

PART – B
URBAN LOCAL BODIES

CHAPTER-III

**AN OVERVIEW OF THE FUNCTIONING,
ACCOUNTABILITY MECHANISM AND
FINANCIAL REPORTING ISSUES OF
URBAN LOCAL BODIES**

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Functioning of the Urban Local Bodies (ULBs) in the State

3.1 Introduction

Consequent upon the 74th Constitutional Amendment Act, 1992, the Urban Local Bodies (ULBs) were to be made full-fledged institutions of Local Self-governance and with significant increase in responsibilities with greater powers and distinct sharing of resources with the State Government. The amendment aimed to empower the ULBs to function efficiently and effectively and to deliver services for economic development and social justice with regard to 18 subjects listed in the 12th Schedule of the Constitution. Government of Sikkim enacted the Sikkim Municipalities Act, 2007 empowering ULBs to function as institutions of Self-governance and to accelerate economic development in urban areas. Though the Sikkim Municipalities Act was enacted in March 2007, the ULBs (*viz.*, Municipal Corporation, Municipal Council and *Nagar Panchayats*) were formed only in 2010-11.

The category-wise ULBs in the State as of March 2021 are shown in table 3.1

Table 3.1: Category-wise ULBs in Sikkim

Sl. No.	ULBs	Number of ULBs
1.	Municipal Corporation	1
2.	Municipal Council	3
3.	Nagar Panchayats	3
	Total	7

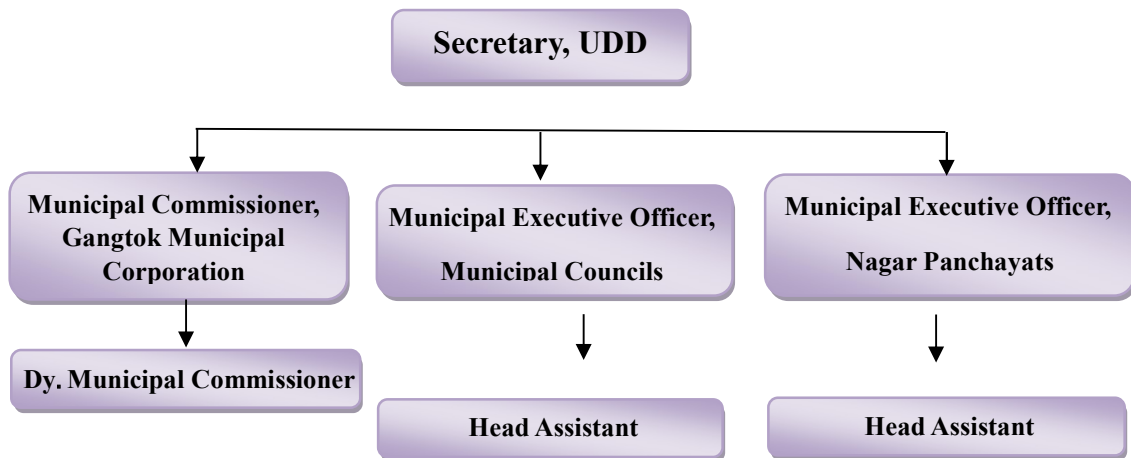
Source: Urban Development & Housing Department

Area of each ULB is divided into a number of wards, which are determined and notified by State Government. Important statistics relating to urban population, sex ratio, literacy, *etc.* in the State of Sikkim is given in **Appendix 3.1**.

