

CHAPTER I

AN OVERVIEW OF THE URBAN LOCAL BODIES

1.1 Introduction

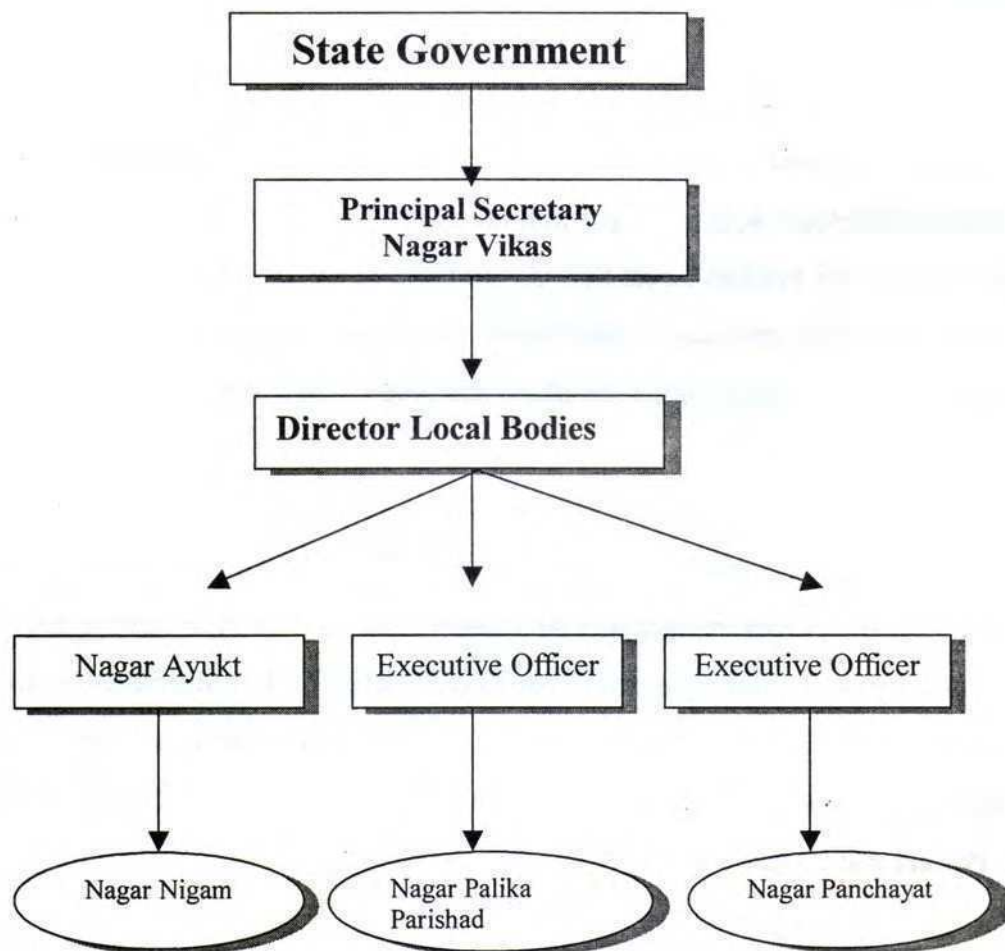
The 74th Constitutional Amendment paved the way for decentralization of powers and transfer of 18 functions as listed in the 12th schedule of the constitution alongwith funds and functionaries to the local bodies. To incorporate the provisions of the 74th Constitutional Amendment, the Uttar Pradesh Local Self Government Laws (Amendment) Act 1994 was enacted. In the three-tier structure, Nagar Nigams are governed by the UP Nagar Nigam Act 1959 whereas both the Nagar Palika Parishads and Nagar Panchayats are governed by the UP Nagar Palika Act 1916.

