

## Chapter-I

### An overview of Urban Local Bodies

#### 1.1 Introduction

**1.1.1** The State of Uttar Pradesh implemented the system of democratic governance up to grass root level in Urban Local Bodies (ULBs) through UP Municipal Corporation Act 1959 and UP Nagar Palika Act, 1916. The objective of implementation of these Acts was to make the ULBs self reliant, and to provide better civic facilities to their residents against taxes, fees, fines etc. collected from the tax payers. Further, the 74<sup>th</sup> Constitutional Amendment paved the way for decentralization of powers, transfer and devolution of more functions and funds to the urban local bodies. Consequently, more diversified responsibilities were devolved upon the three tier structure; Nagar Nigams<sup>1</sup> (NNs), Nagar Palika Parishads<sup>2</sup> (NPPs) and Nagar Panchyats<sup>3</sup> (NPs). To incorporate the provisions of the 74<sup>th</sup> Constitutional Amendment, the legislature of Uttar Pradesh enacted the Uttar Pradesh Urban Local Self Government Laws (Amendment) Act, 1994.

The Nagar Nigams are governed by UP Municipal Corporation Act, 1959 whereas both the Nagar Palika Parishads and Nagar Panchayats are governed by UP Nagar Palika Act, 1916.

#### 1.1.2 Population profile

The population profile of Urban Local bodies (ULBs) of the State as on 31 March 2007 was as under:-

Sl. No	Types of ULBs	Number of ULBs	Area (Sq.Km)	Average area/ULB (Sq Km.)	Population (as per census 2001)	Average population of ULBs	Density of population
1	NNs	12	1426.56	118.88	13149882	1095823.50	9217.90
2	NPPs	194	1980.76	10.21	13398815	69066.06	6764.48
3	NPs	421	1700.42	4.04	6053844	14379.68	3560.21
Total		627	5107.74	133.13	32602541	1179269.24	19542.59

The ULBs are governed by the elected board of its members. The tenure of the elected Board is normally five years. The last election to 627 ULBs was held in the year 2006.

<sup>1</sup> Represents the ULBs, having the population of more than five lakh.

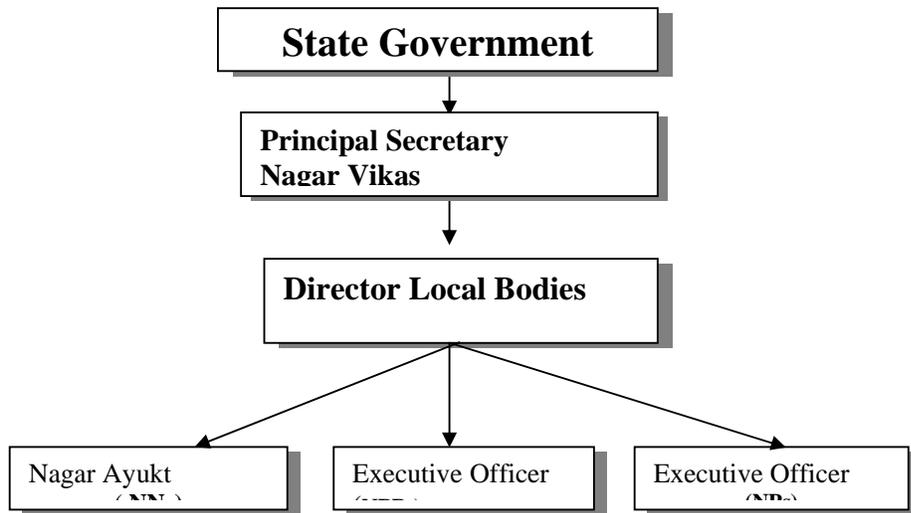
<sup>2</sup> Represents the ULBs, having the population between 20 thousand and five lakh.

<sup>3</sup> Represents the ULBs having the population below 20 thousand.

