

CHAPTER –1

ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

1.1 Introduction.

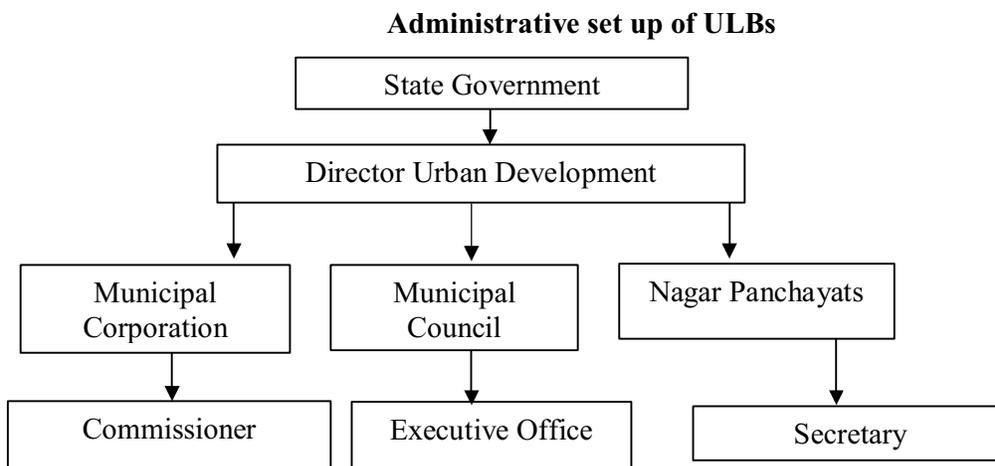
The Seventy Fourth Constitutional Amendment paved way for decentralization of powers and transfer of 18 functions listed in the 12th Schedule of the Constitution along with funds and functionaries to the Urban Local Bodies. To incorporate the provision of the Seventh Fourth Constitutional Amendment, the Government of Himachal Pradesh (Local Self Government) enacted the Himachal Pradesh Municipal Corporation Act, 1994 and Himachal Pradesh Municipal Act, 1994 for transferring the powers and responsibilities to Urban Local Bodies (ULBs). However, some obligatory and discretionary functions like maintenance of roads, streets, street lights, cleanliness etc. were with ULBs prior to enactment of these Acts.

The Eleventh Finance Commission (EFC) recommended that the Comptroller and Auditor General of India (CAG) should prescribe the formats for the preparation of budget and for keeping of accounts for the local bodies. EFC further recommended that CAG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all Urban Local Bodies (ULBs). Accordingly, State Government has entrusted audit of ULBs to C&AG under Technical Guidance and Supervision module by issuing notification (October, 2008).

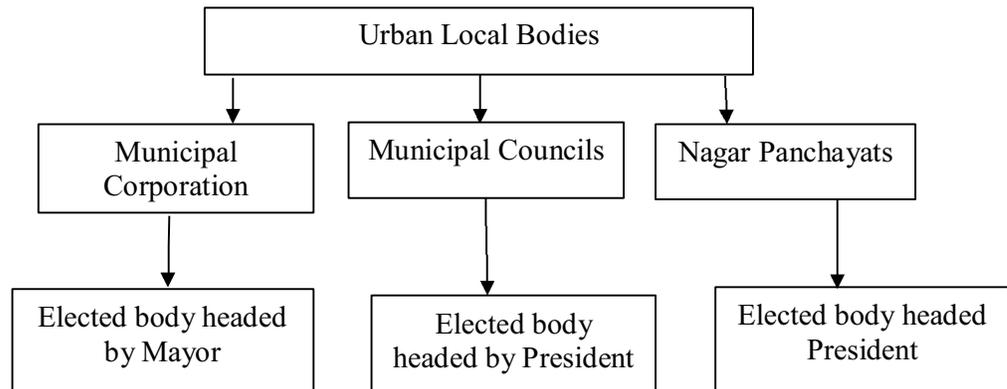
1.2 Organizational Set up.

There is one Municipal Corporation, 20 Municipal Councils (MCs) and 28 Nagar Panchayats (NPs) in the State.

Overall control of the ULBs rests with Principal Secretary (Urban Development) to the Government of Himachal Pradesh through Director, Urban Development Department. The Organizational set up of Urban Local Bodies is as under:-



Elected Bodies



The Mayor heads the Municipal Corporation whereas the President heads both MCs and NPs.