In pursuance of the Eleventh Finance Commission (EFC) recommendations that the Comptroller and Auditor General of India shall be responsible for exercising control and supervision over the proper maintenance of accounts and their audit for all the three tiers/ levels of Panchyati Raj Institutions and Urban Local Bodies (ULBs), the State Government in October,2001 entrusted the work of exercising control and supervision over the proper maintenance of accounts of ULBs and their audit to C&AG under section 20(1) of the C&AG's (Duties, Powers and Conditions of Service) Act 1971.

1.2 Organizational Setup

The reorganized State of Uttar Pradesh consists of 70 districts. There are 12 NNs, 194 NPPs and 422 NPs in the state.

The Organizational set-up of Urban Local Bodies is as under:



While the Mayor heads the Nagar Nigam, the President heads both Nagar

Palika Parishads and Nagar Panchayats.

1.3 Sources of Funds

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

- (i) Grants assigned under the recommendations of the Central Finance Commission (CFC).
- (ii) Allocation of 7 per cent of net proceeds of total tax revenue of the State Government under the recommendations of the first State Finance Commission (SFC).
- (iii) Funds remitted by the respective departments of the state government in respect of functions transferred to the ULBs.
- (iv) Revenue earned by the ULBs out of their own resources i.e. taxes, rent, fees, issue of licenses, tehbazari, taxi stands, etc.

1.4 Allocation of Funds

The first State Finance Commission recommended allocation based on the criteria of 80 per cent according to population and 20 per cent according to area for devolution of 7 per cent of net proceeds of total tax revenue of the state government to ULBs and determined their inter-se-percentage share. Accordingly, 3.12 per cent of net proceeds are earmarked each for Nagar Nigams and Nagar Palika Parishads and 0.76 per cent for Nagar Panchayats. These grants are further allocated among the NNs, NPPs and NPs on the basis of percentage of total population, population of SC/ST, social backwardness and revenue earned from their own resources.

1.5 Release of Funds

The State Government (Finance department) release grants on the recommendations of Central Finance Commission and State Finance Commission to the ULBs through allotment orders under intimation to the Director Local Bodies. Withdrawal of the grants from treasury depends upon the current liquidity status of the State. In addition, funds for implementing centrally sponsored schemes and central sector schemes are released to the state administration, which in turn releases the same to various implementing agencies at the district level. During 2003-04 Rs.45.58 crore and Rs.825.00 crore were released under EFC and SFC respectively.

1.6 Functioning of the ULBs

The ULBs execute their function through various committees viz. Planning and Development Committee, Education Committee, Water Management Committee, Works Committee, Health and Welfare Committee, Administrative Committee. They also identify the beneficiaries under various schemes e.g. housing, self-employment etc. based on the income criteria.

1.7 Audit Arrangement

Under section 118 of UP Nagar Nigam Act 1959, *Mukhya Nagar Lekha Parikshak* is the Primary Auditor of the accounts of Nagar Nigam. There is no provision for primary auditors in UP Nagar Palika Act 1916 to conduct audit of Nagar Palika Parishads and Nagar Panchayats. The Director Local Funds Audit (*DLFA*) acts as statutory auditor of all the three tiers of ULBs. The C&AG of India also conducts test audit under Section 14 of the DPC Act as well as provides Technical Guidance and Supervision under section 20(1) *ibid.*

1.8 Audit Coverage

The test audit of 8 Nagar Nigams (Appendix-I), 45 Nagar Palika Parishads (Appendix-II) and 30 Nagar Panchayats (Appendix-III) was conducted during 2004-05. The audit included transaction audit and financial audit, comprising comments on accounts. The important audit findings are cited in the succeeding paragraphs.

1.9 Comments on Accounts

1.9.1 Non maintenance of Balance Sheet

Nagar Nigam, (Ghaziabad) and the test checked NPPs and NPs did not prepare the balance sheet. Besides, 2NPPs (Chitrakoot Dham, Karvi and Mahmoodabad, Sitapur) and 19 NPs (**Appendix-IV**) test checked did not maintain even receipts and payments accounts. Due to non preparation of balance sheet and receipt and payment account true and fair picture of financial position of these units could not be ascertained.