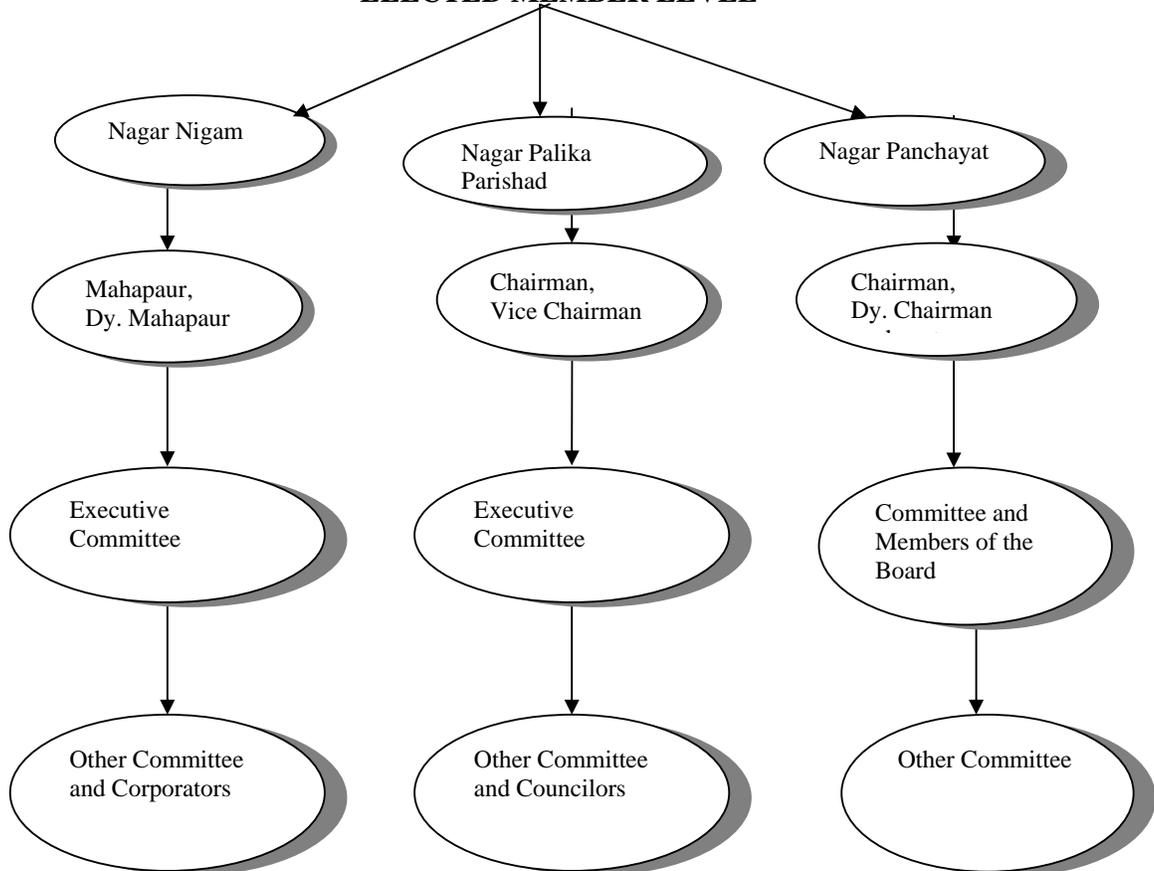
**1.2 Organizational set-up**

**ADMINISTRATIVE ORGANISATION OF URBAN LOCAL BODIES**

**EXECUTIVE LEVEL**



**ELECTED MEMBER LEVEL**



While a Mahapaur heads the Nagar Nigam, a Chairman heads both Nagar Palika Parishads and Nagar Panchayats. The elected representatives exercise their

powers and discharge the duties through the committees of elected members. Nagar Ayukt in case of Nagar Nigam and Executive Officers in case of Nagar Palika Parishads and Nagar Panchayats are the administrative heads.

### **1.3 Database on finances**

The Eleventh Finance Commission (11<sup>th</sup> FC) recommended that a networked database on the finances of the ULBs should be developed at the district, state and central government level and be easily accessible by computerizing it and linking it through V-SAT<sup>4</sup>. The data were to be collected and compiled in standard formats prescribed by the C&AG of India. This would have facilitated comparison of performance of local bodies among the states at the GOI level and the Government at the state level. The maintenance of the database was felt necessary by the 12<sup>th</sup> FC also to keep accurate information on the finances of the ULBs for need based assessment of their requirements. Database was, however, not developed as of May 2008. As a result, allocation of funds to the ULBs was not being made on a rational basis. Thus, release of grants to the ULBs without reviewing their actual needs and fiscal performance was not transparent.