3.2 Organisational set up

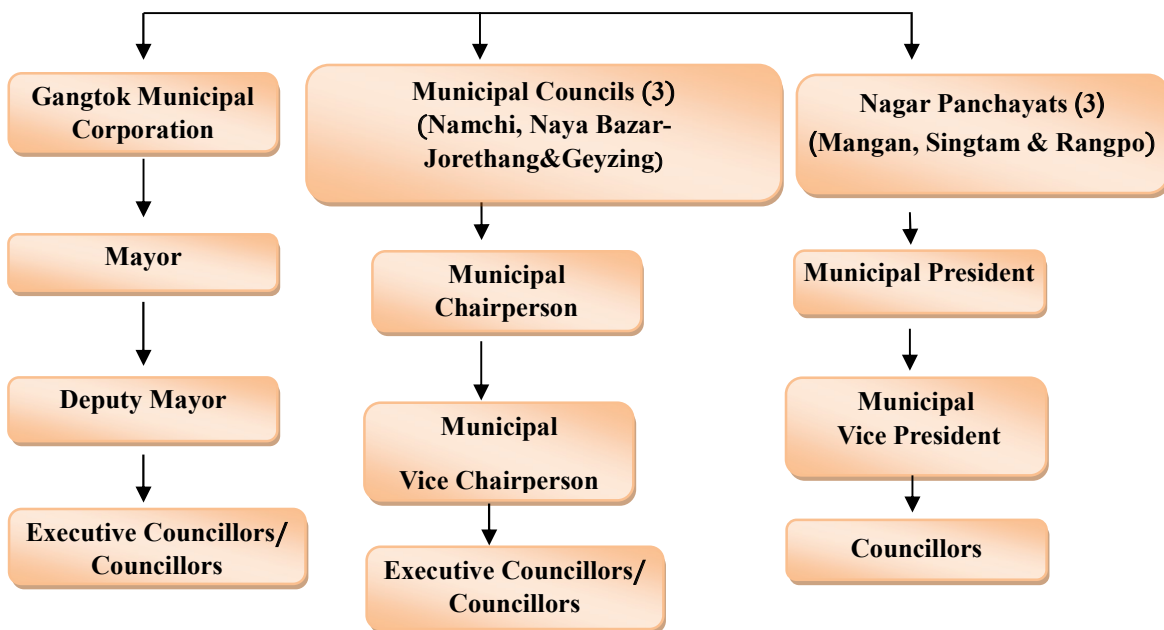
The Secretary, Urban Development Department (UDD) is the overall in charge of ULBs in the State. The Municipal Commissioner is the executive head of the Gangtok Municipal Corporation (GMC) while the other Municipal Councils/*Nagar Panchayats* (NP) are headed by the Municipal Executive Officers. The organisational structure with respect to functioning of ULBs in the State is as follows:

**Chart 3.1
Administrative Body**



All the ULBs have a body comprising of Councillors/Members elected by the people under their jurisdiction as shown in chart 3.2 below. The Mayor presides over the meetings of Municipal Corporation and the Chairperson/President presides over the meetings of the Municipal Councils/ *Nagar Panchayats* and are responsible for the overall functioning of the ULB concerned.

**Chart 3.2
Elected Body**



3.3 Functioning of ULBs

The Sikkim Municipalities Act, 2007 envisages transfer of functions of various departments of the State Government to ULBs. Out of 18 functions listed in the XIIth Schedule of the Constitution, the State Government transferred only six functions partially to the Gangtok Municipal Corporation; five functions partially to the *Rangpo*

Nagar Panchayat and four functions partially to five ULBs (*Namchi Municipal Council, Naya Bazar– Jorethang Municipal Council, Geyzing Municipal Council, Singtam Nagar Panchayat* and *Mangan Nagar Panchayat*) as of March 2021. The details are given in (*Appendix 3.2*)

3.4 Formation of various Committees

As per Section 27 (1) of Sikkim Municipality Act 2007, a Municipal Corporation may constitute a Subject Committee consisting of Councillors to deal with issues like, (a) water-supply, drainage and sewerage and solid waste management, (b) urban environment management and land use control, and (c) slum services. Besides, a Municipal Corporation or a Municipal Council or a *Nagar Panchayat*, singly or jointly, may constitute an *ad hoc* Committee or a Joint Committee to perform such functions as the State Government may direct.

However, the Municipal Corporation, the Municipal Councils, the *Nagar Panchayats* had not constituted any committee as of March 2021.

