

## **CHAPTER –I**

### **1. AN OVER VIEW OF THE URBAN LOCAL BODIES**

#### **1.1 Introduction**

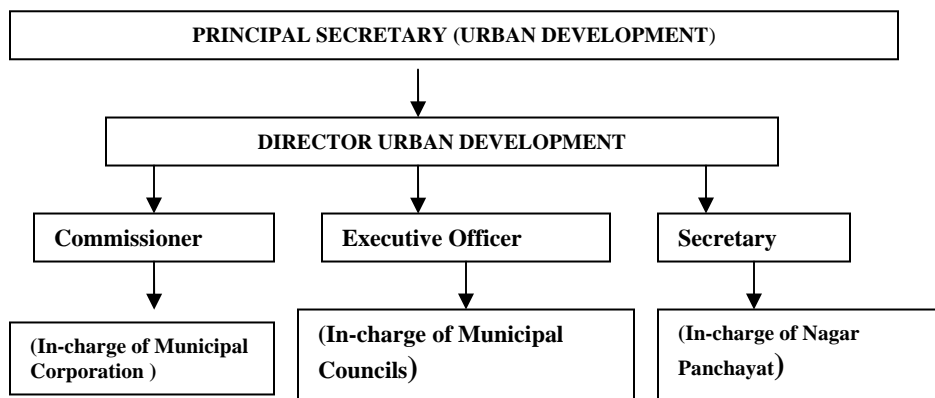
The 74<sup>th</sup> Constitutional Amendment paved the way for decentralization of powers and transfer of 18 functions as listed in the 12<sup>th</sup> schedule of the constitution alongwith funds and functionaries to the local bodies. To incorporate the provision of the 74<sup>th</sup> Constitutional Amendment, the Himachal Pradesh (Local Self Government) enacted the Himachal Pradesh Municipal Corporation Act, 1994 and Himachal Pradesh Municipal Committees Act, 1994.

In pursuance of the Eleventh Finance Commission (EFC) recommendations, 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 Panchayati Raj Institutions and Urban Local Bodies(ULBs), the Principal Secretaries of Urban Development and Panchayati Raj of the Government of Himachal Pradesh confirmed (April 2004) that the Accountant General will be at liberty to conduct audit of such number of ULBs/PRIs in such manner as it deems fit since all ULBs/PRIs were in receipt of grants from the consolidated fund of the Centre/State and issue audit/inspection reports.

#### **1.2 Organizational Set up.**

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

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



The Mayor heads the Municipal Corporation whereas the President heads both Municipal Councils and Nagar Panchayats.

**1.3 Powers and functions**

To function as an institution of self governance and to carry out the responsibilities conferred upon them, the Urban Local Bodies exercise their powers and function in accordance with the provisions of the Constitution, Some obligatory function of the ULBs are as follows:

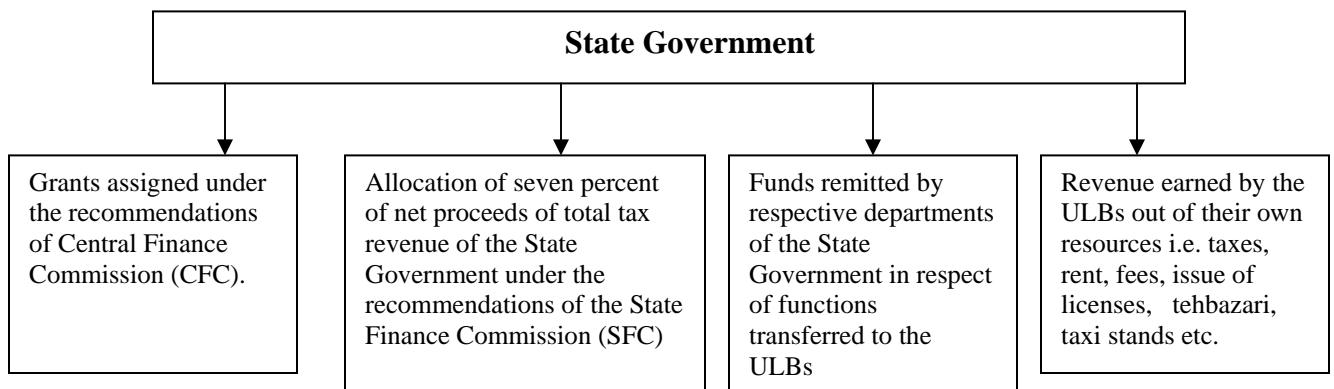
- (1) Urban planning including town planning;
- (2) Regulation of land-use and construction of buildings;
- (3) Planning for economic and social development;
- (4) Roads and bridges;
- (5) Water supply for domestic, industrial and commercial purposes;
- (6) Public health; sanitation, conservancy and solid waste management;
- (7) Fire services;
- (8) Urban forestry, protection of the environment and promotion of ecological aspects;
- (9) Safeguarding the interests of weaker sections of the society, including the handicapped and mentally retarded;

- (10) Slum improvement and up gradation;
- (11) Urban poverty alleviation;
- (12) Provisions of urban amenities and facilities such as parks, gardens and play grounds;
- (13) Promotion of cultural educational and aesthetic aspects;
- (14) Burials and burials grounds, cremations, and cremation grounds and electric crematoriums;
- (15) Cattle pounds, prevention of cruelty to animals;
- (16) Vital statistics including registration of births and deaths;
- (17) Public amenities including street lighting, parking lots, bus stops and public conveniences;
- (18) Regulations of slaughter houses and tanneries;

Further, the State Government may impose or transfer any such functions and duties of the Government to the Urban Local Body including those performed by the departments.

