CHAPTER 8

Function Based Audit of ULBs

Chapter- 8

Function Based Audit of ULBs

8.1 Introduction

This chapter presents findings from a function-based audit. The audit used a district-centred approach to assess selected Urban Local Bodies. The examination focused on performance of the ULBs in delivering services of devolved functions. The 74th CAA, 1992 transferred eighteen functions to Urban Local Bodies. These functions established ULBs as institutions of local self-government. Audit evaluated whether ULBs delivered intended services through assigned activities.

8.2 Scope of Function-based Audit

The Function-based Audit was conducted in five[39] districts, covering the FYs 2020-23 in 26[40] out of 34 ULBs of these districts. The focus of Function-based Audits was on financial management by the ULBs and activity related to 'Public health' under the function "Public health, sanitation conservancy and solid waste management". The sampled districts and ULBs were selected as part of a periodic audit cycle designed to ensure coverage of all districts over a defined timeframe.

8.3 Audit Methodology and Criteria

Audit examined records of selected ULBs and conducted joint physical inspections (JPIs) with authorised representatives to gather evidence for audit conclusions based on the provisions contained in the:

- 74th Constitution Amendment Act, 1992;
- Odisha Municipal Corporation Act, 2003;
- Odisha Municipal Act, 1950;
- Odisha Municipal Accounts Rules, 2012;
- Instructions issued by Governments of Odisha and India.

8.4 Overview of Function and Cross-Cutting activities

The 74th CAA, 1992, envisaged the transfer of 18 Functions as listed in Schedule 12 of the Constitution to the ULBs. The State has devolved 17 out of these 18 Functions to the ULBs. Amongst these 17 Functions, "Public health, sanitation conservancy and solid waste management' is the Function selected for Audit. Out of those functions, Audit reviewed the activity "Public health" in the selected ULBs.

As per Section 501 of the Odisha Municipal Corporation Act, 2003, every Municipal Corporation is required to build health management capacities to improve health service delivery to the poor. As per Section 352 of the Odisha Municipal Act, 1950, every Municipality is to establish and maintain dispensaries and hospitals, for the use of inhabitants.

Further, the ULBs are empowered to generate their own source revenue from various ways, *i.e.* Property tax, Hoarding tax, Trade license fee, Parking fee,

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39 Baragarh, Dhenkanal, Ganjam, Khordha and Nabarangpur

40 **Municipal Corporation**: Berhampur and Bhubaneswar, **Municipality**: Bargarh, Hinjilicut, Nabarangpur and Umarkote, **NAC**: Aska, Attabira, Balugaon, Banapur, Barpali, Bellaguntha, Bhuban, Chhatrapur, Chikiti, Digapahandi, Gopalpur, Hindol, Kamakhyanagar, Khallikote, Kodala, Padampur, Polasara, Purushottampur, Rambha and Surada.

User fee, Rent from Shops, *kalyan mandap*, *etc.* In this chapter, audit findings on financial management related to generation of own revenue have been included.

8.5 Financial Management in ULBs

Audit examined fund utilisation in 26 ULBs across 05 districts during 2020-23. **Table 8.1** details receipts and expenditure positions for test-checked ULBs.

Table 8.1: Receipts and expenditure position of the test-checked ULBs

(₹ in crore)

