

CHAPTER-4

PROFILE OF URBAN LOCAL BODIES

4.1 Background of Urban Local Bodies

The Seventy Fourth Constitutional amendment paved the way for decentralization of powers and transfer of 18 functions, listed in the twelfth schedule of the constitution along with funds and functionaries to the Urban Local Bodies. To incorporate the provisions of the seventy fourth Constitutional amendment, the Government of Himachal Pradesh (Local Self Government) enacted the Himachal Pradesh Municipal Corporation Act, 1994 and the 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 being implemented by the ULBs prior to enactment of these Acts.

4.2 Audit Mandate

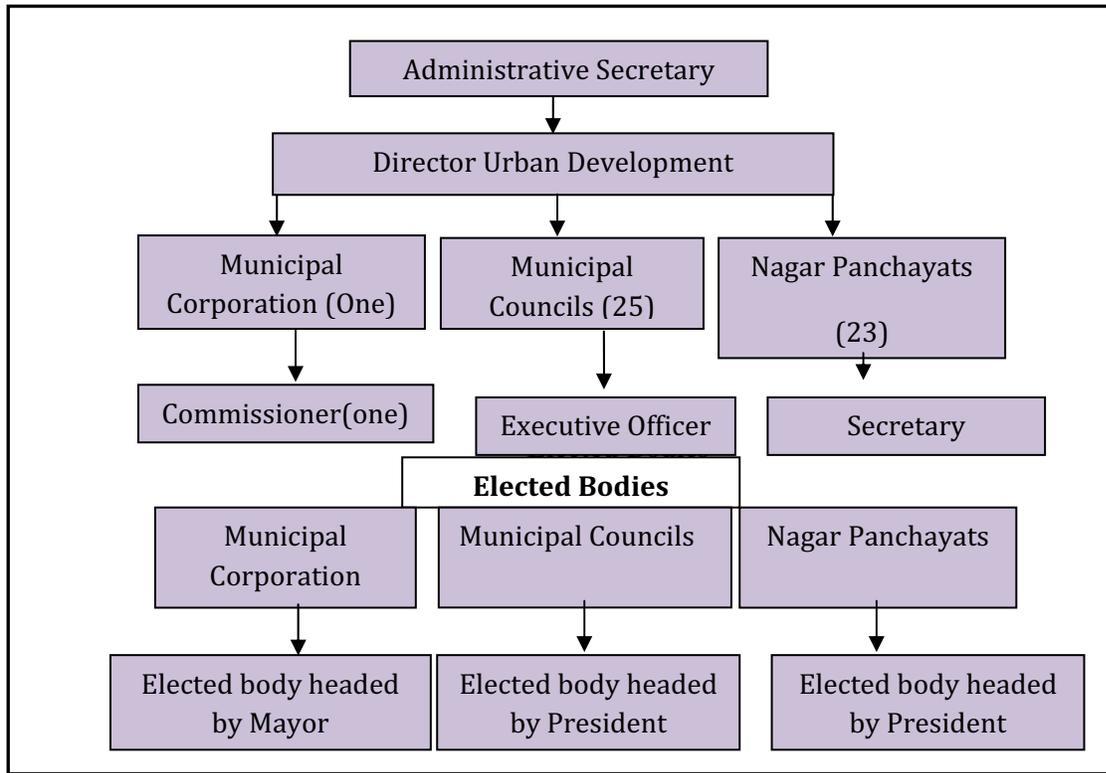
In Himachal Pradesh, audit of ULBs is being conducted by the Director, Local Audit Department. The State Government has entrusted (March 2011) audit of ULBs to CAG with the responsibility of providing Technical Guidance and Support under Section 20(1) of the CAG's DPC Act, 1971. Significantly financed ULBs are also audited by CAG under Section 14 of the CAG's (DPC) Act, 1971. The results of audit i.e. Technical Inspection Report of ULBs is sent to the Director, ULBs and Local Audit Department. Annual Technical Inspection Report (audit findings arising out of audit of ULBs during preceding year) is sent by the Pr.Accountant General (Audit) to the State Government (to the concerned Secretaries of the Administrative Departments) by the end of June every year for necessary remedial action.

4.3 Organizational structure of Urban Local Bodies

There is One Municipal Corporation, 25 Municipal Councils (MCs) and 23 Nagar Panchayats (NPs) in the State.

