

PART - B

CHAPTER – IV

ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

4.1 Introduction:

74th Constitutional amendment has accorded new status to ULBs that fundamentally altered the existing pattern of governance in the Indian federal structure. It has conferred constitutional status to ULBs and recognized them as the third tier of Government at the local level. The basic thrust of these amendments were to endow the local bodies with adequate powers, functions, resources and responsibilities so as to make them viable and vibrant local self institutions. In its wake, the amendments paved the way for a smooth transition to fiscal decentralization at the grass root level.

4.1.1 Constitutional background:

The 74th Constitutional Amendment envisaged a three tier system of Urban Local Bodies (ULBs) in the state which were as under:

- A Municipal Corporation for a larger urban area
- A Municipal Board for a smaller urban area
- A Town Committee for transitional area

4.1.2 Brief profile and population covered

The number of ULBs at each level as on 31st March 2008 are given below which covered 12.72 per cent of the total population of the State as per the 2001 census. The total area covered by the ULBs is 685.07 square kilometer which is 0.87 per cent of total area of the state (78.438 sq km).

Category of ULBs	Number of ULBs	Average population covered (as per census 2001)
Municipal Corporation	1	808021
Municipal Boards	28	1314070
Town Committees	44	594792

Source : Finance Commission Report of Government of Assam

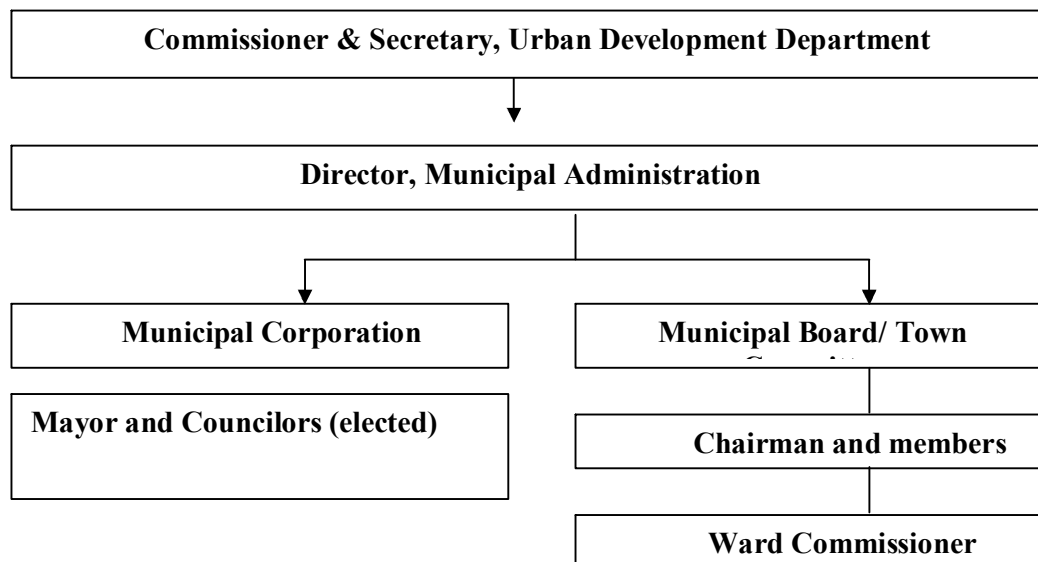
4.1.3 Classification of Towns:

The towns were classified into different categories based on the population size. Towns with population of 1,00,000 and above are class-I towns, 50,000 to 99,999 are class-II towns, 20,000 to 49,999 are class-III towns; 10,000 to 19,999 are class-IV towns and less than 5,000 are class-V towns. In the State there are 4 nos of class-I towns, 8 nos of class-II towns, 20 nos of class-III towns, 12 nos of class-IV towns and 2 nos of class-V towns.

4.1.4 Administrative Arrangement:

The overall administration of ULBs vests with the Commissioner & Secretary, Urban Development Department (UDD) at Government level.

The Organizational structure of the department is given below:



4.1.5 Accounting Arrangement:

Budget & accounts formats prescribed by the Task Force constituted by the CAG of India inter-alia suggested adoption of accrual based accounting by ULBs. This system was yet to be made applicable in the ULBs.

Government of India (GOI) forwarded (September 2004) section 93 to 96 of Model Municipal Law (MML) along with CAG's suggestions thereon for adoption by the State government. However, no action so far (May 2009) has been taken by the State Government despite repeated request made from audit.