District	Name of ULB	Year	Opening Balance	Receipt	Total	Expenditure	Closing Balance	% Utilisation
Bargarh	Bargarh Municipality	2020-23	40.42	141.47	181.89	131.02	50.87	72.03
	Attabira NAC	2020-23	22.17	36.25	58.42	32.96	25.46	56.42
	Barpali NAC	2020-23	21.81	48.88	70.69	46.25	24.44	65.43
	Padampur NAC	2020-23	11.96	29.88	41.84	27.90	13.94	66.68
	District Total	**2020-23**	**96.36**	**256.48**	**352.84**	**238.13**	**114.71**	**67.49**
Dhenkanal	Hindol NAC	2020-23	7.56	46.54	54.10	41.62	12.48	76.93
	Bhuban NAC	2020-23	12.01	49.10	61.11	38.14	23.97	62.41
	Kamakhyanagar NAC	2020-23	3.02	43.46	46.48	42.51	3.97	91.46
	District Total	**2020-23**	**22.59**	**139.10**	**116.69**	**122.27**	**40.42**	**75.62**
Ganjam	Berhampur Municipal Corporation	2020-23	262.94	743.62	1,006.56	662.39	344.17	65.81
	Hinjilicut Municipality	2020-23	4.00	30.71	34.71	29.49	5.22	84.96
	Aska NAC	2020-23	7.21	35.52	42.73	24.69	18.04	57.78
	Bellaguntha NAC	2020-23	9.95	16.09	26.04	15.88	10.16	60.98
	Chhatrpur NAC	2020-23	16.55	32.08	48.63	23.15	25.48	47.60
	Chikiti NAC	2020-23	4.64	39.44	44.08	29.69	14.39	67.35
	Digapahandi NAC	2020-23	12.25	34.51	46.76	30.04	16.72	64.24
	Gopalpur NAC	2020-23	7.60	26.18	33.78	25.67	8.11	75.99
	Khallikote NAC	2020-23	10.60	30.21	40.81	26.09	14.72	63.93
	Kodala NAC	2020-23	17.15	26.18	43.33	25.67	17.66	59.24
	Polasara NAC	2020-23	9.05	46.90	55.95	38.91	17.04	69.54
	Purushottampur NAC	2020-23	11.29	33.24	44.53	34.79	9.74	78.13
	Rambha NAC	2020-23	7.62	16.38	24.00	15.36	8.64	64.00
	Surada NAC	2020-23	11.09	27.74	38.83	26.13	12.70	67.29
	District Total	**2020-23**	**392.04**	**1,138.80**	**1,530.74**	**1,007.95**	**523.12**	**65.85**
Khordha	Bhubaneswar Muncipal Corporation	2020-23	876.80	1,237.83	2114.63	978.34	1136.29	46.27
	Balugaon NAC	2020-23	8.89	38.54	47.43	26.30	21.13	55.45
	Banapur NAC	2020-23	13.39	33.73	47.12	24.93	22.19	52.91
	District Total	**2020-23**	**899.08**	**1,310.10**	**2,209.18**	**1,029.57**	**1,179.61**	**46.60**
Nabarangpur	Nabarangpur Municipality	2020-23	6.00	38.45	44.45	14.95	29.50	33.63
	Umerkote Municipality	2020-23	18.12	52.09	70.21	32.10	38.11	45.72
	District Total	**2020-23**	**24.12**	**90.54**	**114.66**	**47.05**	**67.61**	**41.03**
	Grand Total	**2020-23**	**1,434.19**	**2,935.02**	**4,369.11**	**2,444.97**	**1,925.47**	**55.96**

***Source**: Information collected from the test-checked ULBs*

These ULBs utilised 55.96 *per cent* of available funds during the audit period. Total receipts amounted to ₹4,369.11 crore. Total expenditure reached ₹2,444.97 crore. Closing balances totalled ₹1,925.47 crore.

Dhenkanal district recorded the highest utilisation at 75.62 *per cent*. Kamakhyanagar NAC achieved 91.46 *per cent* utilisation. Hindol NAC utilised 76.93 *per cent* of funds. Bhuban NAC recorded 62.41 *per cent* utilisation.

Ganjam district utilised 65.85 *per cent* of ₹1,530.74 crore received. Hinjilicut Municipality achieved 84.96 *per cent* utilisation. Chhatrapur NAC recorded 47.60 *per cent* utilisation. Thirteen other ULBs showed varying utilisation rates.

Bargarh district achieved 67.49 *per cent* overall utilisation. Bargarh Municipality spent ₹131.02 crore. Three NACs recorded utilisation ranging from 56.42 to 66.68 *per cent*.

Khordha district utilised 46.60 *per cent* of available funds. Bhubaneswar Municipal Corporation received ₹2,114.63 crore. BMC utilised 46.27 *per cent* of available funds. Balugaon NAC utilised 55.45 *per cent*. Banapur NAC utilised 52.91 *per cent*.

Nabarangpur district recorded 41.03 *per cent* utilisation. Nabarangpur Municipality utilised 33.63 *per cent* of ₹44.45 crore. Umerkote Municipality utilised 45.72 *per cent* of ₹70.21 crore.

