

CHAPTER 4

Section A
An Overview of Urban Local Bodies in the State

4.1 Introduction

The 74th Constitutional Amendment (1992) added the 12th Schedule, comprising of 18 functions, in the Constitution, and mandated that all State Governments operationalise Urban Local Bodies (ULBs) as units of self-government. States were required to devolve these 18 functions and responsibilities to the ULBs, to enable them to function as institutions of local self-government. Accordingly, as per provisions 24 and 26 of the Odisha Municipal Corporation Act, enacted in 2003, nine and eight functions were devolved, respectively, out of 18 functions (except for the 'fire services' function, which was not devolved), to ensure devolution of powers and responsibilities to ULBs, in regard to the subjects listed in the 12th Schedule of the Constitution.

The profile and demography of the urban population in the State are given in *Table 4.1*.

Table 4.1: Urban population in Odisha: key indicators

Indicator	State	Urban
Population (<i>in crore</i>)	4.19	0.70
Male (<i>in crore</i>)	2.12	0.36
Female (<i>in crore</i>)	2.07	0.34
Sex Ratio per 1000 males	978	932
Literacy rate (<i>per cent</i>)	72.87	85.75
Male Literacy (<i>per cent</i>)	81.59	90.72
Female Literacy (<i>per cent</i>)	64.01	74.31

(*Source: Census of India, 2011*)

As of March 2021, 114 ULBs⁵⁸ had been set up in the State, under three categories. While Municipalities and Notified Area Councils (NACs) were functioning under the provisions of the Odisha Municipal Act, 1950, Municipal Corporations were functioning under the Odisha Municipal Corporation Act, 2003.

4.2 Organisational setup of ULBs

Each ULB is divided into a number of wards, with each ward being represented by a Ward Councilor/Corporator. The Municipal Commissioner is the executive head of a Municipal Corporation, while an Executive Officer is the executive head of a Municipality or NAC. Both - Municipal Commissioners, as well as Executive Officers - report to the Director of Municipal Administration, in the Housing and Urban Development (H&UD) Department. The Directorate of Municipal Administration, which is the apex administrative organisation that regulates the functioning of all Municipal Corporations, Municipalities and NACs in the State, manages municipal Administration in Odisha.

The Directorate of Municipal Administration is headed by the Director, Municipal Administration (DMA). The DMA coordinates various activities of all ULBs, *viz.*

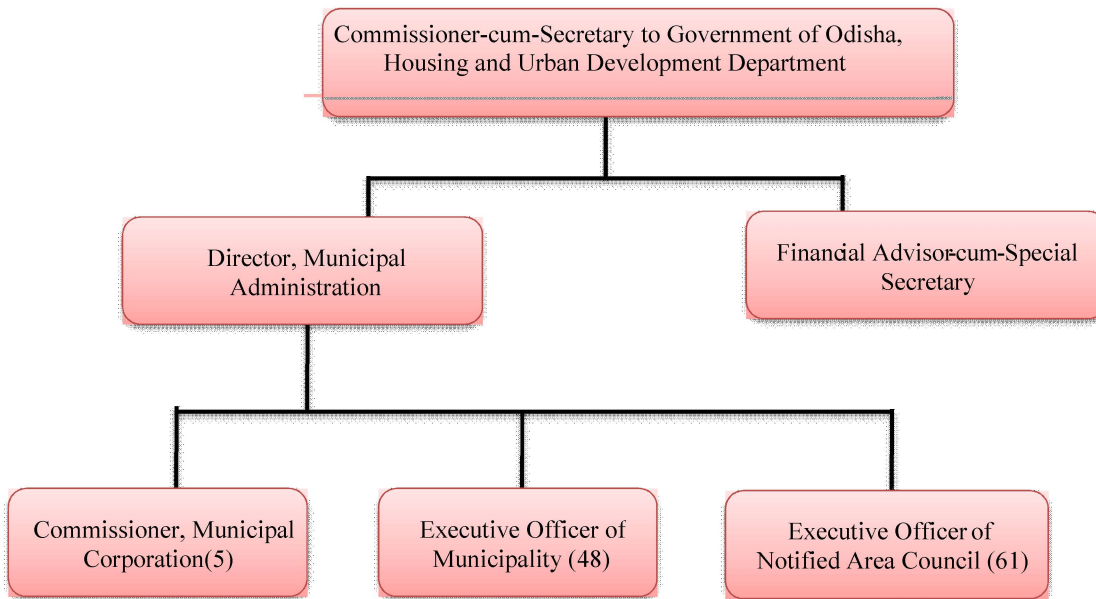
i) municipal tax administration ii) financial management iii) infrastructure