4.1.6 Database on finances of ULBs

The 2nd State Finance Commission (SFC), beyond the fiscal package, recommended the need for building up data base in respect of Municipal finances. This recommendation was accepted by the State Government. The data base needs to be collected and compiled in standard formats as prescribed by the CAG of India. Even after regular correspondences and request from the audit the final action for development of database was awaited (May 2009).

4.2 Audit Arrangement

Assam Municipal Act, 1969 and Act governing Municipal Corporation envisaged that the accounts of ULBs shall be examined by an auditor appointed by the State Government. The Director Local Fund Audit (DLFA) is the statutory auditor under the provision of local fund (Accounts and audit) Act 1930. But no amendment in ULBs Act empowering DLFA as statutory auditor was brought in by the State Government so far. The DLFA is requested to work under TGS of the CAG as recommended by the EFC. But neither ULB act were amended accordingly nor any response was given by the UDD even after regular correspondence (May 2009).

The Principal Accountant General (PAG) audits the ULBs under Section 20(I) of the CAG's (DPC) Act 1971.

4.3 State Finance Commission (SFC):

The 1st SFC recommended devolution of 2 per cent of state taxes and duties supplemented by nominal grants in-aid to Urban Local Bodies for the quinquennium 1996-2001. The second SFC had raised the quantum of devolution to 3-5 per cent of the net proceeds of state taxes and duties supplemented by compensating grants-in-aid to ULBs during the five years period 2001-06. The recommendation of the first and second SFC though accepted by the State Government had remained largely unimplemented. The third SFC has been constituted on 22nd February 2006 but is yet to submit its report covering the period 2006-2011. The details of report are yet to be intimated.

4.4 Non-constitution of State Legislature Committee (SLC)

EFC recommended that the report of CAG relating to the audit of accounts of ULBs were to be placed before SLC constituted on the same line as PAC. In spite of repeated request by the PAG (Audit) Assam the Committee is yet to be constituted.

Budgetary and planning control:

4.5 Annual Action Plan:

The Municipalities were required to prepare Annual Action Plan (AAP), which were to be consolidated at the district level by the District Planning Committee (DPC) into a draft development plan for the district as a whole. The main purpose of preparing such plans was to avoid plurality in planning in various developmental issues. No such action plans were prepared in any of the test checked Municipalities. In the absence of local planning, the district plan did not also emerge. Preparation of Action Plans by Municipalities and their consolidation along with the plans of the PRIs is crucial to ensure incorporations of local needs and wants in the development process.

The absence of such planning also compromised on the element of popular participation and need for the plans to reflect peoples' wants.

4.5.1 Budgeting and Accounting:

As per section 43(A) of Assam Municipal Act, 1956 the budget of the Municipalities are required to be approved by the Director of Municipal Administration, Assam within 31st March of preceding year. However, it was revealed that budgets were not drawn based on AAP in the test checked Municipalities; thereby the purpose of expenditure control remained largely unattended.

4.5.2 Non-creation of Internal Audit System

An internal audit system was to be implemented to ensure the accountability of ULBs. However, test check of records of Sonari Municipal Board and Silapather Town Committee revealed that no such arrangement has been made so far.

4.5.3 Source of Revenue:

There were two sources of revenue for the local bodies (1) Government Grants and (2) Own Revenue. Own Revenue resources of ULBs comprised of tax and non-tax revenue realized by them. Property Tax is the major source of revenue. Government Grant comprised funds released by Central and State Government based on recommendations of SFC, EFC, TFC and GOI's shares for various central sector schemes. Besides loans were being obtained by them from financial institutions for implementation of various schemes relating to Urban Development, Water Supply and Roads etc.

4.5.4 Receipt and Expenditure:

Funds (share of tax revenue of the state, scheme fund and grants etc) allocated to ULBs by the State Government through budget including GOI's share of the schemes and grants recommended by the EFC and TFC was as under:

Information collected from Detailed Appropriation Account

(Rupees in crore)