Nabarangpur district recorded the lowest fund utilisation of 41.03 *per cent*. Notably, Nabarangpur Municipality utilised only 33.63 *per cent*, the lowest among all ULBs audited, despite availability of ₹44.45 crore.

Highest utilisation rates included Kamakhyanagar NAC (91.46 *per cent*), Hinjilicut Municipality (84.96 *per cent*), and Purushottampur NAC (78.13 *per cent*). Lowest utilisation rates included Nabarangpur Municipality (33.63 *per cent*), Umerkote Municipality (45.72 *per cent*), and Bhubaneswar Municipal Corporation (46.27 *per cent*). Substantial closing balances remained across districts. Khordha district retained ₹1,179.61 crore. Ganjam district retained ₹523.12 crore. Nabarangpur district retained ₹67.61 crore.

8.5.1 Deficiencies in issue and renewal of Trade Licenses

As per Section 102 of the Odisha Municipal Act, 1950 and Section 671 of Odisha Municipal Corporation Act, 2003, ULBs are empowered to conduct survey and inspection of any building, land, premises, which is necessary for the purpose of this Act. Section 290(1) and 616A (1) require trade licences for all business operations. Sections 290(5) and 617(9) mandate licence renewal applications 30 days before year-end.

Audit noticed that:

- Seventeen ULBs out of twenty-six test-checked did not conduct prescribed surveys. These surveys identify eligible traders for registration and licence issuance. JPI conducted during July 2023 and March 2024, revealed that 164 out of 235 business entities (70 *per cent*) in 10 ULBs were operating without any Trade licence, as detailed in the ***Appendix 8.1.***

Photograph No- 8.1

Shops without trade licence at NAC, Hindol

Photograph No- 8.2

Shops without trade licence at NAC, Bhuban

- Further, these 17 test checked ULBs had not followed up the renewal of the Trade licenses, issued earlier after lapse of the validity period of these licenses as observed from the Trade License Registers. During JPI, Audit noticed 40 business entities in five ULBs, were operating their business without renewing their license after lapse of their trade license, as detailed in ***Appendix-8.2***.

Photograph No- 8.3

Photograph No- 8.4

Shops with lapsed trade licence at Bargarh Municipality

- During 2020-23, 10 ULBs recorded 11,367 non-renewal cases. This resulted in uncollected revenue of ₹9.59 crore. The revenue loss has been determined based on the last licence fee paid by the respective business entities, as recorded in ULB registers. The ULB-wise details are provided in ***Appendix-8.3***.

In reply the ULBs stated (between July 2023 and March 2024) that steps would be taken to issue and renew trade licenses and recover the outstanding trade license fees. The replies are not tenable since no survey was conducted to issue Trade license to new eligible traders and renewal of existing licence.

Audit observed systematic non-compliance with statutory survey requirements. ULBs did not implement prescribed licence issuance and renewal procedures. This prevented collection of legitimate revenue sources during the review period.

No reply has been received from the Department (October 2025).

8.5.2 Short collection of stall / shop rents

Section 123 of the OMC Act 2003 makes ULBs responsible for recovering taxes and other dues. Sections 161 and 162 of the Odisha Municipal Act 1950 empower ULBs to recover arrears through sale of defaulters' movable property.

The test checked 22 ULBs, during 2020-23, across five districts recorded total rent demand of ₹4.47 crore. Collections reached ₹2.52 crore (56 *per cent*). Outstanding arrears totalled ₹1.95 crore (44 *per cent*). The overall collection against the demand varied among districts, with the highest in Dhenkanal district (66 *per cent*) and lowest in Khordha district (44 *per cent*), as detailed in ***Appendix-8.4***. Despite the availability of legal provisions for coercive recovery, under Section 161 and 162 of the Odisha Municipal Act, no action was taken by the ULBs to recover these dues.

In their replies (between July 2023 to March 2024), the ULBs stated that steps would be taken to collect the outstanding rent. However, ULBs did not utilise prescribed legal recovery mechanisms during the audit period.

No reply has been received from the Department (October 2025).