### **1.4 Sources of revenue**

For execution of various developmental works, the Government of India and State Government provide funds in the form of grants. The funds of ULBs are availed from the following sources:-

- Grants assigned under the recommendations of the Eleventh Finance Commission (**11<sup>th</sup> FC**) for the period 2000-05 and Twelfth Finance Commission (**12<sup>th</sup> FC**) for the period 2005-10.
- Devolution of 7.5 *per cent* of net proceeds of total tax revenue of the State Government under the recommendations of the Second State Finance Commission (**2<sup>nd</sup> SFC**).
- Funds remitted by the respective departments for functions transferred to the ULBs.

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<sup>4</sup> Very Small Aperture Terminal

- Revenue earned by the ULBs out of their own resources i.e. taxes, rent, fees, issue of licenses, tehbazari<sup>5</sup>, taxi stands etc.

**1.4.1** The aggregate receipts of grants by the ULBs under the recommendation of Eleventh Finance Commission (11<sup>th</sup> FC)/ Twelfth Finance Commission (12<sup>th</sup> FC), State Finance Commission (SFC) and revenue realized from their own resources during 2003-06 were as under:-

(Rs in crore)

SI No	Year	11 <sup>th</sup> FC/ 12 <sup>th</sup> FC	SFC	Own resources	Total
1	2003-04	45.58	825.00	360.07	1230.65
2	2004-05	22.79	877.00	412.33	1312.12
3	2005-06	51.70	911.25	475.98	1438.93
<b>Total</b>		120.07	2613.25	1248.38	3981.70

Position of utilization of grants against the allocations under 11<sup>th</sup> FC, 12<sup>th</sup> FC, SFC and revenue realized from their own resources of the ULBs are discussed in the succeeding paragraphs.

#### 1.4.1.1 11<sup>th</sup> /12<sup>th</sup> FC Grant

As per information furnished by Director, Local Bodies, Lucknow, position of funds available and expenditure against 11<sup>th</sup> FC/ 12<sup>th</sup> FC grants during 2003-06 were as under:-

(Rs.in crore)

Year	Name of the grant	Funds Available	Expenditure	Balance
2003-04	11 <sup>th</sup> FC	45.58	45.58	--
2004-05	11 <sup>th</sup> FC	22.79	22.79	--
2005-06	12 <sup>th</sup> FC	51.70	51.70	--

The information made available by the Director Local Bodies regarding the utilization of the 11<sup>th</sup> and 12<sup>th</sup> FC grants was not reliable as there was no data base on finances at the district and state level to support it. The transfer of funds to the ULBs was treated as final expenditure in the accounts of the Director Local Bodies instead of treating it as advance and adjusting in accounts only

<sup>5</sup> Tax on trades and callings carried on within the municipal limits.

after getting the expenditure statements from the ULBs. Further, test check in two NNs<sup>6</sup>, 12 NPPs<sup>7</sup> and 14 NPs<sup>8</sup> revealed that grants amounting to Rs. 7.59 crore out of Rs. 7.71 crore released during 2005-06 remained unutilized (March 2007) although it was treated fully utilized in the records of the Director Local bodies.

Thus, despite low pace of utilization of the grants at the grass root level, the Director Local Bodies misreported the position of financial performance of the ULBs to the Government.

#### 1.4.1.2 State Finance Commission Grant

Similarly, the Director Local Bodies had shown the grants released to ULBs during 2003-06 under the recommendations of SFC as fully utilized in their books as details in the following table;-

(Rs in crore)

Year	Funds available	Expenditure	Balance
2003-04	825.00	825.00	-----
2004-05	877.00	877.00	-----
2005-06	911.25	911.25	-----

However, the Directorate had no feedback of the actual expenditure from the ULBs. Thus, the expenditure of the ULBs shown in the accounts of the Director Local Bodies was unrealistic in the absence of any supporting data from them. It was corroborated by the fact that no separate account of SFC grant was maintained in any of the test checked ULBs.