1.9.2 Non reconciliation of balances

In Jhansi Nagar Nigam and in 3 NPPs¹ (**Appendix- V**), a difference between the Cash book and Pass book amounting to Rs.1.70 Crore and Rs.6.73 lakh respectively existed as on 31 March 2004. 3 NNs (Ghaziabad, Agra, Lucknow), 3 NPPs {Mauranipur(Jhansi), Kairana (MuzaffarNagar), Kandla, (MuzaffarNagar) } and 28 NPs (**Appendix –VI**) test checked, did not reconcile balances as per cash book with treasury/bank pass book. Un-reconciled balances reflect incorrect financial status of the Local Bodies and consequently, the risk of fraud/embezzlement, and misappropriation of funds can also not be ruled out.

¹ Kairana (Muzaffar Nagar), Kandla (Muzaffar Nagar) and Mauranipur (Jhansi)

1.9.3 Non- maintenance of Assets Register

Asset register was not maintained in 2 NPPs [Shyohara(Bijnore) and Etawah] and 9 NPs (Appendix-VII) test checked.

1.9.4 Non- maintenance of Register for Advances

Register for Advances was not maintained in 3 NPs test checked {Manikpur, (Chitrakoot), Shankargarh, (Allahabad), Purkazi, (Muzaffar Nagar).

1.9.5 Unpaid liabilities

During 2003-04, in 3 NNs, an amount of Rs. 13.31Crore as detailed below remained as unpaid liabilities. The liabilities could not be discharged by the NNs although provision had been made for this in their budget

(Rs in Lakh)

Sl No	Name of Nagar Nigam	Period	Amount
1.	Gorakhpur	2003-04	127.57
2.	Lucknow	2003-04	603.63
3.	Bareilly	2003-04	599.79
		Total	1330.99

1.9.6 Unutilized balances

Test Check in 4NNs and 16 NPPs for the years 2001-02, 2002-03 and 2003-04 revealed huge closing balances as detailed below.

(Rs in lakh)

Sl.No.	Year	Closing balances held by 4 NNs#	Closing balances held by 16 NPPs#
1	2001-02	5428.38	735.35
2	2002-03	9697.78	1487.07
3	2003-04	10138.41	2099.87

(# NN and NPP wise balances are given in Appendix VIII and IX)

Expenditure did not therefore keep pace with the release of funds/grants, indicating poor absorption capacity of funds by the NNs and NPPs requiring improved planning and better financial management.

1.9.7 Amount withdrawn not shown in cash book

In NPP Faridpur, Bareilly though a sum of Rs.25.47 lakh (Rs.22.44 Lakh from PLA and Rs.3.03 Lakh from Gramin Bank) was withdrawn between October 2002 to December 2002, the same was not entered in the cash-book. Out of this, Rs.2.20 Lakh was shown in Pay Register as payment of pay and allowances for the month of September 2002 of Safai employees while no details were available for the remaining Rs.23.27 lakh. In the absence of account details of expenditure possibilities of embezzlement and misuse of fund could not be ruled out. This calls for the investigation by the concerned authorities.

1.9.8 Certification of Accounts

With no specific provisions in the State Act/ Rules, certification of accounts by the director Local Funds Audit (DLFA) was not in vogue in any of the NNs, NPPs and NPs test checked. In the absence of certification, the authenticity of the final accounts cannot be vouchsafed and no opinion on the true and fair view of the accounts of these bodies could be given in audit.

1.9.9 Recommendations

In view of the above audit findings, the following recommendations are made for consideration of the State Government:

Internal control mechanisms at the level of Department of Nagar Vikas and Director Local Bodies as well as the level of individual Urban Local Body management should be strengthened to ensure the following :

- * Proper maintenance of accounts-balance sheet, receipts and payments accounts, cash books and other basic records,
- * Reconciliation of Bank Accounts with Cash Books.