The overall control of the ULBs rests with the 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:-

Administrative set up of ULBs



4.3.1 Standing Committees

Brief introduction on the working of ULBs and various standing committees involved in financial matters and implementation of schemes is detailed in **Table 11** below:

Table 11: Roles and responsibilities of the Standing Committees

Level of ULBs	Standing Committee Headed by	Name of the Standing Committees	Roles and responsibilities of the Standing Committee
Urban Local Bodies (ULBs)	President	General Standing Committee	This committee performs the functions relating to the establishment matters, communications, buildings, urban housing and provision of relief against natural calamities, water supply and all residuary matters.
		Finance, Audit and Planning Committee	This committee perform the functions relating to the finance of municipality, framing of budget, scrutinizing prospects of increase of revenue, examination of receipts and expenditure statements, etc.
		Social Justice Committee	This committee performs the functions relating to promotion of education and economic, social, cultural and other interests of SC&ST and backward classes, women and other weaker sections of the society.

4.3.2 Institutional arrangements for implementation of the schemes

In the Directorate of Urban Development, one Project Officer and two Statistical Assistants have been posted in the Project Section for overseeing the implementation of the various schemes by the ULBs. Against 1105 sanctioned posts, 106 posts are lying vacant in various categories in the ULBs as of 31 March 2012 (**Appendix-19(A)**). The training plan of the department of Urban Development are approved by the Government on the basis of training calendar prescribed in the training manual and the training is to be imparted to the staff accordingly. In addition to above, employees of ULBs are also deputed for training from time to time to various institutions/departments.

4.4 Financial Profile

4.4.1. Fund flow to ULBs

For execution of various developmental works, the ULBs receive funds mainly from GOI and the State Government in the form of grants. GOI grants include grants assigned under the recommendations of the Central Finance Commission and grants for implementation of schemes. 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) and grants for implementation of State sponsored schemes. Besides, revenue is also mobilized by the ULBs in the form of taxes, rent, fees, issue of licenses, etc. The fund-wise source and its custody for each tier and the fund flow arrangements in flagship schemes are given in **Table 12 and 13** below:

Table: 12 Fund flow: Source and custody of funds in ULBs.

Nature of Fund	Municipal Corporation		Municipal Councils (MCs)		Nagar Panchayats (NPs)	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	Municipal Corporation	Bank	MCs	Bank	NPs	Bank
State Plan	State Government	Bank	State Government	Bank	State Government	Bank
State Finance Commission	State Government	Bank	State Government	Bank	State Government	Bank
Central Finance Commission	GOI	Bank	GOI	Bank	GOI	Bank
Centrally Sponsored Schemes	GOI	Bank	GOI	Bank	GOI	Bank

While Central and State grants are utilized by the ULBs for execution of Central and State sponsored schemes as per the guidelines issued by GOI and State Government in this regard, the own receipts of ULBs are utilized for administrative expenses and execution of schemes/works formulated by the ULBs.

Table 13: Fund flow arrangements in major Centrally Sponsored flagship Schemes

Sl.No.	Scheme	Fund flow Arrangements
1	Swaran Jayanti Shahari Rojgar Yojana(SJSRY)	Funding under SJSRY is shared between the Centre and the State in the ratio of 75:25. The Central share is released in the form of demand draft and State share is apportioned through state budget.
2	Urban Infrastructure Development Scheme for Small and Medium Towns(UIDSSMT)	Grant-in-aid is to be shared by Central and State Government in the ratio of 80:10 and balance 10 percent to be arranged by the ULBs from own sources.
3	Integrated Housing & Slum Development Programme(IHSDP)	Eighty percent of the cost of the scheme flows from the Centre in the form of grants in aid. The remaining 20 per cent is shared by the State Government, ULBs, parastatal agencies. The ULBs raise their contribution from their own resources or from beneficiary contribution.
4	Urban Infrastructure and Governance (UIG)	Funding under UIG is shared between the Centre, State and ULBs in the ratio of 80:10:10. The ULBs raise their contribution from financial institutions.
5	Basic Service to the Urban Poor (BSUP)	Eighty percent of the cost of the scheme flows from the Centre in the form of grants in aid. The remaining 20 per cent is shared by the State Government, ULBs, parastatal agencies. The ULBs raise their contribution from beneficiary contribution.

4.4.2 Resources: Trends and Composition

The resources of ULBs for the period from 2008-12 are detailed in **Table 14** below:

Table 14: Time series data on resources of ULBs

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Own Revenue	44.26	46.98	50.87	NA	NA
CFC transfers (Finance Commission devolutions)	1.60	1.60	1.60	7.77	24.30
SFC transfers (State Finance Commission devolutions)	30.52	41.76	41.77	46.12	51.88
Grants from State Government	22.24	22.39	20.45	31.30	33.72
GOI grants for CSS	13.44	13.25	52.57	19.50	25.83
State Government grants for State schemes	54.37	59.90	63.82	85.19	109.90
Total	166.43	185.88	231.08	189.88	245.63

Source: Director, Urban Development.