3.5 Audit arrangement

3.5.1 Audit by DLFA

Director, Local Fund Audit (DLFA) established in June 2012 is the primary auditor to conduct the audit of ULBs. The ULBs were audited by the DLFA since 2014-15 and coverage of units ranged between Nil to 100 *per cent* as shown below:

Table 3.2: Units planned for audit and actually audited

Year	No. of units planned for audit	No. of units audited	No. of Inspection reports issued
2016-17	7	3(42)	3
2017-18	7	0 (0)	0
2018-19	7	7 (100)	7
2019-20	7	2 (28)	2
2020-21	7	3(43)	03
Total	35	15 (43)	15

Source: Information furnished by DLFA, Government of Sikkim

Figures in bracket indicate percentage.

3.5.2 Annual Audit Report

According to Section 60 (1) of the Sikkim Municipalities Act, 2007, municipal accounts including the accounts of special funds, if any, and the Balance Sheet shall be examined and audited by the DLFA or an Auditor appointed by the Municipality from the panel of professional Chartered Accountants enlisted by the Government.

Audit of accounts for the year ended March 2021 was neither completed by DLFA nor by the Chartered Accountant (except for Gangtok Municipal Corporation) as of September 2022.

3.5.3 Audit by Comptroller and Auditor General of India

Based on the recommendations of the 13th Finance Commission, the State Government entrusted (June 2011) audit of all ULBs in the State under Technical

Guidance and Supervision (TGS) arrangement to the CAG as per standard terms and conditions under Section 20 (1) of the CAG's DPC Act, 1971. Accordingly, the audit of ULBs is being conducted from 2012-13 on a test check basis, by office of the Principal Accountant General (Audit), Sikkim. The coverage of unit planned was as shown below:

Table 3.3: Units planned for audit and actually audited

Year	No. of units planned for audit	No. of units audited	No. of Inspection reports issued
2016-17	4	4	4
2017-18	4	4	4
2018-19	4	4	4
2019-20	4	4	4
2020-21	4	3	3
Total	20	19	19

Source: Master Programme Register

During 2020-21, a total of three units (out of four planned) were audited and three Inspection Reports (IRs) containing 18 paras were issued to the ULBs.

3.5.4 Technical Guidance and Supervision (TGS)

The Regulations on Audit and Accounts, 2007 (Regulation 152) read with State Government letter no. 13(34) FCD/Fin/1000 dated 16 June 2011, CAG may provide suitable TGS to primary auditor of ULB viz., the DLFA for the purpose of strengthening Public Finance Management and Accountability in Urban Local Bodies. The parameters of such TGS as given in Regulation 152 are the following:

- The Local Fund Auditor shall prepare an annual audit plan (AAP) for the next financial year by the end of March every year;
- The audit methodology and procedure for the audit of ULBs by the DLFA shall be as per various Acts and Statutes enacted by the State Government and guidelines prescribed by the CAG of India;
- Copies of Inspection Reports (IRs) shall also be forwarded by DLFA to the Pr.AG (Audit) for advice on system improvement;
- DLFA shall furnish returns in such format as may be prescribed by the CAG for advice and monitoring;
- The Pr.AG (Audit) would conduct test check of some units in order to provide technical guidance and report of the test check would be sent to the DLFA for pursuance of action;
- Irrespective of the money value, any serious irregularities shall be intimated to the Pr.AG (Audit);
- DLFA shall develop a system of internal control (IC) in its organisation in consultation with the Pr.AG (Audit);
- The Pr.AG (Audit) shall also undertake training and capacity building of the Local Fund Staff.

Audit noticed that the DLFA had neither adopted the system of preparation of AAP nor developed IC in its organisation. Copies of IRs, list of serious irregularities, were also not furnished to the Pr.AG (Audit) by DLFA.

DLFA stated (September 2021) that there was no advanced routine planning process for Local Bodies due to limited manpower, and basic registers were not maintained.

3.5.5 Response to Audit Observations

After completion of audit, Inspection Reports (IRs) were issued by the office of the Principal Accountant General (Audit), Sikkim to ULB authorities with a copy to the State Government. ULB authorities were required to comply with the observations contained in the IRs and rectify the defects and omissions and report their compliance within four weeks from the date of issue of IRs. Important audit findings were processed for inclusion in the Annual Technical Inspection Report (ATIR).