1.3 Powers and functions.

To function as institution of self-governance and to carry out the responsibilities conferred upon them, the ULBs exercise their powers and perform the functions in accordance with the provisions of the Constitution. Under section 43 of MC Act, 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, culverts, 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 communicable 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, MC Shimla, under section 44 of MC Act 1994, at its discretion provide the following services either wholly or partially out of its property and funds:

- Education;
- Music and other entertainments in public places;
- Houses for deaf, dumb, disabled and destitute persons;
- Public works relating to relief, care of sick, medical service;
- Measure to promote public safety, health, convenience or general welfare;

The State Government may impose or transfer any such functions and duties of the Government to the ULBs including those performed by the departments.

1.4 Sources and allocation of Funds.

For execution of various developmental works, the ULBs received funds mainly from GOI and the State Government in the form of grants. GOI grants include grants assigned under the recommendations of Eleventh Finance Commission (EFC) and Twelfth Finance Commission (TFC). The State Government grants are received through devolution of net proceeds of the total tax revenue on the recommendations of the State Finance Commission (SFC). Besides, revenue is also mobilized by the ULBs in the form of taxes, rent, fees, issue of licenses, etc.

Position of funds released to the ULBs during 2005-09 is given below:-

Year	Receipts				Total expenditure incurred ¹
	State Govt.	Central Govt.	Own revenue	Total	
2005-06	22.02	0.28	36.48	63.78	64.84
2006-07	44.11	0.82	41.35	86.28	82.23
2007-08	54.37	12.15	44.26	110.78	85.90
2008-09	59.90	11.75	46.98	118.63	102.10

¹ The department has no separate detail of expenditure incurred under revenue and capital.

The grants were allocated among the Municipal Corporation, MCs and NPs on the basis of total population and revenue earned by them from their own resources.

1.5 Budget Estimates.

The budget estimates of ULBs are prepared as per Himachal Pradesh Municipal Code, 1975 in the prescribed form keeping in view the budget estimates of expected income and expenditure for the next financial year and placed before the house of the committee for passing the same. After passing the budget by the house of the committee it is submitted to the Director Urban Development for approval. The budget provisions and the expenditure there against for the test-checked Municipal Corporation, seven MCs and eight NPs for the years 2006-07 to 2008-09 were as under:-:-

(` in lakh)

Year	Budget Estimate	Actual Expenditure	Savings (-) Excess (+)	Percentage over all utilization
2006-07	5328.78	4430.94	(-) 897.84	83.15
2007-08	5842.71	5769.53	(-) 73.18	98.75
2008-09	13235.31	9211.10	(-)4024.21	69.59

(Unit-wise position is given in **Appendix-1**)

Perusal of above table would indicate that the budget estimates were not realistic as the expenditure during 2006-09 ranged between 69.59 and 98.75 percent of the budget estimate.

In case of Municipal Corporation, Shimla which is the biggest Urban Local Body in the State, percentage utilization of funds during 2008-09 was only 63.81. This adversely affected the developmental works and deprived the public of the intended benefits. Reasons for less utilization of budget had not been furnished.

1.6 Non-Certification of Accounts.

Out of 49 ULBs, 30 ULBs have maintained their Accounts on accrual based system. Instructions have been issued by the Director Urban Development Department to all the ULBs to maintain their accounts from April 2009 on accrual basis. The National Municipal Accounts Manual (NMAM) has been approved by the State Government but the same has not been published in Gazette. With no specific provision in the State Acts/Rules, certification of

accounts by an independent agency was not in existence in the ULBs. In the absence of provisions for certification, the authenticity of the final accounts can not be vouchsafed and no audit opinion on the true and fair view of the accounts of ULBs could be given.

1.7 Audit Arrangement.

The recommendations of EFC stipulate that the CAG shall be responsible for exercising control and supervision over proper maintenance of the accounts of ULBs and their audit.

In Himachal Pradesh, audit of ULBs is being conducted by the Director Urban Development through Local Audit Department. The PAG also conducts test audit under Technical Guidance and Supervision (TGS) as per recommendations of EFC. In October 2008 the Government of Himachal Pradesh has entrusted audit of ULBs to C&AG under TGS arrangement.