⁵⁸ Municipal Corporations: 5, Municipalities: 48, Notified Area Councils: 61

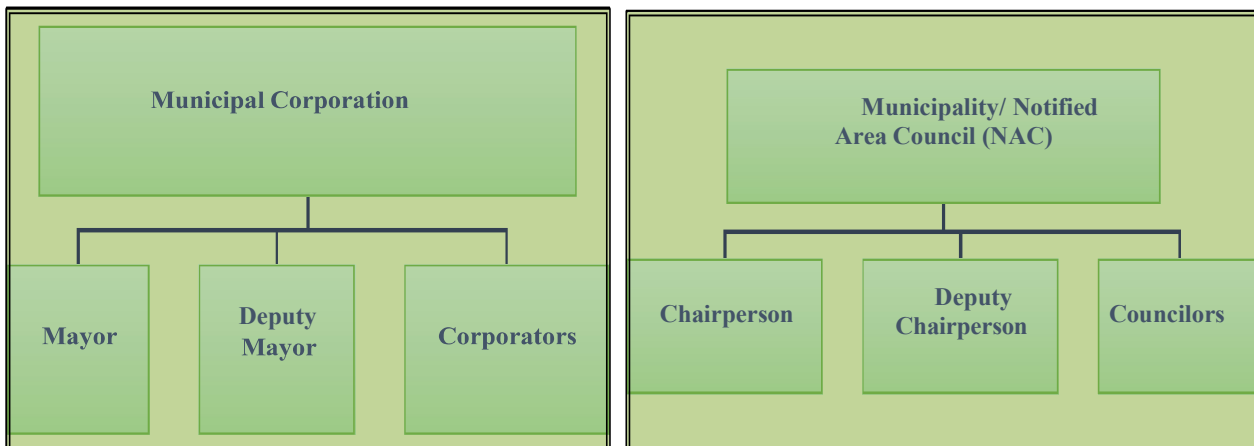
development iv) town planning v) urban health and sanitation vi) environment management and vii) programmes for the urban poor, *etc.*

The Directorate is responsible for supervising the functioning of the ULBs. It is also required to: i) work out suitable human resource policies ii) monitor tax collection activities iii) lay down policies for transparency in expenditure iv) hear appeals against the decisions of ULBs v) release Government funds to ULBs and vi) monitor the implementation of various schemes and programmes being implemented by the ULBs.

The organisational hierarchy of ULBs in Odisha, is indicated below.



The structure of the elected bodies of the ULBs is as under:



While each Municipal Corporation is headed by a Mayor, each Municipality/Notified Area Council is headed by a Chairperson. The Mayors/Chairpersons are elected from among the Corporators/ Councilors of the respective ULBs.

4.3 Functioning of ULBs

The Twelfth Schedule (Article 243 W) of the Constitution of India envisages that State Governments may, by law, empower municipalities with such powers and authority, as may be necessary to enable them to function as institutions of self-government. It lists 18 functions that State Governments are to devolve to the ULBs.

As of March 2021, out of 18 functions, the State Government had devolved 17 functions (nine functions as obligatory duties, under Section 24, and eight functions as general powers and functions, under Section 26, of the OMC Act, 2003) to the ULBs, either partially or fully (**Table 4.2**). The ‘fire services’ function is yet to be devolved to the ULBs.

Table 4.2: Functions transferred to ULBs

Sl. No.	Functions Transferred to ULBs
1	Urban planning, including town planning
2	Regulation of land-use and construction of buildings
3	Planning for economic and social development
4	Roads and bridges
5	Water supply- domestic, industrial and commercial
6	Public health sanitation, conservancy and sewerage water maintenance
7	Urban forestry, protection of environment and promotion of ecological aspects
8	Safeguarding the interest of weaker sections of the society including the handicapped and mentally retarded
9	Slum improvement and upgradation
10	Urban poverty alleviation
11	Provision of urban amenities and facilities- parks, gardens and play grounds
12	Promotion of cultural, educational and aesthetic aspects
13	Burials and burial grounds, cremations, cremation grounds and electric crematoriums
14	Cattle Pounds, prevention of cruelty to animals
15	Vital statistics including registration of births and deaths
16	Public amenities including street lighting, parking lots, bus stops and public conveniences
17	Regulation of slaughter houses and tanneries