2005-2006				
Name of scheme	Grant No & MH	Budget Provision	Expenditure	Excess(+) Saving (-)
Guwahati Drainage & Sewerage services	31/2215	0.10 (Plan) 14.07 (Non Plan)	0.00039 9.68	(-) 0.10 (-) 4.39
i) Integrated Dev of Small & Medium Town	31/2217	24.51 (Plan) 5.56 (Non-Plan)	13.18 18.33	(-) 11.33 (+)12.77
ii) Assistance to Local Bodies Corporation; Urban Dev Authority; Town Improvement Board				
iii) National Slum Area Development Project (NSDP)				
iv) Urban Wage Employment				
Grand total		44.25	41.19	
<i>Note: The figures of budget & expenditure as shown above are comparison of Voted, TA + NTA)</i>				
2006-2007				
Guwahati Drainage & Sewerage services	31/2215	0.06 (Plan) 12.99 (Non-plan)	- 9.77	(-) 0.06 (-) 3.22
Integrated Dev of Small & Medium Town	31/2217	93.16 (Plan) 6.40 (Non-Plan)	9.39 5.74	(-) 83.77 (-) 0.66
ii) Assistance to Local Bodies Corporation; Urban Dev Authority; Town Improvement Board				
iii) Nehru Rojgar Yojana				
iv) Night shelter for Urban shelter-less				
v) National Slum Area Development Project (NSDP)				
vi) IHSDP under NURM				
Grand total		112.61	24.91	

<i>Note: The figures of budget & expenditure as shown above are comparison of Voted, TA + NTA)</i>				
2007-08				
Guwahati Drainage & Sewerage services Drainage Master Plan for other Town of State	31/2215	0.86 (NP) 6.78 (Plan)	0.60 -	(-) 0.26 (-) 6.78
Integrated Dev of Small & Medium Town ii) Integrated Housing & Slum Dev Schemes Programme under NURM iii) JNNURM iv) Urban infrastructure Dev Schemes for Small & Medium Town v) National Information system vi) Integrated Housing & Slum Dev Schemes Programme under JNNURM vii) IHSDP under NURM viii) UIDSMT under NURM ix) Night shelter for Urban Shelter-less	31/2217	59.35 (Plan) 6.67 (Non-Plan)	34.70 5.36	(-) 24.65 (-) 1.31
Grand total		73.66	40.66	
<i>Note: The figures of budget & expenditure as shown above are comparison of Voted, TA + NTA)</i>				

The department did not furnish reasons for major savings under the Grant No. 31. The spending departments are required to surrender the unspent portion of Grants/Appropriations as and when saving is anticipated to the Finance Department. However savings were not surrendered. Failure of these Departments to surrender such huge savings revealed improper monitoring of expenditure against budget provision and poor budgetary management.

As per article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularized by the State Legislature. However, excess expenditure amounting to Rs. 12.76 crore under NSDP programme for the year 2005-06 was yet to be regularized.

4.5.5 Non-furnishing of Utilization Certificate (UC) of EFC grant

Test check of records made available by the Finance Department revealed that an amount of Rs.10.77 crore was received from GOI as EFC grant during the year 2002-05. While drawal of Rs.10.77 crore were made by the Director of Municipal Administration, Assam, no records relating to utilization of EFC grant was made available to audit. Therefore, proper utilization as envisaged in the guideline could not be ascertained by audit in the absence of UC and expenditure vouchers.

The matter was referred to the Urban Development Department (UDD), Government of Assam but reply is awaited.

4.6 Position of outstanding loans (HUDCO)

The position of outstanding loans by all ULBs was not available with the Directorate of UDD of Assam. Test check of records of Sonari Municipal Board revealed that against the outstanding loans of Rs.33.71 lakh as on November 2008 from Housing and Urban Development Corporation Ltd (HUDCO) Assam, the entire amount of Rs.33.71 lakh was overdue for repayment (November 2008)

4.7 Transfer of function, functionaries and funds to ULBs

With a view to operationalising the directives principles of state policy, the 74th Constitutional Amendment Act accords a constitutional status to ULBs and transferred 18 (eighteen) subjects. The present status of the subjects to be transferred to ULBs in the light of 74th Amendment is given in the following table:

Sl No	Subject	Present status
1	Urban planning including town planning	Not transferred with Urban Development Department
2	Regulation of land use and construction of buildings	Regulatory powers with the Revenue Department, permission for building construction given by ULBs
3	Planning of economic and social development	Not transferred
4	Roads & Bridges	Main roads and major bridges under State PWD
5	Water supply form domestic, industrial and commercial purpose	8 schemes transferred
6	Public health, sanitation, conservancy & soil waste management	Public health with the State Government, sanitation, conservancy and solid waste management with Municipalities
7	Fire Service	Not transferred
8	Urban forestry, protection of	Not transferred

	environment and promotion of ecological aspects	
9	Safeguarding the interest of weaker sections of the society, including the handicapped and mentally retarded	Not transferred
10	Slum improvement and up-gradation	National Slum Development Programme implemented by ULBs
11	Urban poverty alleviation programme	ULBs implementing under the guidance and supervision of District Urban Development Agencies headed by the Deputy Commissioner.
12	Provision of urban amenities and facilities such as parks, gardens, playgrounds, community halls/centres	Some ULBs maintaining park, gardens and playgrounds
13	Promotion of cultural, educational and aesthetic aspects	Not transferred
14	Burials and burial grounds, cremation grounds and electronic crematoriums	Maintained by ULBs
15	Cattle pounds, prevention of cruelty on animals	Maintained by ULBs, leased out to private parties
16	Vital statistics including registration of birth and deaths	With the Health & Family Welfare Department
17	Public amenities including street lighting, parking lots, bus stops and public conveniences	Maintained by ULBs
18	Regulation of slaughter houses and tanneries	Maintained by ULBs

