

CHAPTER I

INTRODUCTION

1.1 Background

Article 243W of the Constitution of India envisages that the State Government may, by law, endow the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to (i) the preparation of plans for economic development and social justice and (ii) the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule.

All municipalities (120) of West Bengal are governed according to the provisions of the West Bengal Municipal Act, 1993. Six municipal corporations are governed according to the provisions of the respective Acts legislated separately. Except these six municipal corporations, all other municipalities were classified into five groups on the basis of the population as ascertained in the preceding census for the purpose of application of the provision of the Act. Each municipality is divided into a number of wards, which is determined and notified by the State Government having regard to the population, dwelling pattern, geographical condition and economic consideration of the respective area. The minimum number of wards is nine and the maximum number is kept between 15 and 141 depending on the size of the Urban Local Body (ULB). An elected Councillor represents each ward.

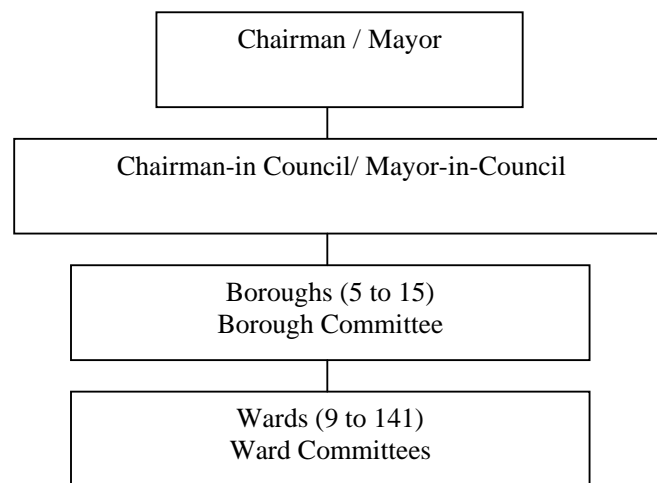
In 2001 the urban population in West Bengal was 2.25 crore spread over 2060 sq.km. with a density of 10915 per sq.km as against the total population of

8.02 crore. During 1991 to 2001, the urban population increased by 20.20 per cent which indicates a declining trend over the previous decade (29.49 per cent).

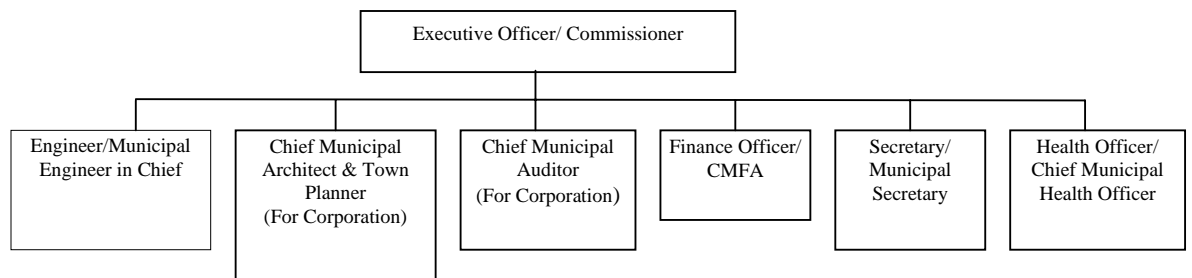
1.2 Organizational Structure

The Chairman/ Mayor, elected by the majority of the Board of Councillors (BOC), is the executive head of the Urban Local Body and presides over the meetings of the Chairman-in-Council/ Mayor-in-Council responsible for governance of the body. The executive power of a ULB is exercised by the Council. The Chairman presides over the Board of Councillors. The Chairman-in-Council/ Mayor-in-Council enjoys such power as is delegated by the Board.