#### 1.4.1.3 Revenue realized from own resources

The State Government fixes the target for ULBs revenue realization from their own sources for each year. The position of revenue realized by the NNs, NPPs and NPs from their own resources during 2003-06 against the target fixed by the State Government were as under:

<sup>6</sup> Gorakhpur and Gaziabad.

<sup>7</sup> Bilaspur, Pihani, Mainpuri, Thaharpur, Mungra Badshahpur, Marhara, Modaha, Pukhrayan, Rudauli, Mahmudabad, Suar, Konch

<sup>8</sup> Jyanpur, Patiyali, Dibiyapur, Mahrajanj, Kursath, Fafund, Bhargain, Bilariyaganj, Kchouna Pur, Atraulia, Hariya, Awagarh, Nidhauri Kalan, Gohan

(Rs. in crore)

Sl. No.	Name of ULBs	Number of ULBs	2003-04		2004-05		2005-06	
			Target	Achievement	Target	Achievement	Target	Achievement
1	NNs	12	263.37	219.02	318.87	272.52	261.52	299.88
2	NPPs	194	125.22	108.36	147.73	116.83	158.92	132.10
3	NPs	421	43.93	32.69	52.28	22.98	19.81	44.00
Total (per cent)		627	432.52	360.07 (83.25)	518.88	412.33 (79.46)	440.25	475.98 (108.11)

The revenue realized by the NNs, NPPs and NPs from their own resources during 2003-06 ranged between 79.46 per cent and 108.11 per cent against the target fixed by the State Government. However, an analytical review of revenue realization by these ULBs indicated that the position of revenue collection in NPPs improved significantly during 2005-06 over the previous year and having more than two fold increase, steeply went up to Rs44.crore against the target of Rs19.81 crore.

#### **1.5 Allocation and utilization of 11<sup>th</sup> FC, 12<sup>th</sup> FC and SFC grants**

The Central Finance Commission is appointed by the President of India for allocation of resources between the GOI and the state governments. The local bodies were brought within the purview of the 11<sup>th</sup> FC grants to augment the consolidated fund of the states to enable them to supplement the resources of the local bodies. Similar terms of reference were also made for the 12<sup>th</sup> FC. Accordingly the 11<sup>th</sup> and 12<sup>th</sup> FC made recommendations to the GOI for release of grants to the state governments for the ULBs. The State Government released 11<sup>th</sup> FC and 12<sup>th</sup> FC grants to the ULBs after their receipt from the GOI through Director, Local Bodies. Similarly, the State Government also released the SFC grant to the ULBs. The Director, Local Bodies allocated these grants among the NNs, NPPs and NPs on the basis of population, percentage of Scheduled Caste/ Scheduled Tribe, socially backwards in total population and revenue earned from their own resources.

**1.5.1** As per recommendation of 11<sup>th</sup> FC, the GOI released Rs 203.52 crore<sup>9</sup> to the State Government during 2000-05 for development work e.g. road, water supply and sanitation etc. The grant included Rs 49.41 lakh allocated for creation of database on finances in Local Bodies. However, the State Government spent the entire amount on purpose other than creation of database. Thus, the objective of creation of the database was not fulfilled.

### **1.5.2 Devolution of SFC grant**

As per recommendations of the 2<sup>nd</sup> SFC, 7.50 *per cent* of the net proceeds of the tax revenue are to be devolved to the ULBs. The devolution of the funds and actual funds released by the State Government during 2003-06 were as under:-

**(Rs in crore)**

<b>Year</b>	<b>Net proceeds of tax revenue of State Government</b>	<b>Funds required to be devolved</b>	<b>Actual funds released by the State Government</b>	<b>Short release of funds</b>
2003-04	13601	1020	825	195
2004-05	15693	1177	877	300
2005-06	18858	1414	911	503
<b>Total</b>	<b>48152</b>	<b>3611</b>	<b>2613</b>	<b>998</b>

The table indicates that non-devolution of funds as per norms prescribed by 2<sup>nd</sup> SFC, resulted in short release of Rs 998 crore to the ULBs during 2003-06.