Out of 18 (eighteen) subjects devolved to ULBs as per the 74th Amendments of Constitution of India, 8 subjects alone were transferred. However, State Government had not transferred the functionaries required to carry out these functions.

An official notification regarding transfer of subjects in Schedule 12 of the Constitution is to be issued by the UDDA to complete the formal procedure of such transfer. But this is not done so far.

4.8 Non- constitution of decentralization cell

A decentralization cell is required to be constituted at district level to effectively review the progress of transfer of functions along with functionaries and funds. The decentralization cell was not constituted at any district level so far. This shows that the concerned departments were irregularly enjoying the administrative and financial power of ULBs regarding the implementation of devolved functions.

4.9 Release and utilization of TFC grant

According to Para 6.1 and 6.4 of the Government of India (GOI) guideline, States/UTs have to mandatorily transfer the grants released by the Central Government to the ULBs within 15 days of the date of its credit to the State Government Account. In case of delayed transferred of grants to ULBs beyond the specified period of fifteen days, the State Government was required to pay interest to ULBs at the rate equal to RBI rates.

The details of TFC grants released by the GOI and the State Government were shown below:

(Rupees in lakh)

Installments	Year	Date of receipt by the State Govt	Date of released by State Govt	Amount	Number of Days delayed in release of grant	Interest payable for delayed transfer of fund.
1st	2005-06	28-12-05	19-4-07	550.00	457	36.56
2nd	-do-	29-8-07	5-2-09	550.00	418	33.44
1st	2006-07	-do-	-do-	550.00	418	33.44
Total						103.44

Based on information and certificate received from the State Government, it was noticed by audit that there was delay ranging from 418 to 457 days in crediting the funds to ULB's account. However, interest amounting to Rs.103.44 lakh had not been reimbursed by the State Government for delayed transfer of TFC grant.

4.10 Overall financial position of ULBs

For depiction of the overall financial position, physical progress of programmes/schemes etc, formats of data base on finances and formats for preparation/maintenance of budgets and accounts were prescribed by the CAG of India. The ULBs were yet to compile data in the prescribed formats, in the absence of which overall financial position could not be ascertained by audit.

4.11 Reconciliation of Accounts

Financial Rules require Departmental Controlling Officers to reconcile periodically the departmental figures of expenditures with those booked by the Accountant General (A&E). In case of ULBs the position regarding reconciliation was not available in the Directorate of Urban Development Department (March 2009).

4.12 Non-recovery of advances from individuals

Temporary advances were paid to staff/officials/contractors/suppliers for petty payments. The accounts of the same should be closed as soon as possible and unutilized cash balances should be refunded/recovered. Test check of records of Sonari MB revealed that Rs.3.56 lakh was outstanding under SJSRY against 3 (three) contractors since November 2003 and in the case of Moriani TC, Rs.5.14 lakh was outstanding against M/S Bajaj Tempo Ltd/ LP Automotive Corporation, Guwahati since May 2005 for procurement of Cess Pool Cleaner under EFC grants.

Lack of effective action to recover/adjust the old outstanding advances may lead to loss of Government money with the passage of time and ULBs are losing interest on blocked money.

4.13 Response to Audit Observations

The Chairman/Mayor was required to comply with the observations contained in Inspection Reports within 90 (ninty) days from the date of issue of IRs and rectify the defects and report their compliance to audit. The details of Irs and the paras outstanding therein as on 31st December 2008 are given below:

year	Number of Irs developed	Number of outstanding Paras	Money value
2004-07	79	1072	206.02
2007-08	2	27	0.78
Total	81	1099	206.80

(Rupees in crore)

The number of outstanding Audit Paragraph with ULBs included in the Irs was 1099 as of December 2008. These were pending due to non-receipt of suitable reply from the auditee units.

4.14 Audit Coverage

Out of 73 ULBs, audit of accounts of 2 ULBs covering the accounts up to 2000-08 was conducted during January 2008 to December 2008. Important findings of audit are described in succeeding chapters.