8.5.3 Deficiencies in collection of Property tax

Under Section 131 (1) of the Odisha Municipal Act, 1950 and Section 192 of the Odisha Municipal Corporation Act, 2003, the ULBs have been vested with the power to levy property tax on lands and buildings.

Further, as per Section 161(1) of the Odisha Municipal Act, 1950 and 259(a) of the Odisha Municipal Corporation Act 2003, if the sum due on account of any tax is not paid within 61 days from the date on which it became due, the concerned officer shall serve a notice to the person. If still, the dues are not collected, the ULBs are armed with Section 162 and Section 259(b) of respective Acts to levy by distress and sale of any movable property belonging to the defaulter. However, Audit noticed the following deficiencies in collection of Property tax.

8.5.3.1 Maintaining of database of Property tax

As per Para 2 of Odisha Municipal Accounting Rule, 2012 Management Information System (MIS) reports are necessary in the ULBs for measuring its activities and for providing information on accounting, financial & non-financial aspects in an integrated mode. The objective of development of MIS reports is to provide performance details and statistical data for decision making process of the ULBs.

Audit noticed that in seven[41] out of 26 test checked ULBs across five districts, no MIS data base was maintained with respect to property tax collection. Thus, the ULBs lacked critical information on number of holdings, plinth areas of the holdings, number of floors, types of properties, *etc*. In absence of such information, property tax assessments lacked prescribed information requirements.

In BMC, the MIS data base related to property tax was reviewed and the following deficiencies were noticed from analysis of 1.13 lakh records.

- Names of *Mouzas*[42] and plinth areas had not been mentioned in 1.09 lakh records.
- Names of Zones had not been mentioned in 71 records.
- Ward numbers had not been mentioned in nine records.

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[41] Aska, Bhuban, Digapahandi, Gopalpur, Hinjilikatu, Surada and Umerkote

[42] The lowest unit of area, for the purpose of public notification, for specifying a village.

- Property numbers and tax IDs lacked a standardised format and were recorded inconsistently.
- Number of floors had not been mentioned in any of the records.
- The types of property were also not mentioned in any of the records.

Thus, BMC's property tax database contained data that was inconsistent and incomplete. Moreover, although MIS reports contained information on demand, collection and balance, these were not monitored to review the cases where 48,148 demands had been raised but no corresponding collections had been made. No reply was furnished by BMC (October 2025).

8.5.3.2 Outstanding Property Tax

Audit observed that based on the incomplete database, 24[43] out of 26 test checked ULBs across five sampled districts raised demands for property tax amounting to ₹116.70 crore during the FYs 2020-23. Against this, ₹93.60 crore was collected, leaving a balance of ₹23.10 crore, as of March 2023, as detailed in ***Appendix-8.5.***

The overall collection of tax, in these test checked districts, was 80.21 *per cent* of the total demand, with the highest in Khordha district (90.17 *per cent*) and lowest in Dhenkanal district (33.72 *per cent*).

As required under, Section 161 and 162 of the Odisha Municipal Act, 1950 and 259 of the Odisha Municipal Corporation Act, 2003, the ULBs had neither issued any notice nor initiated penal action against the defaulters for non-payment of the property tax. Thus, outstanding property tax dues of ₹23.10 crore remained uncollected during the review period.

In reply the ULBs stated (between July 2023 to March 2024) that steps would be taken to collect the outstanding dues. However, ULBs did not utilise prescribed legal recovery mechanisms during the audit period.

No reply has been received from the Department (October 2025).

8.5.4 Short collection of User Fee

The H&UD Department mandated (July 2012) ULBs to collect user fee, as service providers, for collection of solid waste. As per Section 261(1) of the Odisha Municipal Corporation Act, 2003 and Section 345 of Odisha Municipal Act, 1950, if the sum due on account of any charges leviable under this Act was not paid, the Executive Officer may either prosecute such person or cause to be served on such person a notice of demand.