During 2020-21, three IRs were issued, but replies of only one IR (of GMC) were received. Two ULBs (*Naya Bazar-Jorethang Municipal Council* and *Mangan Nagar Panchayat*) did not submit replies as of September 2022 as shown below:

Table 3.4: Submission of replies of IRs

Sl. No.	Unit	IRs issued		Reply submitted within 4 weeks	Reply furnished after 4 weeks	Replies not received
1.	GMC	1		Nil	1	Nil
2.	Other ULBs	2		Nil	Nil	2
	Total	3		Nil	1	2

Position of outstanding IRs and paragraphs in respect of ULBs as on 31 March 2021 is shown in table 3.5.

Table 3.5: Outstanding IRs and Paragraphs

Year	No. of Inspection Reports Issued	No. of outstanding paras	Money value (₹ in lakh)
2016-17	4	27	36.96
2017-18	4	13	0.05
2018-19	3	20	75.07
2019-20	2	14	22.17
2020-21	3	18	150.70
Total	16	92	284.95

Source: Outstanding para register maintained in office of the Pr. AG (Audit), Sikkim

3.5.6 Placement of Annual Technical Inspection Report (ATIR)

The Annual Technical Inspection Reports (ATIRs) for the years 2015-16 and 2016-17 were placed in the State Legislature. To date, no ATIR has been discussed in the Public Accounts Committee (PAC). However, the PAC has been directed (September 2017) by the Speaker, Sikkim Legislative Assembly to discuss and examine the ATIRs on Local Bodies in addition to their prescribed function till further order.

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

To promote accountability mechanism in the Local Bodies (PRI and ULB), the State Government was required to appoint Ombudsman and *Lokayukta* and initiate Social Audit. While the Ombudsman was not appointed during 2020-21 and no case was registered with *Lokayukta* during 2020-21. Social Audit of ULBs had not been conducted.

Position in respect of other parameters effecting accountability mechanism in the ULBs are given below:

3.6 Property Tax Board

Thirteenth Finance Commission (TFC) had recommended for setting up of Property Tax Board and levy of Property Tax on lands and buildings in urban areas. The Fourth State Finance Commission (4th SFC) report envisaged revenue generation of ₹ 3.08 crore during 2019-20 from Property Tax. The fifth SFC did not quantify the revenue to be generated from property tax.

It was seen that the Property Tax Board was not set-up in Sikkim as of March 2021, and therefore expected revenue of ₹ 3.08 crore was not realised.

3.7 Service Level Benchmark

As a follow-up to reforms stipulated by the 13th FC and also to provide good services to the public, the State Government had adopted (September 2013) Service Level Benchmarks for solid waste management provided by Gangtok Municipal Corporation (GMC). The details are shown in ***Appendix 3.3***.

Subsequently, Service Level Benchmark for solid waste management was adopted (April 2016) for all the ULBs in Sikkim as per the recommendation of the 14th FC. The details are shown in ***Appendix 3.4***.

The service level benchmark for solid waste management was devised for the period 2016-21 for all the seven ULBs as against the earlier period of 2011-21 for GMC. Although, the benchmarks for GMC were adopted in 2013-14, no assessment was carried out up to 2020-21 to ascertain the extent of achievement.

3.8 Submission of Utilisation Certificates

The ULBs receive Grants-in-aid from State Government through Urban Development Department. The details of grants received *vis-à-vis* UCs submitted to State Government are given in ***Appendix 3.5***.

Audit noticed that there were delays in submission of UCs ranging between 1 and 7 months for the period 2015-16 to 2020-21. Thus, the delay in submission of UCs was persistent.