4.4 Staffing Pattern of ULBs

Every Corporation is required to have the following officers: i) Commissioner ii) City Engineer iii) City Health Officer iv) Chief Finance Officer v) Chief Auditor vi) Law Officer vii) Secretary viii) Deputy Secretary ix) Recovery Officer x) Environment Officer and such other officers, as prescribed under Section 117(1) of the Odisha Municipal Corporation Act. However, every Corporation may, with the previous sanction of the Government and as per provisions of the Act, determine its establishment. Similarly, every Municipality/ NAC is required to have an Executive Officer, an Engineer and a Health Officer (as prescribed under Section 74 of the Odisha Municipal Act, 1950), who are State Government employees. They are to be appointed to the Municipality/NAC and their work is to be subject to the general powers of supervision of the Chairperson.

4.5 Standing Committees

As per the Odisha Municipal Corporation Act and the Odisha Municipal Act, Standing Committees are to be set up, for dealing with matters such as: (i) Taxation (ii) Finance and Accounts (iii) Public Health (iv) Electricity Supply (v) Water Supply (vi) Drainage and Environment (vii) Public Works (viii) Planning and Development (ix) Education (x) Recreation and Culture (xi) Licenses and appeals (xii) Contracts (xiii) Corporation Establishment (xiv) Grievances and Social Justice and (xv) Settlement of mutual disputes between two adjoining Corporations.

4.6 District Planning Committee

As per Section 62(A) (2) of Odisha Municipal Act 1950, a District Planning Committee (DPC), consisting of 20 members, is to be constituted in each district, to consolidate the plans prepared by the Municipalities and Panchayati Raj Institutions in the district, as also to prepare a draft development plan for the district as a whole. Out of the 20 members of the DPC, 16 members are to be from amongst the elected members of the Zilla Parishad and elected Councilors of the Municipalities in the district, while the other four members are to be nominated by the State Government, from the following list:

- (i) A Minister in the Council of Ministers of the State, who shall be the Chairperson;
- (ii) The Collector of the district, who shall be the Member-Secretary;
- (iii) The Chairperson of the Zilla Parishad of the district; and
- (iv) The Chairperson of a Municipality in the district.

In order to ensure that the DPC functions effectively, a DPC fund is required to be created, as per Section 85 of Odisha Town Planning and Improvement Trust Act, 1956, with contributions from the related PRIs and ULBs, for meeting expenses related to the functioning of the DPC.

4.7 Fund flow arrangements

ULBs receive funds from Government of India (GoI) and the State Government, in the form of grants for execution of various developmental works. The GoI grants include grants assigned as per the recommendations of the Central Finance Commission (CFC) and grants for implementation of schemes. Similarly, the State Government grants include grants received through devolution of the net proceeds of the total tax revenue, on the recommendations of the State Finance Commission (SFC), as well as grants for implementation of the State sponsored schemes. In addition, ULBs also have their own sources of revenue collection, such as: i) taxes on holdings ii) trades iii) rent on shops and buildings and iv) other fees and charges, *etc.*, which constitute the revenue receipts of the ULBs.

4.8 Recommendations of the State Finance Commissions (SFCs)

The Fourth SFC (covering the period 2015-20) and the Fifth SFC (covering the period 2020-25) had requested the Fourteenth Finance Commission (covering the period 2015-20) and the Fifteenth Finance Commission (covering the period 2020-25), respectively, to augment the State's Consolidated Fund, to supplement the resources of the local bodies, over and above the funds recommended for transfer from the State's resources. The total resource transfer to ULBs (from

State resources), recommended by the 4th & 5th SFCs, for the financial years 2016-17 to 2020-21, was as under:

Table 4.3: Resource transfer recommended by SFCs

(₹ in Crore)

Distribution mechanism	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Total
Devolution	164.60	164.60	164.60	164.60	305.05	963.45
Assignment of Taxes	644.00	708.40	779.24	857.16	664.89	3,653.69
Grants-in-aid	80.48	178.10	180.94	184.08	348.81	972.41
Total	889.08	1,051.10	1,124.78	1,205.84	1,318.75	5,589.55

(Source: Reports of the 4th & 5th SFCs)

4.9 Recommendations of the Central Finance Commissions (CFCs)

The 14th Finance Commissions (2015-20) and 15th Finance Commissions (award period of first report: 2020-21) recommended assured transfer of funds to local bodies, for planning and delivery of basic services under their charge. Under 14th CFC, the grants were to be released under two components, *i.e.* Basic grant (unconditional) and Performance grant (conditional), in the ratio of 80:20, with respect to municipalities. Its further recommendations were as below:

- States need to ensure property tax reforms, including objective determination of the base and its regular revision, to adjust for inflation, strengthening of mechanisms for assessment, levy and collection and improving billing and collection efficiency.
- States may consider steps to empower local bodies, to impose advertisement tax and improve own revenue, from this source.
- States may review the structure of entertainment tax and take action to increase its scope, to cover more and newer forms of entertainment.
- Urban local bodies may rationalise their service charges in a way that they are able to, at least, recover the operation and maintenance costs from the beneficiaries.
- Under 15th Finance Commission (first report award period 2020-21), the recommendations were as below:
 - To qualify for any grants for urban local bodies in 2021-22, States would have to appropriately notify floor rates and, thereafter, show consistent improvement in collection, in tandem with the growth rate of the State's own Gross State Domestic Product.
 - Service Level Benchmarks being 100 *per cent* of the tied grants (other than the Basic Grants), for improving water and solid waste management and achieving of star rating by the urban local bodies on population basis.
 - For million-plus cities/urban agglomerations, the city-wise distribution of grants for 2020-21 would be on population basis.

Details of funds, released in terms of the recommendations of the 14th & 15th CFCs, are given in **Table 4.4**.

Table 4.4: Funds released to ULBs on the basis of the recommendations of the 14th & 15th Finance Commissions

(₹ in crore)

Financial Year	Grants recommended to ULBs		Grants released to ULBs		Short-receipt of Grants by ULBs	
	Basic	Performance / Tied	Basic	Performance/ Tied	Basic	Performance/ Tied
2016-17	235.54	69.52	231.26	68.26	4.28	1.26
2017-18	272.14	78.67	258.84	Nil	13.30	78.67
2018-19	314.82	89.34	292.73	Nil	22.09	89.34
2019-20	425.39	116.98	426.38	Nil	Nil	116.98
2020-21	543.50	543.50	543.50	543.50	Nil	Nil

(Source: Information as furnished by DMA, Budget and 15th FC Report)

As may be seen from the Table above, the State Government lost a significant quantum of performance grants, amounting to ₹286.25 crore, due to factors such as non-achievement of service level benchmarks (SLBs) set by the 14th Finance Commission, as detailed below.

4.9.1 Service Level Benchmarks

In compliance with the recommendations of the 14th Finance Commission, the State Government had notified (September 2015) standards of service deliveries in four essential services provided by the local bodies, namely: i) Water Supply ii) Sewerage Management iii) Storm Water Drainage and iv) Solid Waste Management and the service level targets for the financial year 2015-16. Further, the targets for FY 2017-18 and FY 2019-20 were also fixed as per the service standards. The performance grants of CFC were linked to achievement of the above SLB targets.

Some of the service level benchmarks were:

- 100 per cent metered water connection
- 100 per cent cost recovery in water supply connections
- 24 hours/day water supply
- 100 per cent recycle and reuse of sewage
- 100 per cent household level coverage of solid waste management services
- 100 per cent efficiency of collection, segregation, scientific disposal and cost recovery of municipal solid waste
- 100 per cent coverage of storm water drainage network, etc.

Para 3.6.1, pertaining to Service Level Benchmarks, of the CAG's Report of March 2021, on Waste Management in Urban Areas, had observed that the extent of segregation, recovery of solid waste, scientific disposal and cost recovery of solid waste, in a majority of the test-checked ULBs, were significantly below the benchmarks fixed by the MoUD.

In this regard, Audit noted that the government of Odisha had issued Standard Operating Procedures (SOPs) for segregation, collection and recycling of municipal solid waste, in July 2019 and December 2020.

Recommendation:

- 1. The State Government may put in place a time bound action plan to achieve the Service Level Benchmark targets set by the Finance Commission, in order to avoid further loss of performance grants.***

4.10 Audit mandate**4.10.1 Primary Auditor**

Director, Local Fund Audit (DLFA), under the Finance Department of the Government of Odisha, has been the primary Auditor for ULBs in the State, since 2012. The DLFA conducts departmental/ internal audit of ULBs of all 30 districts of the State, through 26 District Audit Offices as per OM Act, 1950. During the financial year 2020-21, DLFA had planned audit of 114 ULBs, but was able to cover only 106, with the shortfall in audit being attributed to the Covid-19 Pandemic. Details of audit coverage, by the DLFA, are given below:

Table 4.5: Position of audit of ULBs by DLFA (as of March 2021)

