

PART – I URBAN LOCAL BODIES

CHAPTER – I

The Structure and Finances of the Urban Local Bodies

1.1 Introduction

1.1.1 Constitutional back ground

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 Council for a smaller urban area and.
- A Nagar Panchayat for a transitional area.

The ULBs Acts were modified in accordance with the 74th Constitutional Amendment. The last election for the ULBs was held during the year 2005-06.

1.1.2 Brief profile and population covered

The number of ULBs at each level as on 31 March 2007 are given below which covered 1.52 crore urban population. The urban population covers 25 per cent of the total population (6.03 crore) of the State as per 2001 census.

Category of ULBs	Number of local bodies	Average population covered (as per 2001 census)
Municipal Corporations	14	70,71,237
Municipal Councils	87	47,17,360
Nagar Panchayats	237	34,05,240
Total	338	1,51,93,837

1.1.3 Classification of ULBs

The Municipal Councils were classified into different grades based on the annual income as follows:-

Category of ULBs	Grade	Annual income	Number
Municipal Corporations	Not prescribed	--	--
Municipal Councils	AA	Above Rs. 20 lakh	5
	A ¹	Above Rs. 5 lakh but below Rs. 20 lakh	50
	B	Rs. 1 lakh and above but below Rs. 5 lakh	17
	C	Below Rs. 1 lakh	15
Nagar (Town) Panchayats	Not prescribed	--	--
			87

¹ A, B & C = Ka, Kha & Ga alphabet of Hindi language

1.2 Administrative arrangements

The over all administration of ULBs vests with the Principal Secretary to Government of Madhya Pradesh, Urban Administrative and Development Department (UADD) at Government level. The organizational structure of the Department is given in **Appendix - I**.

1.3 Accounting arrangements

1.3.1 After adopting budget and accounts format prescribed by the Task Force constituted by Comptroller and Auditor General of India (CAG) which inter alia suggested adoption of accrual based accounting by ULBs, the UADD published Madhya Pradesh Municipal Accounts Manual (MPMAM) in July 2007. However, as per orders of the UADD (July 2007) the accrual system of accounting was to be made applicable with effect from April 2008 in 14 Municipal Corporations only. The above system was yet to be made applicable in remaining ULBs.

1.3.2 Government of India (GOI) forwarded (September 2004) extracts of section 93 to 96 of Model Municipal Law (MML) along with CAG's suggestions thereon for adoption by State Government. However, no action has so far (June 2008) been taken by State Government despite repeated requests from audit.

1.3.3 As per the decisions taken in the National Seminar organised in September 2003 by the Ministry of Urban Development, a Steering Committee was to be formed in all the States to see the implementation of budget and accounting formats as suggested by the CAG's Task Force. Even after regular correspondence, the committee was not formed so far (October 2008).

1.3.4 Database on finances of ULBs

The IInd State Finance Commission (SFC) (Beyond the Fiscal Package) recommended (December 2003) the need for building up database in respect of municipal finances. This recommendation was accepted by the State Government (March 2005). The database need to be collected, compiled and maintained in standard formats as prescribed by the CAG. UADD agreed (June 2004) in principle to adopt the formats of database as prescribed by CAG but the final action for development of database was awaited (October 2008).

1.4 Audit arrangements

1.4.1 The Commissioner, Local Fund Audit (CLFA) was the statutory auditor for the audit of accounts of ULBs. Till June 2008 the Resident Audit Scheme has been made applicable in 50 ULBs including all MCs as envisaged in Chapter-VII of Local Fund Audit Manual 1981. Audit fees were being charged at prescribed rates by the CLFA. The Government of Madhya Pradesh, Finance Department (FD) decided (November 2001) that the CLFA shall work under the Technical Guidance and Supervision (TGS) of the CAG as recommended by Eleventh Finance Commission (EFC). But neither ULB

Acts were amended accordingly nor any response was given after regular correspondence (October 2008). Some other important points of audit arrangements are given below:-

1.4.2 Approval of PAG on audit plans not obtained by CLFA

The CLFA was required to prepare the audit plan in consultation with the Principal Accountant General (PAG), as a part of the TGS arrangement. However, in spite of request to the Government (April 2007 and February 2008), the audit plans of CLFA were never got approved by the PAG.