3.9 Internal Audit and Internal Control System of ULBs

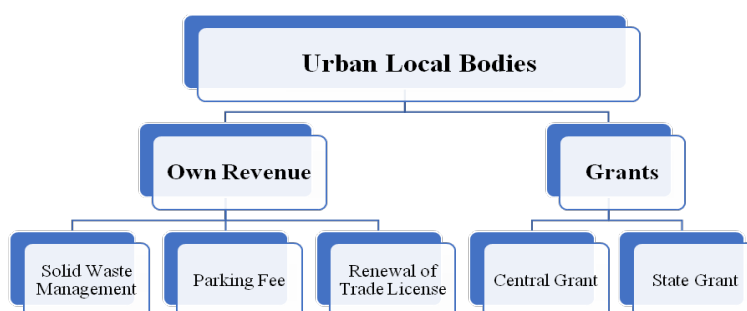
According to the Sikkim Municipalities Act, 2007 (Para 60 and 61), Internal Audit of ULBs is to be conducted by Chartered Accountants (CAs) from the panel of CAs maintained by the State Government. The CAs had completed audit of one ULB (Gangtok Municipal Corporation) (out of seven ULBs) only up to 2020-21. Thus, Internal Audit was not up to date.

3.10 Financial Reporting Issues

Finances of ULBs comprise of receipts from own sources, grants and assistance from Union Government and State Government. The ULBs receive funds from the State Government in shape of devolution of net proceeds of total tax revenue as recommended by the State Finance Commission. While power to collect certain taxes are vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemption, concessions, *etc.* are vested with the State Government.

Own non-tax revenue of ULBs comprises fee for solid waste management, parking fee and renewal of trade license, rents of property, *etc.* Grants and assistance released by the Governments are utilised for extending civic facilities to the urban population. Flow chart of finance of ULBs is as follows:

Chart 3.3



3.10.1 Position of funds of ULBs

The detailed position of funds of ULBs for the period from 2016-17 to 2020-21 is shown in the table 3.6:

Table 3.6: Statement showing the position of funds of ULBs for the last five years

(₹ in lakh)

Year	GMC				Remaining Councils / NPs			
	Central Grants	State Grants	Own Revenue	Total	Central Grants	State Grants	Own Revenue	Total
2016-17	529.10	255.78	401.33	1,186.21	229.50	206.10	295.12	730.72
2017-18	469.85	339.25	763.75	1,572.85	236.43*	225.65*	269.12*	731.20*
2018-19	599.45	344.15	823.46	1,767.06	393.32	404.60	471.34	1,269.26
2019-20	463.29	82.31	918.66	1,464.26	239.95	334.73	455.44	1,030.12
2020-21	1,883.64	661.52	901.82	3446.98	553.05	571.55	356.36	1,480.96

Source: Information furnished by the ULBs

*Information not furnished by one ULB (Jorethang Municipal Council)

Collection of own revenue by the seven ULBs during the last five years is shown in table 3.7:

Table 3.7: Statement showing collection of own revenue of seven ULBs

(₹ in lakh)

Sl. No.	Name of the ULB	2016-17	2017-18	2018-19	2019-20	2020-21
1.	Gangtok Municipal Corporation	401.33	763.75	823.46	918.66	901.82 (98)
2.	Namchi Municipal Council	100.24	70.12	98.51	109.03	98.57 (90)
3.	Naya Bazar-Jorethang Municipal Council	18.78	*	89.77	87.26	57.26 (97)
4.	Geyzing Municipal Council (GeMC)	18.78	27.18	44.89	46.56	37.72 (81)
5.	Rangpo Nagar Panchayat (RNP)	53.18	79.99	72.92	81.35	75.22 (92)
6.	Singtam Nagar Panchayat (SNP)	64.54	50.42	107.74	70.57	36.98 (52)
7.	Mangan Nagar Panchayat (MNP)	39.60	41.41	57.51	60.67	53.61 (88)
	Total	696.45	1,032.87	1,294.80	1,374.10	1,261.18 (92)

Source: Information furnished by the ULBs

*Information not furnished by the ULB (Naya Bazar-Jorethang Municipal Council) despite repeated requisitions.

The above table indicates that the revenue collection recorded decrease during 2020-21 over previous year (2019-20) in case of all the ULBs (Gangtok Municipal Corporation, Namchi Municipal Council, Geyzing Municipal Council, Rangpo, Singtam and Mangan) by 1.8, 9.59, 25.43, 47.60, 7.53 and 11.64 per cent respectively. Reasons for decrease in revenue has not been intimated by ULBs. In case of GMC, the own revenue collection decreased from ₹ 918.66 lakh to ₹ 901.82 lakh, NMC from ₹ 109.03 lakh to ₹ 98.57 lakh, etc. The decrease was mainly due to decrease in collection from solid waste management, parking lots, renewal of trade licence, hoarding and banner charge, etc.