Financial year	Total no. of ULBs planned for Audit	Total number of ULBs audited	Shortfall
2018-19	111	109	2
2019-20	113	110	3
2020-21	114	106	8

(Source: Information furnished by Director, Local Fund Audit, Odisha)

4.10.2 Audit by the Comptroller and Auditor General of India

On the recommendation of the 13th Finance Commission, the State Government had requested (July 2011) the Comptroller and Auditor General of India (C&AG), to audit the accounts of all categories of the ULBs of the State, under Section 20(1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Accordingly, nine ULBs were covered for Compliance Audit during FY 2020-21, despite the COVID-19 pandemic. In addition, two Performance audits on "Waste Management in Urban areas" and "Efficacy of the 74th Constitution Amendment Act with regard to devolution of funds, functions and functionaries", were also initiated and completed, during the financial year 2021-22.

4.10.3 Technical Guidance and Support (TGS) by C&AG

In pursuance of the recommendations of the Eleventh and Thirteenth Finance Commissions, Government of Odisha entrusted C&AG with the task of providing TGS to the State Audit Agency, viz., Local Fund Audit (LFA), for audit of Local Bodies. Subsequently, the provisions of TGS and its parameters were agreed upon, through periodical meetings between the Government and the C&AG, and the Government notified (July 2011) the parameters of the TGS, in its Official Gazette. Government also incorporated provisions relating to C&AG audit/TGS by the C&AG of India, in the Odisha Local Fund Act, through the Odisha Local Fund Audit (Amendment) Act, 2011, with effect from September 2012 and the Odisha Local Fund Audit (OLFA) (Amendment) Rules, 2015.

Under the TGS arrangement, the Director of Local Fund Audit is required to submit its Annual Audit Plans, quarterly progress reports on its Annual Audit Plans and copies of its Audit Reports, to the Accountant General.

The Accountant General (AG) scrutinised the audit reports for the financial years 2017-18 and 2018-19, forwarded by the DLFA and found that serious irregularities had been reported therein. Such irregularities included interest amounts accrued on scheme funds, deposited in the bank, being withdrawn but not shown in the cashbook; lesser amount being shown in the cashbook, as compared to the actual sale amount; misappropriation of cash, *etc.*

AG also provided various suggestions for improvement in auditing and reporting of issues, to DLFA.

4.11 Reporting arrangements

4.11.1 Audit Report of the Primary Auditor

As per the recommendations of the 13th Finance Commission and the provisions of OLFA (Amendment) Rules, 2015, the DLFA is to prepare and submit a consolidated report for the previous year, to the State Government, not later than 30 September of each year and this report is to be laid before the State legislature.

4.11.2 CAG's Report on Local Bodies

The latest Report of the Comptroller and Auditor General of India, including the report in respect of Urban Local Bodies in Odisha, for the year ending March 2020, has been laid in the Odisha Legislative Assembly, on 10 December 2021.

4.11.3 Response to audit observations

After completion of audit, Inspection Reports (IRs), containing audit findings, were issued to heads of the units concerned. Heads of offices, as well as the next higher authorities, were required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations, communicated in the IRs, were also discussed in meetings at the district level, by officers of the Housing and Urban Development Department, with officers from the office of the Principal Accountant General.

As of 31 March 2021, 4,385 paragraphs, relating to 339 Inspection Reports (IRs), pertaining to 1993-94 to 2020-21, issued to different ULBs, had remained unsettled. Of these, initial replies had not been received in respect of 71 IRs. Further, 16 paragraphs relating to Inspection Reports (IRs) issued by the Office of the Accountant General (Audit-II), Odisha, were settled through Triangular Committee Meetings⁵⁹, during FY 2020-21.

Table 4.6: Outstanding IRs/Paras pending for settlement

Financial Year	No. of IRs	No. of Paras
Up to 2019-20	330	4,223
2020-21	9	162
Total	339	4,385

(Source: Compiled by Audit)

4.11.4 Annual Technical Inspection Reports (ATIRs)

The Office of the Accountant General (G&SSA), Odisha, issued nine ATIRs on Urban Local Bodies, relating to the financial years 2005-06 to 2014-15. Major audit findings on the transactions of the ULBs of the State were reported therein.

⁵⁹ Triangular Committee Meetings (TCMs) are held between representatives of the concerned administrative departments, Heads of Department and the Accountant General, for settlement of outstanding audit paras.