Every Urban Local Body having a population of three lakh or more groups the wards into five (up to 15 in respect of municipal corporation) boroughs. Boroughs are constituted with not less than six contiguous wards and a Borough Committee is also constituted for each Borough. The Councillors of the respective wards are the members of such Borough Committee and elect the Chairman (not being a member of Chairman-in-Council/ Mayor-in-Council) from among themselves. The Borough Committee discharges such functions, as the Urban Local Body requires it to discharge. At ward level, the Urban Local Body constitutes Ward Committee under the Chairmanship of the Ward Councillor. The organizational structure of the governing body of an Urban Local Body is as under:



Under the administrative control of the Board of Councillors, the Urban Local Body creates its establishment structure headed by an Executive Officer/Commissioner. Other officers are also appointed to discharge specific functions of respective area/ nature. Subject to the supervision and control of the Chairman/Mayor, the Executive Officer/ Commissioner functions as the principal executive of the Urban Local Body. The Executive Officer/ Commissioner and the Finance Officer exercise such powers and perform such functions as notified by the State Government from time to time. The organograph of an Urban Local Body is as below:



1.3 Powers and Functions

To function as an institution of self government and to carry out the responsibilities conferred upon them, the ULBs exercise their powers and functions in accordance with the provisions of Article 243W of the Constitution. Some obligatory functions of the ULBs are as follows:-

- Water supply for public and private purpose;
- Construction and maintenance of sewage and drainage system;
- Collection and disposal of solid waste;
- Construction and maintenance of streets, bridges, fly-overs etc.;
- Construction and maintenance of public latrines, urinals and similar conveniences;
- Lighting of public streets and other public places;
- Construction and maintenance of markets;
- Preventing and checking spread of dangerous diseases including immunization;

- Town planning and development including preservation of monuments, places of historical, artistic and other importance;
- Overall administration including survey, removal of encroachment, dangerous buildings, registration of births and deaths and pollution control of all kinds.

Further, the ULBs may at their discretion provide the services either wholly or partially out of its property and fund for the following services:

- Education;
- Sanitation;
- Relief in the time of famine, flood or earthquake;
- Old-age-homes, orphanage;
- Public works relating to relief, care of sick, medical service;
- Low-cost dwelling houses for socially backward classes or citizens.

The State Government may impose or transfer any such functions and duties of the Government to the Urban Local Body including those performed by the departments. Such activities may include employment schemes and programmes, social forestry, health and family welfare, cottage and small-scale industries, formal and non-formal education etc.

1.4 Devolution

Except for 'urban poverty alleviation', all the remaining seventeen functions referred to in the Twelfth Schedule to the Constitution of India have already been incorporated in West Bengal Municipal Laws. Kolkata Municipal Corporation and Howrah Municipal Corporation have their own functionary infrastructure to look after the devolved functions. The remaining ULBs do not have adequate functionaries to look after their day to day works. The works involving technical know-how are executed through Municipal Engineering Directorate under the administrative control of Municipal Affair Department.

The State Government releases both plan and non plan funds to the ULBs for implementation of State and Central schemes and also to undertake developmental works in the respective areas. The pay and allowances of the

employees including relief on pension are also partially borne by the State Government.

The Second State Finance Commission constituted in pursuance of Article 243I(4) and 243Y(2) of the Constitution of India in July 2000 recommended 16 *per cent* of State taxes as entitlement grant for Local Self Government. It further recommended a minimum amount of Rs.700 crore for devolution to Local Self Government as untied grant. The State Government in its explanatory memorandum to the Action Taken on the recommendations decided (July 2005) to allocate the maximum amount possible as against the recommendation of 16 per cent share of taxes. As against the devolution of a minimum of Rs.700 crore, the State has provided Rs.350 crore in the budget of 2005-06 for Local Self Government. The actual release to the ULBs during 2005-06 towards the Second State Finance Commission grant was Rs.71.58 crore which amounts to 0.7 *per cent* of the States Taxes.