4.4.3 Application of Resources: Trends and Composition

The application of resources of ULBs for the period from 2007-08 to 2011-12 are detailed in Table 15 below:

Table 15: Application of resources sector-wise

	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Expenditure from own revenue	NA	NA	NA	NA	NA
Expenditure from CFC transfers (Central Finance Commission devolutions)	1.60	1.60	1.60	7.77	24.30
Expenditure from SFC transfers (State Finance Commission devolutions)	30.52	41.76	41.77	46.12	51.88
Expenditure from grants from State Government and Centre Government.	85.90	102.10	110.17	85.81	110.45
Total	118.02	145.46	153.54	139.70	186.63

Source: Director, Urban Development.

4.5 Audit Coverage

Test-check of the records of Municipal Corporation, Shimla, eight Municipal Councils (MCs)⁵ out of 25 MCs and five Nagar Panchayats (NPs)⁶ out of 23 NPs was conducted during 2010-12. In addition, a performance review of State Scheme viz. Backward Region Grant Fund (BRGF) covering two⁷ out of three ULBs of Chamba district was also done. Audit findings of the review on BRGF are incorporated in Chapter 3 and important audit findings are incorporated in Chapter-5 of the Report.

4.6 Financial Reporting and Accounting framework of ULBs (Internal Control System)

A sound internal control system significantly contributes to efficient and effective governance of the ULBs by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. The reports on compliance and controls, if effective and operational, assist the ULBs and the State Government in meeting its basic stewardship responsibilities including strategic planning, decision making and accountability of the stakeholders. The following discrepancies were found in the Internal Control System:

⁵ Chamba, Dalhousie, Dharamsala, Ghumarwin, Nagrota Bagwan, Naina Devi, Palampur and Una.

⁶ Jawalamukhi, Nadaun, Santokhgarh, Sujanpur and Talai.

⁷ Chamba and Dalhousie.

4.6.1 Non-Certification of Accounts

All the 49 ULBs have maintained their accounts on an 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 an accrual basis. The National Municipal Accounts Manual (NMAM) prescribed by MOUD in consultation with CAG has not been adopted by the State Government. With no specific provision in the State Acts/Rules, certification of accounts by an independent agency was non-existent in the ULBs.

4.6.2 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 are placed before the House of the Committee for passing the same. After passing of the budget by the House of the Committee, it is submitted to the Director, Urban Development for approval. The budget provision and the expenditure thereagainst for the test-checked Municipal Corporation, seven Municipal Councils and five Nagar Panchayats for the years 2008-09 to 2010-11 is given in **Table 16** below:

Table 16: Budget estimates *vis-à-vis* expenditure

(₹ in crore)

Year	Budget Estimate	Actual Expenditure	Savings (-) Excess (+)	Percentage over all utilization
2008-09	141.51	63.57	(-)77.94	44.92
2009-10	164.48	77.16	(-) 87.33	46.91
2010-11	189.77	80.31	(-)109.46	42.32

(Unit-wise position is given in **Appendix-19-B**)

It is evident from the above table that preparation of budget estimates was not done in a realistic manner resulting in significant savings over the budget estimates.

4.6.3 Pending Audit objections

The Commissioner/ Executive Officer/ Secretary of the Municipal Corporation, Municipal Council and Nagar Panchayat respectively are required to comply with the observations, contained in the Inspection Reports (IRs), issued by the erstwhile 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 31 March 2012 are included in **Table 17** below:

Table 17: Position of pending IRs/Paras.

Sr. No.	Year of issue of Inspection Reports	Outstanding IRs/ Paras as on 31.03.2010		Addition		Total		No. of IRs/ paras settled during 2010-12		No. of outstanding IRs/Paras as on 31.03.2012.	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	2008-09	69	600	-	-	69	600	0	137	69	463
2.	2009-10	16	213	-	-	16	213	0	0	16	213
3.	2010-11	0	0	15	157	15	157	0	0	15	157
4.	2011-12	0	0	15	194	15	194	0	30	15	164
	Total	85	813	30	351	115	1164	0	167	115	997

Increasing trend of Inspection Reports and Paras are indicative of inadequate response to audit findings and observations which resulted in erosion of accountability.

4.6.4 Internal Audit of ULBs

Under Section 161(3) of Himachal Pradesh Municipal Corporation Act and Section 255(1) of Himachal Pradesh Municipality Act, 1994, the accounts of the Local Bodies are to be audited by a separate and independent agency. The Government of Himachal Pradesh issued (October 2008) a notification, according to which the Director, Local Audit will prepare Annual Audit Plan. As per Audit Plans for the year 2010-12, all 24 ULBs planned for audit, have been covered upto 31st March 2012.