However, Government's reply was not received on any of these ATIRs. A number of meetings were convened with the Commissioner-cum-Secretary of the Housing and Urban Development Department and demi-official correspondence was also made with the Chief Secretary to Government of Odisha. However, Government had not taken any remedial action on the issue, as of June 2022.

Recommendations:

- 2. Department may create a cell for verification of pending audit observations and initiate action for their speedy settlement.***
- 3. Serious irregularities pointed out by Audit, as well as remedial action thereon, may be reviewed, to ascertain lapses in the Internal Control mechanism and to avoid repetition of such irregularities in future***

Section B
Accounting Framework and Financial Reporting Issues

4.12 Accounting framework of ULB

4.12.1 Maintenance of Accounts and certification of accounts

The Ministry of Urban Development, GoI, released the National Municipal Accounts Manual (NMAM) for ULBs in India, in November 2004. Subsequently, the H&UD Department published the Odisha Municipal Accounting Rules, 2012.

In Odisha, the respective ULBs prepare their own accounts, which are certified by the DLFA, in terms of Rule 20(h) of the Odisha Local Fund Audit Rules, 1951. As against the Audit Plan to certify 117⁶⁰ annual Accounts of ULBs, DLFA certified 107 Accounts, during the financial year 2020-21, with the shortfall being attributed to the Covid-19 pandemic.

4.12.2 Adoption of Accrual Based Accounting System

As per Rule 3 of Odisha Municipal Accounts Rules, 2012, adoption of the accrual based double entry system of accounting was mandatory for ULBs from July 2012. However, as of March 2021, out of 114 ULBs, only 79 ULBs had been able to migrate to the double entry accounting system. In the other 35 ULBs, the cash based manual accounting system was still in use.

4.13 Generation of own revenue

4.13.1 Central Valuation Board on Property Tax

As per Section 131(1) (a) of Odisha Municipal Act, 1950, the Municipality shall have power to levy property tax on lands and buildings. The Thirteenth Finance Commission (TFC) had recommended the setting up of a State Level Central Valuation Board, in order to standardise property assessment and valuation across each State. TFC had also recommended constitution of a Property Tax Board, to assist ULBs in putting in place an independent and transparent procedure for assessing property tax. The State Government had decided to rationalise property tax, through legislation, by way of introducing the Unit Area based taxation system in all ULBs. Accordingly, a selection committee was constituted (October 2016), by the Government, for appointment of the Chairperson and other members of a State Municipal Corporation Valuation Committee (SMCVC), for standardisation of property assessment and valuation, across all Municipal Corporations in the State. The Fourteenth Finance Commission (FFC) also emphasised property tax as an important tool for enhancing the income of ULBs. However, neither a State Level Central Valuation Board on property tax nor a SMCVC, were established in the State. As a result, ULBs lacked technical guidance for assessment and revision of property tax.

During FY 2020-21, Audit test-checked the property assessment procedure adopted in nine ULBs and observed that Holding Tax⁶¹, amounting to ₹27.84 crore, had not been collected from various government and private establishments, as of

⁶⁰ Out of 114 annual accounts, 113 were planned and 117 annual accounts were audited, including four arrear annual accounts of previous years

⁶¹ Holding tax or property tax is a tax levied on the owner of a building property situated within the Municipality, assessed on the annual value of the property (Section 131 of OMA 1950).

31 March 2020. These ULBs had also not considered revision of property/holding tax, depriving them from generation of own revenue through the modality of property tax.

4.14 Financial reporting issues

4.14.1 Submission of Utilisation Certificates

Submission of Utilisation Certificates provides assurance to the funding agency about the fair usage of funds for the purpose for which they were granted. In compliance audit, it was observed that eight (out of nine test-checked ULBs, audited during FY 2020-21) ULBs had not submitted UCs amounting to ₹382.67 crore as of March 2020.

4.14.2 Opening of Multiple Bank Account

During the compliance audit of nine test-checked ULBs, carried out during FY 2020-21, it was observed that in two⁶² ULBs, multiple bank accounts were operational in regard to the same schemes.

4.14.3 Non-reconciliation of cash book with bank account balance

Sub-rule 3(a) of Rule 97 of the Odisha Municipal (Accounts), Rules 2012, specifies that bank reconciliation procedures are to be carried out at the end of every month. It was observed that, out of nine test-checked ULBs (audited during FY 2020-21), seven ULBs had not been reconciling their cash book balances, with their bank book balances, at the end of each month. Non-reconciliation of cash books, with bank accounts, carries the risk of misuse of funds.

⁶² Cuttack Municipal Corporation, Sambalpur Municipal Corporation