1.4.3 Non constitution of State Legislature Committee

Finance Department (FD) informed (December 2001) that the XIth Finance Commission recommended that the report of CAG relating to audit of accounts of ULBs was to be placed before Committee of the State legislature constituted on the same lines as Public Accounts Committee. In spite of request to Government by Principal Accountant General (up to October 2008) and reminder (October 2008) the Committee was yet to be constituted (October 2008).

1.4.4 Non creation of Internal Audit System

According to para 7.2 of the recommendations submitted (July 1996) by the Ist SFC and decision of the FD an Internal Audit System was to be implemented to ensure the accountability of ULBs. Such provision was also mentioned in para 2.2.1 of MPMAM for creation of internal audit department. However in test-checked MCs (Bhopal, Jabalpur and Rewa) no arrangement was made (April 2008) for internal audit.

1.5 Source of revenue

There were mainly two sources of revenue for local bodies (i) Government grants (ii) own revenues. Own revenue resources of ULBs comprise of tax and non-tax revenues realised by them. Property Tax is the major source of tax revenue. Government grants comprise of funds released by the State Government and Government of India (GOI) based on the recommendation of SFC, Eleventh & Twelfth Finance Commission (EFC & TFC) and GOI's share for various central sector schemes. Besides loans being obtained by them for implementation of various schemes relating to urban development, water supply, roads, etc.

1.6 Receipts and expenditure

1.6.1 Funds (Share of tax revenue of the state, schemes funds and grants etc.) allocated to ULBs by the State Government through budget including GOI's share of the schemes² and grants recommended by EFC & TFC were as under:-

² Schemes like: Sawran Jaynti Shari Rojgar Yojana (SJSRY), Jawaharlal Nehru National Urban Renewal Mission (JNNURM), National Urban Information System (NUIS), Integrated Slum Area Development Programme (ISADP) and Mid-day-Meal (MDM) etc.

(Rs. in crore)

Sl. No.	Year	Head of Accounts Grant Nos.	Items of Budget provisions and expenditure	Total Grant ³ (Budget Provisions)	Actual Expenditure*	Excess (+)/ Saving (-)
1.	2004-05	22,53,81,83 and 94 (Complete grant) Financial Assistance to Urban Bodies (ULBs)	State Government and GOI's Share of schemes, grants and own tax revenue (Assigned revenue) etc collected by the State Government.	1020.30	933.41	(-) 86.89
2.	2005-06	22,53,81,83 and 94 (Complete grant) Financial Assistance to Urban Bodies (ULBs)	--do--	1266.87	1177.57	(-) 89.30
3.	2006-07	22,53,68 and 81 (Complete grant) Financial Assistance to Urban Bodies (ULBs)	--do--	1891.90	1643.38	(-) 248.52

* 2004-05 Actual Expenditure: Rs. 933.41 crore (Revenue: Rs. 879.98 and Capital Rs. 53.43 crore)

2005-06 Actual Expenditure: Rs. 1177.57 crore (Revenue: Rs. 1158.12 and Capital Rs. 19.45 crore)

2006-07 Actual Expenditure: Rs. 1643.38 crore (Revenue: Rs. 1614.57 and Capital Rs. 28.81 crore)

The above figures indicate that the budget provisions increased by 46 per cent in ULBs sectors during the year 2006-07 as compared to the year 2004-05. Details of receipts of ULBs from their own sources and loans and expenditure thereagainst was not available with Directorate UADD. The Commissioner, (UADD) stated (April 2008) that the same would be collected and furnished to audit. The position of State & Central grant, own revenue realized and classification of expenditure into capital and revenue heads of the test checked ULBs (Bhopal, Jabalpur and Rewa) has been mentioned in the **Appendix –II**.

1.6.2 State Finance Commission (SFC)

FD accepted (March 2005) the recommendation of IInd SFC for devolution of 1.07 per cent of 90 per cent⁴ of state own tax revenue to ULBs. Accordingly grants released to ULBs through state budget during 2004-05 to 2006-07 were as given below:-

(Rs. in crore)

Year	Head of Accounts	Amount of own tax revenue of the state		Amount of share of own tax revenue to be allocated as per prescribed percentage (i.e. 1.07%)	Amount of share of own tax revenue (SFC grants) released to ULBs	Short fall (with percentage)
		Total ⁵	Net (After deduction of 10%)			
1	2	3	4	5	6	7
2004-05	81-3604-5866 - Financial Assistance to LB (Lump sum grant to ULBs for basic services under recommendations of SFC).	7773	6995.70	74.85	62.32	12.53 (17)
2005-06	--do--	9115	8203.50	87.77	83.14	4.63 (5)
2006-07	--do--	10473	9425.70	100.85	87.77	13.08 (13)

Reasons for shortfall were called for. FD replied (October 2008) that the required information would be furnished soon.