### **1.6 Financial position of the ULBs**

The 12<sup>th</sup> FC observed that the quality of data at the grass root level of ULBs was poor and as a result, accurate information on the finances of the ULBs was missing at the State level. The 12<sup>th</sup> FC also stressed the need to introducing a proper accounting system for ensuring credible data to facilitate realistic assessment of the needs of the ULBs. Despite these recommendations of the 12<sup>th</sup> FC, there was no system in place at the Directorate as well as at the ULBs level to provide accurate information on finances of the ULBs. It was mainly due to non creation of database on finances and absence of networking of the Directorate with the ULBs.

<sup>9</sup> 2000-01:Rs 44.54 crore, 2001-02:Rs 45.03 crore, 2002-03:Rs45.58 crore, 2003-04 Rs 45.58crore and 2004-05 Rs 22.79 crore

Financial position of the test checked NNs, NPPs and NPs during 2003--06 is detailed in the following table:-

(Rs. in crore)

Name of Unit	Number of Units	Opening Balance	Received	Total	Expenditure	Closing Balance
<b>Year 2003-04 (Appendix 1, 2 and 3)</b>						
NNs	5	43.27	223.33	266.60	227.96	38.64
NPPs	19	12.23	39.71	51.94	36.32	15.62
NPs	27	2.65	8.85	11.50	8.37	3.13
Total (Per cent)	61	58.15	271.89	330.04	272.65	57.39 (17 per cent)
<b>Year 2004-05 (Appendix 4, 5 and 6)</b>						
NNs	7	65.63	321.21	386.84	323.07	63.77
NPPs	23	22.76	63.67	86.43	62.05	24.38
NPs	37	3.79	16.71	20.50	14.26	6.24
Total (Per cent)	67	92.18	401.59	493.77	399.38	94.39 (19 per cent)
<b>Year 2005-06 (Appendix 7, 8 and 9)</b>						
NNs	7	63.77	416.82	480.59	351.90	128.69
NPPs	23	24.38	82.56	106.94	77.47	29.47
NPs	37	6.24	21.68	27.92	20.90	7.02
Total (Per cent)	67	94.39	521.06	615.45	450.27	165.18 (27 per cent)

**Source:** Inspection report of the audited units.

The table revealed that expenditure did not keep pace with the release of grants during 2003-06. Although the unspent balances increased from 17 per cent to 27 per cent during the period, the Director, Local Bodies continued to exhibit the full utilization of grants released to the ULBs, as brought out in paragraph 1.4.1.1 and 1.4.1.2 above. The unspent balances of grants were indicative of poor planning for utilization of funds towards the intended objectives in a time bound manner.

### **1.7 Budgeting and Budgetary Process**

#### **Excess expenditure over budget**

Financial Rules provide that the expenditure should be limited to the budget provisions.

The NN, Agra incurred an excess expenditure of Rs 12.98 crore during 2004-06 over the budget provision under certain heads (*Appendix 10*) without making necessary provisions and also did not regularize the same during subsequent years.

Expenditure in excess of budget provisions indicated weaknesses of the budgetary control.

### **1.8 Accounting arrangements**

**1.8.1** The Government should nominate an officer to ensure transparent accounting and financial reporting and preparation of an annual consolidated report at State level. In ULBs, the Accounts Officers were responsible for maintaining the accounts of NNs whereas the Accountants and Accounts clerks were responsible for maintaining the accounts of NPPs and NPs respectively. As the State Government had not considered nominating an authorized officer for the purpose, neither the accounts were being compiled at State level nor was any consolidated report being submitted to the State Government and Assembly. Moreover, most of the ULBs were maintaining their accounts on cash basis and preparing only receipts and payment accounts. In the absence of Balance sheet on accounts, true and fair assessment of their financial viability could not be ascertained.

### **1.8.2 Adoption of account formats prescribed by C&AG**

On recommendation of 11<sup>th</sup> FC, the C&AG of India prescribed the Budget and Accounting formats on accrual basis for ULBs. These formats were circulated by Ministry of Urban Development (June 2003) to the State Government for their acceptance and implementation in all the three tiers of ULBs. Acceptance of the formats by the State Government was awaited (May 2008). This contributed to the poor accounting and financial reporting by ULBs. Moreover, non-adoption of the standard formats in preparation of the accounts led to a situation under which assessment of the position of assets and liabilities of the ULBs was not possible.