3.10.2 Grants received and expenditure there from

Receipts and expenditure by the GMC, three Municipal Councils and three NPs during the year 2020-21 are shown in table 3.8:

Table 3.8: Statement showing grants received and expenditure of ULBs during 2020-21

(₹ in lakh)

Name of ULBs	Central Grants				State Grants				Own Revenue	
	Opening Balance	Received	Expenditure	Balance	Opening Balance	Received	Expenditure	Balance	Received	Expenditure*
GMC	617.06	1,883.64	2,221.33	279.37	0.82	661.52	441.08	221.26	901.82	-
NJNP	38.74	74.40	62.70	50.44	2.30	162.08	158.83	5.55	57.26	68.15
Gey. NP	9.76	72.44	33.36	48.84	2.56	23.15	25.48	0.23	34.72	70.61
NMC	34.60	109.27	31.60	112.27	-	80.87	80.87	0.0	98.57	105.21
MNP	29.46	73.53	63.33	39.66	0.16	68.82	68.72	0.26	53.61	28.43
SNP	2.82	53.28	42.13	13.97	4.03	101.38	71.97	33.44	36.98	53.74
RNP	19.17	170.13	65.64	123.66	1.31	135.25	112.34	24.22	75.22	65.92
Total	751.61	2,436.69	2,520.09	668.21	11.18	1,233.07	959.29	284.96	1,258.18	392.06

* Expenditure done from previous year's balance

Source: Information furnished by ULBs

From the above, it is seen that ULBs could not utilise the entire funds received during 2020-21. Analysis of closing balances revealed that unutilised funds (₹ 77.67 lakh and ₹ 104.49 lakh of NMC and RNP respectively) were kept in various banks without being utilised by ULBs. These instances indicate inadequate funds absorption capacity of ULBs, primarily due to absence of advance planning in conducting *Ward Sabha*, holding District Planning Committee meeting, *etc.*

3.10.3 Fund Flow for Major schemes

Receipt *vis-à-vis* expenditure incurred for major schemes implemented by ULBs during 2016-17 to 2020-21 are given in table 3.9:

Table 3.9: Statement showing receipts and expenditure of major schemes

(₹ in lakh)

Year		CFC (14 th / 15 th FC)	NRHM	Swachh Bharat Mission	ICLEI*** Fund	Land Rev.	Total
2016-17	Receipts	668.34	0	78.06	12.20	0	758.60
	Expenditure	200.76	0	74.88	0	0	275.64 (36)
2017-18**	Receipts	676.15	0	30.13	18.22	0	724.50
	Expenditure	514.24	0	92.87*	30.67*	0	637.78 (88)
2018-19	Receipts	957.71	21.15	7.78	6.12	19.98	1,012.74
	Expenditure	810.68	20.76	18.13	6.01	19.98	875.56 (86)
2019-20	Receipts	702.86	0	0.38	0	0	703.24
	Expenditure	798.47*	0	18.98*	0	0	817.45 (116)
2020-21	Receipts	2,389.83	25.20	55.01	0	10.00	2,480.04
	Expenditure	2,487.66	25.11	1.11	0	10.00	2,523.88 (102)
Total	Receipts	5,394.89	46.35	171.36	36.54	29.98	5,679.12
	Expenditure	4,811.81	45.87	205.97	36.68	29.98	5,130.31 (90)

Source: Information furnished by ULBs

* Expenditure also incurred from the previous year's unspent balances available under the schemes.

** Information not furnished by one ULB (Jorethang Municipal Council)

Figures in bracket indicate percentage.

