that the State Government had released grants for State Schemes after considering the amount of funds received from GoI for CSS so as to maintain an increasing trend of total funds released for development schemes.

3.4.3 Application of Resources: Trends and Composition

The application of resources of ULBs for the period from 2012-13 to 2015-16 is detailed in **Table-11**.

Table-11: Application of resources sector-wise

	(₹ in crore)			
	2012-13	2013-14	2014-15	2015-16
Expenditure from own revenue	31.04	19.35	NA	NA
Expenditure from CFC transfers (Central Finance Commission devolutions)	30.97	35.39	22.52	24.55
Expenditure from SFC transfers (State Finance Commission devolutions)	57.07	68.08	72.40	85.51
Expenditure from grants from State Government and Central Government.	78.01	169.49	126.19	226.77
Total	197.09	292.31	221.11	336.83

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

Directorate of Urban Development had not maintained expenditure figures from own revenue from the year 2014-15 onwards. In this regard, the Joint Director, Urban Development stated (July 2018) that Urban Local bodies were being directed time and again to submit annual income & expenditure regularly. The fact, however, remained that the department had not been able to obtain figures for expenditure from own revenue by ULBs since 2014-15.

3.5 Financial reporting and accounting framework of ULBs (Internal Control System)

A sound internal control system significantly contributes to efficient and effective governance. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of 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 and gaps noticed in the internal control system are mentioned in Chapter-4.

3.6 Primary audit and 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 independent agency. Primary audit of ULBs is being conducted by the Director, Local Audit Department. During the year 2016-17, 20 ULBs were audited by the LAD. The results of these audits are included in Annual Audit Report of the ULBs which is laid before the State Legislature by the State Government as per Section 255 (3) of Himachal Pradesh Municipal Act, 1994.

There is no provision for a separate and independent internal audit agency under the control of the Director, Urban Development to conduct internal audit of ULBs with a view to ensure internal control on income and expenditure.

3.7 Technical Guidance and Support

The audit of ULBs has been entrusted to the CAG under Section 20 (1) of the CAG's (DPC) Act, 1971 with the responsibility of providing suitable Technical Guidance and Support (TGS) to Primary Auditors as per sections 152-154 of Regulations on Audit and Accounts, 2007 with regard to annual audit plans, audit methodology and procedures, training and capacity building, reporting and submission of returns.

Audit Plan for the year 2016-17 was received from the Primary Auditor (Director, Local Audit Department (LAD)) and noted for the process of audit planning in this office.

The Primary Auditor (Director, LAD) adhered to the audit methodology and procedures for audit as prescribed in Section 164 of the HPMC Act, 1994.

During the year 2016-17, six Inspection Reports from the audit of ULBs conducted by the primary auditors were reviewed by the office of the Principal Accountant General (Audit), Himachal Pradesh. Inspection Reports were evaluated and recommendations

were made for improvement and subsequent follow-up. The following recommendations were made to the office of the Director, Local Audit Department:

- (i) Reference to rules may be given in the paras while raising audit objections in audit.
- (ii) Audit memos may be issued to the auditee unit and Audit paras may incorporate reply of the Secretary and Executive Officer of the ULBs concerned.

It may be pointed out that similar recommendations for improvement had been made during previous years, but the shortcomings persisted indicating that LAD had not taken adequate steps to address the same.

Every year, two days’ training is imparted to the audit staff of Local Audit Department (LAD) as per their requirement and topics suggested by them. During 2016-17, 18 participants from LAD staff were imparted training on 8th - 9th December 2016 on the topics: (i) Statutory provision regarding finance, taxation and recovery of claims (ii) PRIs funds, their operation, application and investment (iii) Budget, expenditure and stores (iv) Audit and inspection (v) Panchayati Raj Public Works Rules; and (vi) Introduction to MGNREGA and its operational guidelines.

3.8 Audit Coverage

During 2016-17, 16 ULB units were test-checked by the office of the Principal Accountant General (Audit), Himachal Pradesh and reports were issued to the respective ULBs. Records of Municipal Corporation, Shimla, 11 Municipal Councils and four Nagar Panchayats were examined during 2016-17 (**Appendix-3**) and important audit findings have been incorporated in Chapter-4 of this report.

3.9 Audit observations pending compliance

The ULBs are required to rectify the defects/ omissions highlighted in the observations contained in the Inspection Reports (IRs) issued by the Principal Accountant General (Audit), Himachal Pradesh, and report their compliance to settle the observations. The details of IRs and paragraphs issued, settled and outstanding as on 31st March 2017 are given in **Table-12**.

Table-12: Position of pending IRs/ Paras

Sl. No.	Year of issue of Inspection Reports	IRs/ Paras Outstanding as on 31 March 2016		Addition during 2016-17		Total		No. of IRs/ paras settled during 2016-17		No. of IRs/Paras outstanding as on 31 March 2017	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	Upto 2012-13	126	829	-	-	126	829	0	42	126	787
2.	2013-14	17	172	-	-	17	172	0	7	17	165
3.	2014-15	14	139	-	-	14	139	0	8	14	131
4.	2015-16	16	172	-	-	16	172	0	8	16	164
5.	2016-17	-	-	16	181	16	181	-	-	16	181
	Total	173	1,312	16	181	189	1,493	0	65	189	1,428

Correspondence was being undertaken to settle IRs/ Paras but despite this the number of paras pending settlement has increased, which remains a matter of concern.