### **1.8.3 Non reconciliation of cash balances**

The balances as per treasury/ bank pass book and cash book should be reconciled at the end of each month to ensure accuracy of accounts.

In two NNs, two NPPs and 26 NPs test checked, the balances of treasury/bank pass books were not reconciled with the cash book. As a result, difference of Rs 4.24 crore between the cash book and treasury/ bank pass book (*Appendix II*) remained un-reconciled as of 31 March 2006. In the absence of reconciliation of cash balances, authenticity of the accounts of these Local

Bodies could not be verified in audit. Moreover, incidence of fraud/ embezzlement/ misappropriation of fund could also not be ruled out.

#### **1.8.4 Amount drawn not shown in Cash Book**

**1.8.4.1** In Nagar Nigam Kanpur, a sum of Rs. 81380 paid to the contractor vide cheque No. 424634 dated 29-03-2005 from Allahabad Bank (Account No. 3447), was not entered in the Cash Book as of May 2006. This reflected weaknesses in the internal control system of the NN.

**1.8.4.2** In Nagar Panchayat Daurala, Meerut (NP), Cash Book was not closed after May 2005. Rs 44710 and Rs 28111 received in February 2004 and March 2005 respectively as 11<sup>th</sup> FC grant and Rs 1,25,000 received in March 2006 as 12<sup>th</sup> FC grant were not recorded in the Cash Book as of September 2006. The NP replied (September 2006) that necessary corrections shall be made in cash book. Information to this effect was awaited (May 2008).

**1.8.4.3** In Nagar Panchayat Bilram (Etah), there was a closing balance of Rs 613514 at the end of March 2004. However, Rs 644192 were shown as opening balance in April 2004 for the year 2004-05. Difference of Rs 30678 was not reconciled as of May 2006. In the absence of account details of expenditure, possibilities of embezzlement and misuse of fund could not be ruled out. This calls for investigation by the concerned authorities.

#### **1.9 Audit arrangement**

Uttar Pradesh Municipal Corporation Act, 1959 provides appointment of Mukhya Nagar Lekha Parikshak as Auditor who would have access to all the accounts and to all the records of first tier (Nagar Nigams). Second and third tiers (Nagar Palika Parishads and Nagar Panchayats) have no such provisions in the Uttar Pradesh Nagar Palika Act, 1916. However, Director Local Fund Audit (DLFA) conducts audit of these bodies as primary auditor under provisions of Uttar Pradesh Local Fund Audit Act, 1984. The DLFA is assisted by one joint Director, five Deputy Directors, 46 Assistant Directors, and 65 District Audit Officers.

The 11<sup>th</sup> FC recommended that the C&AG of India shall be responsible for exercising control and supervision over the proper maintenance of the accounts and their audit for all three tiers/levels of ULBs. Accordingly, the State Government has entrusted the work of exercising control and supervision over

the proper maintenance of accounts of ULBs and their audit to the C&AG under Section 20(1) of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

**1.10 Primary audit arrears**

Being primary auditor, DLFA is required to audit all the units of ULBs in the State. The arrears of primary audit of ULBs during the period 2004-07 ranged between 3.37 per cent and 9.15 per cent as per the following details:-

Year	Number of units to be audited	Number of units actually audited	Units in arrear	Arrear in per cent
2004-05	623	602	21	3.37
2005-06	623	596	27	4.33
2006-07	623	566	57	9.15

**Source:** Information furnished by Director Local Fund Audit

DLFA stated (September 2007) that the arrears were due to shortage of manpower in his organization.