1.5 Creation of Data Base on finances

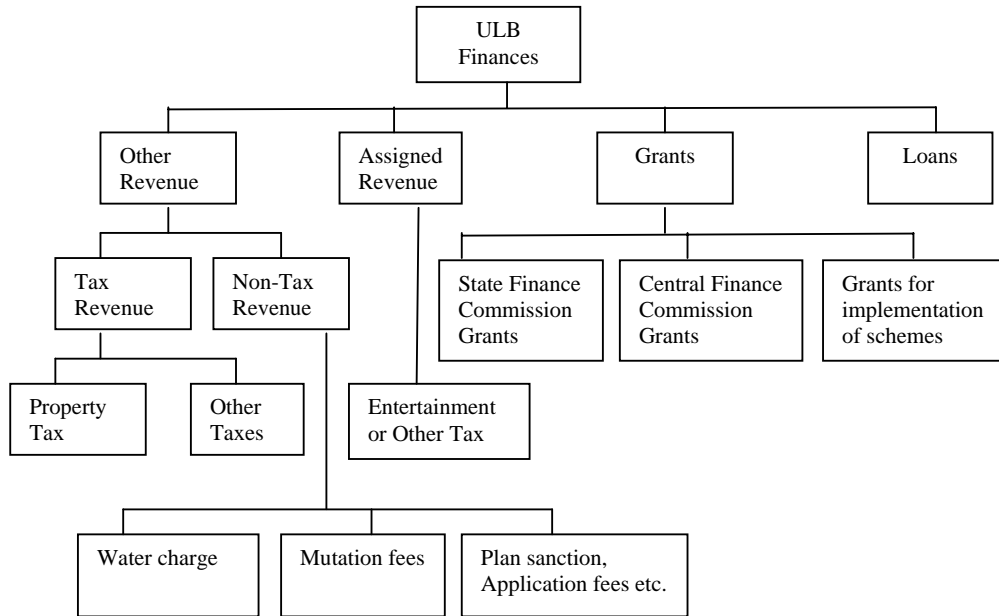
For strengthening accountability and transparency in the ULBs, the Eleventh Finance Commission (EFC), recommended maintenance of database on finances of municipalities in the formats prescribed by the Comptroller and Auditor General of India.

On the basis of the recommendations of the EFC, Rs.195.49 crore was obtained from the Central Government and allotted to ULBs till 2004-05. The ULBs had utilised Rs.157.99 crore for construction of roads, toilets, drains, bathing places, vats, community centres and provisions for drinking water, etc. Allotment and utilisation of EFC grants for maintenance of accounts and data base of local bodies was not made available to audit.

1.6 Financial Profile

The Urban Local Body fund comprises receipts from its own source, grants and assistance from governments and loans obtained from any public financial institutions or nationalized banks or such other institutions as the State Government may approve. A flow chart of finances of a ULB is as under:

Sources of finances of ULB



The property tax on land and building is the principal source of tax revenue of an Urban Local Body.

The main sources of non-tax revenue of an Urban Local Body are plan sanction fees, mutation fees and water charge.

All collections as permissible under the statute in force, such as tax and non-tax revenue are meant for maintenance of administration and services to the tax payers.

The State Government releases administrative grants to the urban local bodies to compensate their revenue expenditure.

The loans raised from different sources with prior approval of the State Government are utilised for execution of various projects/schemes.

Grants and assistance released by the State Government and the Central Government are utilised for developmental activities as specified in the respective schemes or projects.

During the financial year 2002-03, 2003-04 and 2004-05 the own source revenues of 126 ULBs through collection of tax and non-tax revenue was Rs.554.41 crore, Rs.702.38 crore and Rs.686.27 crore respectively. The

dependency on Government grant during 2002-05 ranged between 54 *per cent* and 49 *per cent*. During the year 2004-05 only 28 *per cent* of total demand of property tax had been realised. Moreover, a considerable amount of property tax remained under assessed / unassessed.

1.7 Utilisation of Twelfth Finance Commission Grants

The Twelfth Finance Commission (TFC) has earmarked Rs.393.00 crore for the ULBs of West Bengal for the period 2005-2010 with the recommendation to provide at least 50 *per cent* of the grants-in-aid for solid waste management. According to the recommendation, it is mandatory for the State Government to transfer the grants released by the Government of India to the ULBs within fifteen days of the amount being credited to the State Accounts. The Comptroller and Auditor General of India (CAG) would audit the releases and utilisation of local bodies' grants and the Government of India may withhold grants on the basis of the report of CAG.

Government of India released the first and the second instalment of grants of Rs.39.30 crore each for 2005-06 to the State Government on 24 October 2005 and 4 May 2006 respectively. The State Government released the first instalment amounting to Rs.39.30 crore to ULBs after a delay of more than one month. However, the State Government paid (May 2006) Rs.23.06 lakh to the ULBs towards interest for the delay in release of grants. Fifty *per cent* of the grants were earmarked for solid waste management. The State Government, however, allocated only Rs.28.95 crore for 2005-06 with a shortfall of Rs.10.35 crore in respect of allocation for solid waste management.

The first instalment of Rs.39.30 crore for 2006-07 released to the ULBs in December 2006 has not fully been credited to the respective Local Bodies Fund. The total fund released to the ULBs stood at Rs.118.13 crore. The second instalment for the financial year 2006-07 has not been released (March 2007).