***ICLEI – International Council for Local Environmental Initiatives

3.11 Recommendation of State Finance Commission (SFC)

The 5th SFC recommended (Para 5.24 and Table 5.4) transfer of ₹ 24.38 crore for seven ULBs during 2020-21 (2.5 per cent of the divisible pool of taxes) for vertical sharing to the Local Bodies (PRIs–80 per cent & ULBs–20 per cent) which was approved by the State Government. Thus, ULBs were entitled to ₹ 6.15 crore. As against this, ₹ 7.01 crore was transferred to ULBs leading to excess release of ₹ 0.86 crore. Details are given below:

Table 3.10: Actual transfer of funds to ULBs during 2020-21 vis-à-vis FSFC recommendation

(₹ in lakh)

Sl. No.	Head	Tax receipts	Collection cost (Col. 3x10%)	Net tax receipts (Col. 3-4)	Funds to be transferred to		Tax Transferred to ULB
					Local Bodies (Col. 5x5.5%)	ULB (Col. 6x25%)	
1	2	3	4	5	6	7	8
1.	Land Revenue	1,332.80	133.28	1,199.52	65.97	16.49	701.15
2.	Stamp & Registration	1,312.94	131.29	1,181.65	64.99	16.24	
3.	State Excise	21,027.09	2,102.70	18,924.38	1,040.83	260.20	
4.	Taxes on Sales, Trade etc.	19,524.66	1,952.46	17,572.19	966.47	241.61	
5.	Taxes on vehicles	2,896.35	289.63	2,606.71	143.36	35.84	
6.	Other Taxes and Duties	2,843.29	284.33	2,558.96	140.74	35.19	
	Total	48,937.13	4,893.69	44,043.41	2,422.36	605.57	701.15

Source: Finance Accounts 2020-21 and information furnished by Urban Development Department.

In addition to the above tax transfers, ₹47.86 lakh was also transferred towards special incentive to seven ULBs as recommended by the 5th SFC.

3.12 Recommendation of Central Finance Commission (CFC)

The details of fund received from GoI towards 14th FC / 15th FC and transferred to ULBs by State Government during 2016-17 to 2020-21 is shown below:

Table 3.11: Statement showing utilisation of CFC fund

(₹ in lakh)

Year	Amount released by GoI	Date of receipt of fund from GOI	Date of release of fund to ULBs	Delay (in days after allowing 15 days)
2016-17	239.50	15.12.2016	23.12.2016	--
	331.50	17.02.2017	01.03.2017	--
	196.00	18.01.2017	02.02.2017	--
2017-18	331.50	31.03.2017	20.09.2017	158
	383.00	23.02.2018	06.03.2018	--
2018-19	383.00	28.03.2018	09.04.2018	--
	443.00	23.07.2018	31.08.2018	24
2019-20	443.00	27.03.2019	10.04.2019	--
2020-21	500.00	22.05.2020	10.08.2020	65
	500.00	09.11.2020	14.12.2020	20

Source: Information furnished by State Government (UDHD)

As would be noticed from the above table, funds were transferred to the ULBs on time except on four instances when funds aggregating to ₹ 1,774.50 lakh were released belatedly (delay ranging from 20 to 158 days) during 2017-18 to 2020-21 which was contravention of FC recommendations, providing for release of funds to ULBs within 15 days of receipt of funds from GoI.

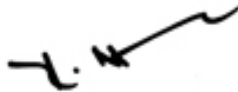
3.13 Maintenance of Accounts by ULBs

Based on the recommendation of XIth Finance Commission, the Ministry of Urban Development, GoI developed the National Municipal Accounts Manual (NMAM). Based on NMAM, the Sikkim Municipal Accounting Manual (SMAM) was drafted by UDHD and approved (September 2017) by the State Government. The accounts were being certified by the CA firm. The accounts of ULBs for 2020-21, however, were prepared in March 2022, after a delay of six months (except Gangtok Municipal Corporation).

3.14 Maintenance of records

According to the Sikkim Municipality Act, 2007 (Section 56) and Sikkim Municipal Accounting Manual (September 2017), the ULBs were required to maintain Demand and Collection Register for Rent, Register for Bill payment, Register of Movable Property, Register of dishonoured Cheques and Drafts, Register of Security Deposits, Deposit Work Register, *etc.* It was, however, noticed that none of the above registers were maintained by ULBs.

Gangtok
Dated 02 February 2024


(NARMADHA R.)
Accountant General (Audit), Sikkim