**1.11 Outstanding paragraphs of DLFA**

As per information collected (September 2007) from DLFA, position of outstanding paragraphs at the end of 2006-07 was as under

Name of units	Number of paragraphs up to 2006-07	Number of paragraphs settled during 2006-07	Number of paragraphs outstanding at end of the year
NNs	21556	151	21405
NPPs	141893	5216	136677
NPs	131300	8487	122813
Total	294749	13854 (In per cent 4.70)	280895

It is evident from the table that only 4.70 per cent of the audit paragraphs could be settled during 2006-07. The DLFA stated (September 2007) that remaining paragraphs could not be settled due to reluctance of the ULBs in submission of the compliance reports on audit paragraphs. This indicated that ULBs were not responsive to their responsibilities for primary audit.

**1.12 Annual Audit Report of the DLFA**

Under section 8(3) of Uttar Pradesh Local Fund Audit Act, 1984, the DLFA was required to prepare a consolidated audit report on the accounts of ULBs audited

by him and send it to the Government for placing it before the Legislative Assembly. As per information collected (May 2008) from DLFA, the last such annual audit report was prepared for the year 2003-04. The report up to the year 2001-02 was submitted before the Legislative Assembly. On being pointed out as to why the annual audit reports of the subsequent years were not prepared, the DLFA did not make any reply.

### **1.13 Position of entrustment of audit / TGS to C&AG**

The 11<sup>th</sup> FC had recommended exercising of Technical Guidance and Supervision (TGS) over the proper maintenance of Accounts of ULBs and their audit by the C&AG of India. Consequently, the State Government has entrusted the audit of local bodies to C&AG in October 2001 under section 20(1) of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

### **1.14 Audit coverage**

Test audit of the accounts of seven NNs (*Appendix 12*), 23 NPPs (*Appendix 13*) and 37 NPs (*Appendix 14*) for the year 2005-06 was conducted during 2006-07. The important findings are discussed in the succeeding paragraphs and chapters.

### **1.15 Utilization of Twelfth Finance Commission Grants**

The Twelfth Finance Commission (12<sup>th</sup> FC) had earmarked Rs 517.00 crore for the ULBs of Uttar Pradesh 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 GOI to the ULBs within 15 days of its receipt and simultaneously ensure that grants are credited to their bank accounts. Position of grants released by the Government of India to the State Government and from State Government to ULBs is as under:-

(Rs in crore)

Year	Amount of grants received from Central Government	Date of receipt of the grants from Central Government	Total allocation of grant by the Govt. to ULBs	Amount of grant released to ULBs by the Government	Date of release of grants by the State Government
2005-06	51.70 (1 <sup>st</sup> installment)	28-11-2005	51.70	51.70	27-1-2006
	51.70 (2 <sup>nd</sup> installment)	02-03-2006	51.70	51.70	16-9-2006
2006-07	51.70 (1 <sup>st</sup> Installment)	13-9-2006	51.70	51.70	27-10-2006
	51.70 (2 <sup>nd</sup> installment)	18-5-2007	51.65	51.65	28-5-2007

**Source:** Information furnished by Urban Development Department, Government of Uttar Pradesh.

During test check (2006-07) of 18 ULBs, it was noticed that crediting the 1<sup>st</sup> and 2<sup>nd</sup> installment of 12<sup>th</sup> FC grant (2005-06) to the treasury/ bank account was delayed up to 109 days and 148 days respectively (**Appendix 15 and 16**). The State Government paid Rs.26.35 lakh as interest on the delayed transfer of the 1<sup>st</sup> installment of 12<sup>th</sup> FC grant (2005-06). However, no interest was paid for the delay in transfer of 2<sup>nd</sup> installment.

In three NNs, eight NPPs and 12 NPs test checked (2006-07), grants/ funds amounting to Rs 6.34 crore, out of Rs 7.71 crore were provided for the year 2005-06 on the recommendations of 12<sup>th</sup> FC remained unutilized (**Appendix 17**). Non-utilization of about 82 *per cent* of the 12<sup>th</sup> FC grant indicated the reluctance of the ULBs towards the objectives of providing civic amenities e.g. roads, sanitation, water supply etc. to the population of their area.