Audit noticed in 14 out of 26 test checked ULBs across the sampled districts, a total demand of ₹18.32 crore was raised during the FYs 2021-23. However, only ₹1.89 crore (10.31 *per cent*) was collected, leaving an outstanding balance of ₹16.43 crore as of March 2023, as detailed in ***Appendix-8.6.*** The overall collection of user fees in these test districts was 10.31 *per cent* of the total demand with the highest in Bargarh district (65.34 *per cent*) and lowest in Khordha districts (8.32 *per cent*). ULBs did not issue prescribed demand notices or initiate legal action for outstanding user fees.

[43] **Municipal Corporation**: Berhampur and Bhubaneswar, **Municipality**: Bargarh, Hinjilicut and Umarkote, **NAC**: Aska, Balugaon, Banapur, Barpali, Bellaguntha, Bhuban, hhatrapur, Chikiti, Digapahandi, Gopalpur, Hindol, Kamakhyanagar, Khallikote, Kodala, Padampur, Polasara, Purushottampur, Rambha and Surada.

In reply, the ULBs stated (between July 2023 to March 2024) that steps would be taken to collect the balance user fees. However, ULBs did not utilise prescribed legal collection mechanisms during the audit period.

No reply has been received from the Department (October 2025).

8.6 Service delivery on Public Health

As per Section 501 of the OMC Act, 2003, every Municipal Corporation in the State is required to build health management capacities to improve health service delivery to the poor. As per Section 352 of the OM Act, 1950, every Municipality is to establish and maintain dispensaries and hospitals, for the use of inhabitants.

Audit noticed that there were no hospitals under the control of any of the test-checked ULBs, except BMC.

BMC operates a hospital at Lingaraj Nagar functioning as an Urban Community Health Centre. The facility serves approximately 2.5 lakh residents in Bhubaneswar's old town area. Annual patient inflow exceeded two lakh during the last five years. Daily outdoor patient cases averaged 600-700. Monthly child deliveries ranged from 50-60 cases. The 108-bed hospital operated with 56 functional beds. Eighteen doctors were appointed on Foreign Service[44] basis. Further, as per Indian Public Health Standards, there should be 25 doctors for a 100 bedded Community Health Centre (CHC), whereas there were 18 doctors in this CHC.

Photograph No- 8.5

BMC Hospital

The Hospital was yet to get a delivery point (DP)/ First Referral Unit[45] status from the Director, National Health Mission, Odisha, despite fulfilling the major requirements for a First Referral Unit (FRU), *viz*. specialists, operation theatre, labour room, staff nurses, blood bank, *etc*. Although BMC provided essential health services to a large urban population, the hospital operated below its full capacity due to the absence of FRU status. As a result, around 2.5 lakh urban residents continued to remain deprived of specialised maternal and emergency healthcare services envisaged under the FRU framework. No reply was furnished by BMC (September 2024).

No reply has been received from the Department (October 2025).

[44] As per the Rule 16 of the Odisha Service Code, 'Foreign Service' means service in which a government servant receives his pay with the sanction of the Government, from any source other than the Consolidated Fund of India or of a State.

[45] A 'First Referral Unit' is is a Community Health Centre which is equipped with clinical facilities for providing emergency care 24*7 hours

8.7 Conclusion

ULBs demonstrated systematic non-compliance with prescribed revenue collection procedures. Property tax databases were not maintained according to requirements. Surveys for identifying potential trade licence holders were not conducted. Existing trade licence renewals were not pursued. Outstanding fees and revenues remained uncollected despite available legal recovery mechanisms. These compliance gaps prevented collection of legitimate revenue sources during the review period. Only BMC maintained a hospital facility as required under municipal legislation. Other test-checked ULBs had not established healthcare facilities as mandated by Sections 501 and 352 of relevant municipal Acts.

8.8 Recommendations

Based on the audit findings, it is recommended to:

- *Establish comprehensive property tax databases complying with Management Information System requirements. Include essential property details such as mouza names, zones, ward numbers, property types, and floor information.*
- *Conduct mandatory surveys to identify eligible traders as required under Section 102. Implement systematic trade licence renewal procedures within prescribed timeframes.*
- *Utilise legal recovery mechanisms under Sections 161, 162, and 259 for outstanding revenues.*
- *Establish healthcare facilities as mandated under Sections 501 and 352 of municipal legislation. Ensure compliance with Indian Public Health Standards for staffing and infrastructure requirements.*