1.8 Audit Coverage.

Test check of the records of Municipal Corporation, Shimla, seven Municipal Committees (MCs)² out of 20 MCs and eight Nagar Parishad (NPs)³ out of 28 NPs was conducted during 2009-10. A review on Asset Management was also conducted covering three districts⁴. Important audit findings of the annual inspection are incorporated in Chapter-II and findings of the review on Asset Management in Chapter-III.

1.9 Pending Audit objections.

The Commissioner/Executive Officer/Secretary of the Municipal Corporation, MC and NP respectively having administrative powers are required to comply with the observations contained in the Inspection Reports (IRs) issued by Local Bodies Audit and Accounts office and rectify the defects/omissions and report their compliance to settle the observations. The details of IRs and paragraphs issued, settled and outstanding as on 31st March 2009 was as under:-

² Bilaspur, Kangra, Kullu, Mandi, Nahan, Solan and Sundernagar

³ Arki, Bhota, Chopal, Gagret, Manali Narkanda, Rewalsar and Sumi

⁴ Kangra, Mandi and Shimla

Year of issue	No. of IRs/Paras issued		No. of IRs/Paras Settled		No. of IRs/Paras outstanding	
	IRs	Paras	IRs	Paras	IRs	Paras
Upto 2007-08	53	500	0	32	53	468
2008-09	17	224	0	05	17	219
2009-10	16	222	--	--	16	222
Total	86	946	0	37	86	909

Increasing trend of IRs and Paras is indicative of inadequate response to audit findings and observations and resulted in erosion of accountability.

1.10 Internal Audit of ULBs.

Under Section 161(3) of Himachal Pradesh Municipal Corporation Act and Section 255(1) of Himachal Pradesh Municipality Acts, 1994, the accounts of the local bodies are to be audited by a separate and independent agency.

The Local Audit Department (LAD) conducts internal audit of ULBs which are required to be audited annually. It was noticed that coverage of audit by the local audit department was between 10 and 96 percent during the last three years as shown below:-

Sr. No.	Year	Total Units	Units to be audited	Numbers of units actually audited	Percentage of units audited
1.	2006-07	49	49	09	18
2.	2007-08	49	49	47	96
3.	2008-09	49	49	5	10

The Director, LAD stated (April 2010) that due to conducting of special audit of Kandi Project and also shortage of staff, the audit of all the local bodies could not be conducted as against total sanctioned strength of 125 persons 28 posts (one : Assistant Controller and 27 Junior Auditors) were lying vacant.

1.11 Utilisation of TFC grants.

The position of funds released and utilized under TFC during the period from 2006-07 to 2008-09 was under:-

Year	Funds allocated to ULBs	Funds released	Expenditure incurred
2005-06	1.60
2006-07	1.60	3.20 ⁵	1.26
2007-08	1.60	1.60	0.08
2008-09	1.60	1.60	0
Total	4.80	6.40	1.34

⁵ Includes grant of 2005-06

It would be seen that only 21 percent of the funds released were utilized and the unspent amount of ` 5.06 crore was lying in savings bank accounts of the concerned ULBs.

1.11.1 Delay in release of TFC grant by State Government.

As per TFC guidelines, State Government is required to transfer the grants released by the Centre to PRIs and ULBs within 15 days from the date of its credit into State Government account. Contrary to these guidelines, State Government delayed the release of 1st installment of ` 0.80 crore to Director UDD by 80 days during 2008-09. Contrary to the TFC guidelines, no interest for delay in releasing the TFC grant was allowed by the State Government. No reasons for delay in release of TFC grant were advanced by the State Government.

1.11.2 Non-receipt of UCs from ULBs.

As per TFC guidelines, ULBs are required to furnish UCs to Director, UDD within a period of six months from the date of receipt of grant. It was noticed that utilisation certificates in respect of the grants released by the State Government during 2005-09 were not received by the Director UDD whereas State Government has issued UCs to GOI for the grants received during the aforesaid period.

1.12 Awaited utilisation certificates (UCs).

Utilisation certificates are required to be sent annually in respect of grants utilised.

Test check of Grant in Aid records maintained in the Directorate, Urban Development department revealed that UCs amounting to ` 12.43 crore pertaining to SFC grants released during July-December 2009 were awaited (March 2010) from 28 ULBs as detailed in (**Appendix- 2**). No specific reasons were advanced for non submission of UCs by concerned local bodies.