### **1.16 Recommendations of Second State Finance Commission**

The 2<sup>nd</sup> SFC was constituted in February 2000 for the period 2001-2006. Recommendations of the 2<sup>nd</sup> SFC, comprising 245 paragraphs in five parts, on Panchayati Raj and Urban Local Bodies was tabled (June 2002) before the Governor for approval. Details of the paragraphs are as under:-

Number of parts	Particulars	Number of paragraphs
1	General	11
2	Panchayati Raj Institutions	93
3	Urban Local Bodies	107
4	District Planning Committees and State Finance Commission Cell	5
5	Principles of transformation and share of Local Bodies	29

**Source:** Finance Department, Government of Uttar Pradesh

The Government had fully accepted 74 out of 107 paragraphs of the 2<sup>nd</sup> SFC recommendations relating to ULBs which relate mainly to transfer of fixed shares of the net proceeds of the State to ULBs, formation of functional District Planning Committees and imposing of development tax and advertisement tax to NPPs and NPs as in NNs, to improve their resources through license fee etc. and to implement e-governance and computerization in ULBs. The Government had in principle/ partly accepted 12 paragraphs relating mainly to preparation of bye-laws on the basis of area and financial position, imposition and realization of full cost pricing of service tax, creation of special purpose institution for capital requirement of the ULBs etc. and remaining 21 paragraphs of the recommendations mainly on imposing of profession tax, vacant land tax and transferring half of the share of income to ULBs by way of converting Nazul land into free hold land etc were not accepted.

#### **1.17 Arrears in tax collection**

ULBs earn revenue out of their own resources through taxes, rent, fees, issue of licenses, tehbazari, taxi stand etc.

In six NNs, six NPPs and 10 NPs demand for Rs 41.90 crore including arrears of Rs 16.64 crore was raised for 2005-06. Out of this, a sum of Rs 19.51 crore only was recovered. A sum of Rs 22.39 crore was outstanding against the tenants, licenses and contractors on accounts of rents, license fees etc. for more than one year as detailed in *Appendix 18, 19 and 20*. As the age wise breakup of the unrecovered dues was not maintained by the test checked ULBs, the periodicity of the dues pending for recovery could not be assessed in audit

### **1.18 Internal control**

The main objectives of a sound internal control system in an organization are :

- ❖ Promoting orderly, economical, efficient and effective operations and delivery quality products and services consistent with the organization's missions;
- ❖ Safeguarding resources against loss due to waste, abuse, mismanagement, errors, fraud and irregularities;
- ❖ Adhering to laws, regulations, and management directives; and
- ❖ Developing and maintaining reliable financial and management data and fairly disclosing that data in timely reports.

Test check of accounts of ULBs for the year 2006-07, revealed that 890 paragraphs on poor financial management and financial irregularities resulting in excess payment, unfruitful expenditure, irregular expenditure and avoidable liabilities etc were communicated through the Audit Inspection Reports of the Senior Deputy Accountant General (Local Bodies) Uttar Pradesh Allahabad. However, the compliance of these paragraphs was extremely poor and indicated that the apathy of the ULBs to take remedial measures to improve their accounting system and strengthen their internal control system to prevent the financial irregularities.

### **1.19 Conclusion**

The objectives to create networked database on finances beginning from the grass root level to the GOI level to make need based assessment of the financial requirements of the ULBs had not been fulfilled. As a result, reliability of the demands could not be ascertained. Government was yet to frame Budget and Accounts Rules to give effect to the C&AG's standard accounting formats. The Government did not devolve funds as per norms prescribed by the 2<sup>nd</sup> SFC resulting in short allocation of Rs998 crore to the ULBs. The response of the ULBs to the audit observations of the Director Local Funds was extremely poor. More over, the position of settlement of the Paragraphs submitted to the ULBs under technical guidance and supervision of the C&AG was far from satisfactory. The ULBs had not yet taken remedial measures to improve their financial management and utilization of public funds in a prudent manner.

**1.20 Recommendation**

- Government should take effective steps to develop networked database on finances of the ULBs for making need based assessment of their requirements at the Government level.
- The Government should adopt the norms prescribed by the 2<sup>nd</sup> FC for devolution of funds to the ULBs.
- Government should ensure that the C&AG's standard Budget/Account formats are adopted by the ULBs.
- The ULBs should be made accountable towards the primary audit by the DLFA and responsive to the Audit Inspection Reports prepared under the technical guidance and supervision of the C&AG of India.