Test check of records of 17 municipalities revealed that these municipalities had incurred an expenditure of Rs.2.27 crore on solid waste management and Rs.4.40 crore on development works as of March 2007 as against the total fund of Rs.13.63 crore (Appendix 1). It was noticed that

Arambag Municipality diverted Rs.4.50 lakh from the fund earmarked for solid waste management to other works.

1.8 Accounting Reforms / Arrangements

In view of the recommendation of Eleventh Finance Commission, Ministry of Finance, Government of India entrusted the responsibility for prescribing appropriate accounting formats for the Urban Local Bodies to the Comptroller and Auditor General of India.

Accrual based system of accounting recommended by the Comptroller and Auditor General of India was accepted by the West Bengal Government. A Steering Committee was formed (January 2004) to coordinate the implementation of the accrual based system of accounting. In the first phase, forty ULBs were selected for implementation of accrual based accounting system. As of February 2007, preparation of balance sheets as on 1 April 2004 has been completed for forty ULBs. Out of these ULBs, chartered accountant firms have certified opening balance sheets of thirty three ULBs. By adopting dummy entry procedure, 18 ULBs have prepared balance sheets as on 1 April 2005. However, none of the balance sheets certified have so far been forwarded to the Examiner of Local Accounts (ELA) for audit.

The Accounting Manual for ULBs, West Bengal (excluding municipal corporations) has been prepared in February 2006 based on the National Municipal Accounts Manual. Accordingly, the West Bengal Municipal Act, 1993 has been amended with effect from 1 October 2006.

1.9 Non maintenance of records

The prescribed basic records viz. Demand and Collection Register, Work Register, Stock Register, Appropriation Register, Investment Register, Loan Register, Un-paid Bill Register, Self Cheque Register, Deposit Ledger, Asset Register, Advance Ledger and Provident Fund Ledger Abstract were not being maintained by most of the ULBs.

Due to non maintenance of basic records the financial status of ULBs could not be ascertained in Audit.

1.10 Audit Arrangement

The recommendations of the Eleventh Finance Commission stipulate that the Comptroller and Auditor General shall be responsible for exercising control and supervision over proper maintenance of the accounts of ULBs and their audit.

The West Bengal Municipal Act, 1993 and the Acts governing other Municipal Corporations envisage that the accounts of a body shall be examined and audited by an auditor appointed by the State Government. Accordingly the State Government in exercise of the power conferred by the Acts, appointed the Examiner of Local Accounts (ELA), West Bengal as the Auditor for audit of the accounts of the Urban Local Bodies. The Acts further envisage that the Auditor shall prepare the report on the accounts examined and shall send such report to the Chairman/ Mayor and a copy thereof to the Director of Local Bodies or such other officers as the State Government may direct.

1.11 Audit Coverage

Out of 126 ULBs, audit of accounts of 69 ULBs (Appendix 2) covering the financial year upto 2002-03, 2003-04, 2004-05 and 2005-06 was conducted during September 2005 to September 2006.

1.12 Response to Audit Observations

The Chairman/ Mayor are required to comply with the observations contained in the Inspection Reports (IRs) and rectify the defects and omissions and report their compliance through proper channel to ELA within three months from the date of issue of IRs.

The details of IRs and the paragraphs outstanding as of December 2006 are given below:

Audit Report on ULBs for the year ending 31 March 2006

| Year of issue | No. of Inspection Reports | No. of outstanding paras | Money Value (Rupees in crore) |
|----------------------|----------------------------------|---------------------------------|--------------------------------------|
| Upto 2001 | 31 | 68 | 53.57 |
| 2001-02 | 23 | 72 | 32.48 |
| 2002-03 | 57 | 228 | 161.56 |
| 2003-04 | 121 | 360 | 167.21 |
| 2004-05 | 27 | 161 | 80.24 |
| 2005-06 | 54 | 471 | 334.10 |
| 2006-07 | 17 | 260 | 210.40 |
| Total | | | 1039.56 |

A review of the IRs, which were pending due to non-receipt of replies, revealed that the Heads of the offices, whose records were inspected by ELA, did not send any reply to a large number of IRs/ paragraphs. The Principal Secretaries/ Secretaries of the Departments, who were informed of the position through half yearly reports, also failed to ensure that the concerned officers of the ULBs take prompt and timely action. Although a Departmental Audit Committee was formed, it met only twice in the year 2005-06. Important findings of audit are described in the succeeding chapters.