³ The figures of budget provisions and actual expenditure were worked out on the basis of the Appropriation Accounts of State Government.

⁴ 90 per cent after deducting 10 per cent collection charges of tax revenues.

⁵ Figures of own tax revenue taken out from the CAG's Audit Report (Civil) for the year ended 31 March 2007.

These funds were meant to cover the works relating to basic services, development of slum areas and mid-day-meals programme etc. Some important observations made during test-check are given below:-

1.6.3 Non submission of utilisation certificates (UCs)

Directorate UADD circular (December 2004) stipulates that grants should not be released before obtaining UCs of previous years. Audit scrutiny (April 2008) of records relating to the release of SFC funds by the Directorate UADD Bhopal revealed that funds were released during the year 2004-07 without obtaining UCs of previous years from ULBs. On being pointed out, the Commissioner UADD stated (April 2008) that the orders are being issued again for submission of UCs regularly as per conditions of financial sanctions. During test-check of records (May-June 2008) of MC Jabalpur and Rewa, it was noticed that UCs for SFC grants (Jabalpur: Rs. 6.09 crore, Rewa: Rs. 7.95 crore) released during 2004-05 to 2006-07 were not sent to the Directorate. ULBs stated (May 2008) that UCs could not be sent due to rush of work.

1.6.4 SFC grants lying unutilised

Scrutiny of records revealed that out of SFC grant drawn, a sum of Rs. 3.51 crore (pertaining to the year 2005-06 and 2006-07) was retained by the Directorate UADD Bhopal under the sub component of Gandi Basti and lying unutilised (April 2008). The Commissioner UADD stated (April 2008) that funds were to be released only after receipt of proposals from ULBs and assured that funds will be utilised in current financial year.

1.6.5 Non-reconciliation of EFC grants

Scrutiny of information made available (April 2008) by the Directorate UADD revealed that as per UC submitted to GOI a sum of Rs. 127.40 crore was received from GOI as EFC grants during the years 2000-05. While the drawal of Rs. 123.26 crore only was made by the Directorate, the UC was sent to GOI for whole amount of Rs. 127.40 crore. The difference of Rs. 4.14 crore needs to be reconciled. The matter was referred (July 2008) to the FD and UADD.

1.7 Position of outstanding loans

The position of outstanding loans taken by all ULBs was not available with the Directorate UADD. Scrutiny (April-May 2008) of records in MC Bhopal and Jabalpur revealed that against the outstanding loans of Rs. 42.14⁶ crore as on 31 March 2007 from Housing and Urban Development Corporation LTD Bhopal (HUDCO), no amount was over due for repayment.

1.8 Position of outstanding audit paragraphs

The number of outstanding audit paragraphs of ULBs included in the Inspection Reports (IRs) of the CLFA were 1,19,401 as of March 2008 Details as shown in **Appendix - III** and 3062 paragraphs of AGs Technical Inspection Reports which also require pursuance by CLFA.

⁶ Rs. 34.59 crore and Rs. 7.55 crore in Municipal Corporation Bhopal and Jabalpur respectively.

1.9 Conclusion

Database in the formats prescribed by CAG on finances of ULBs were not yet developed. Maintenance of accounts on budget and accounts format, prescribed by the CAG, was not started in all ULBs. The provisions of MML along with suggestion of CAG on section 93 to 96 of MML were not incorporated in the concerned Acts. The information regarding receipts and expenditure of all ULBs was not being maintained by the Directorate UADD. Approval of PAG on audit plan was not obtained by the CLFA. The Steering Committee and State Legislature Committee were not formed. ULB Acts were not amended as per TGS module of CAG.

1.10 Recommendations

- Database in the formats may be developed expeditiously.
- The provisions of MML should be incorporated in the Act of Municipal Corporations and Municipalities.
- Arrangements for maintenance of information at state level of receipts and expenditure of all ULBs should be made for easy analysis of ULB data.
- Procedure prescribed by the CAG for consultation and approval of PAG on audit plans of CLFA should be followed.
- Necessary amendment in ULB Acts to empower the CAG should be made.
- Arrangements for speedy settlement of outstanding audit objection of Local Fund Audit Department should be made and the pendency should be reduced in a phased manner.