#### 1.4 Sources of Funds.

For execution of various development works, the Government of India and State Government provide funds in the form of grants. The chart given below depicts the sources of funds for ULBs:-



## **1.5 Release of funds**

The grants are further allocated among the Municipal Corporation, Municipal Councils and Nagar Panchayats on the basis of percentage of total population and revenue earned from their own resources.

## **1.6 Audit Arrangement.**

The recommendations of Eleventh Finance Commission stipulate that the Comptroller and Auditor General of India shall be responsible for exercising control and supervision over proper maintenance of the accounts and their audit for all three tiers of Panchayati Raj Institutions and Urban Local Bodies.

The audit of Urban Local Bodies is being conducted by the Director (Urban Development) through Local Audit Department. The Accountant General also conducts test audit under Technical Guidance and Supervision as per recommendations of Eleventh Finance Commission as well as under the Section 14 of the DPC Act, wherever these bodies come under the purview.

## **1.7 Audit Coverage.**

Test check of the accounts records of one Municipal Corporation\*, eight Municipal Councils\*\* and six Nagar Panchayats\*\*\* (details in Appendix -1) was conducted during 2005-06 and 2006-07. The important audit findings are incorporated in the succeeding paragraphs.

## **1.8 Comments on Accounts.**

### **1.8.1 Budget Estimates.**

Budget proposals are directly related to the aspirations of the people of local area. It is therefore essential to take utmost care in preparing budget proposals giving due attention to the prioritized needs of the people. The overall budget provisions for the year 2003-06 and the expenditure there against of one

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\*.Municipal Corporation, Shimla.

\*\* Municipal Council, Bilaspur, Dharamsala, Kullu, Mandi, Nahan, Palampur, Solan & Sundernagar.

\*\*\*Nagar Panchayat, Arki, Bhota, Manali, Nagorta Bagwan, Rewalsar & Sunni

Municipal Corporation, eight Municipal Councils and six Nagar Panchayats test checked were as under:-(Unit-wise position is detailed in Appendix--2):-

Year	Budget Estimate	Actual Expenditure	Savings (-) Excess (+)	Percentage over all utilisation
2003-04	4448.30	3131.55	(-)1316.75	70
2004-05	4927.26	3943.46	(-)938.80	80
2005-06	5270.17	3985.24	(-)1284.93	76

Perusal of above table would indicate that the budget estimate were not realistic as the utilisation of provisions during 2003-06 was between 70 and 80 percent. No reasons for less utilization of budget had been furnished.

### 1.8.2 Utilization of budget under schemes

The position of budget allotment and expenditure under various centrally sponsored schemes for the last three years in Urban Development Department was as under:-

(Rs. in lakh)

Name of scheme	Year	Budget allotment	Expenditure	Variations Excess(+) Saving (-)
<b>IDSMT</b>	2003-04	53.00	158.42	(+) 105.42
	2004-05	244.66	227.66	(-) 17.00
	2005-06	92.00	28.00	(-) 64.00
<b>SJSRY</b>	2003-04	74.77	43.44	(-) 31.33
	2004-05	58.44	2.89	(-) 55.55
	2005-06	20.36	45.36	(+) 25.00
<b>NSDP/EIUS</b>	2003-04	231.86	258.03	(+) 26.17
	2004-05	224.00	368.00	(+) 144.00
	2005-06	244.00	179.40	(-) 64.60

The excess expenditure was attributed to additional funds released by the Govt. of India and less expenditure was due to non-release /less release of funds by the State /Central Govt.

### **1.8.3 Non Reconciliation of Balances.**

Accounts Rules enjoin that the cash balances of the accounts maintained with the bank should tally with the balances of the cash book at the end of every month by way of reconciliation.

A difference of Rupees 6.92 lakh between the cash balances as per cash books and that of bank accounts at the end of March 2006 remained unreconciled in respect of Municipal Corporation, Shimla. The difference pertained to the period from 1995 onwards.

The Commissioner stated (September 2006) that the differences were due to non-supplying of documents by various branches of H.P. State Cooperative bank situated in different places at Shimla as numbers of accounts were being operated. Efforts were being made to reconcile the differences. Further developments were awaited.

In five urban local bodies (Appendix 3) test checked, there were unreconciled balance of Rs. 24.83 lakh as of March 2006. Thus the un-reconciled balances reflect incorrect financial status of the local bodies and consequently, the risk of fraud/embezzlement and mis-appropriation of funds also can not be ruled out. The concerned officers of urban local bodies stated that efforts were being made to reconcile the differences. The replies were not tenable as monthly reconciliation has not been ensured.

### **1.8.4 Un-discharged liabilities**

(a) The Irrigation and Public Health Department (IPH) had been providing drinking water to three urban local bodies on payment basis for further distribution to the public.

Test check of records revealed that in the case of these bodies, amounts aggregating Rs. 2039.81 lakh (Shimla: Rs.1874.08 lakh, Solan: Rs. 147.49 lakh and Palampur: Rs. 18.24 lakh) on account of water charges payable to IPH

Department were outstanding (March 2006). Year-wise break-up of the pendency was not made available to audit.

The Commissioner, Municipal Corporation Shimla attributed (September 2006) the reasons for creation of liability to weak financial position and due to non-revision of domestic water charges as the corporation had been charging rate of Rs. 3.85 per kilo liter against the rate of Rs.8 per kilo liter being charged by the IPH Department plus 4.40 per kilo liter assessed as distribution cost. It was also stated that upto the year 2000 the Government had been providing Rs. 1.00 crore annually as grant for liquidation of water charges which had been stopped by the Govt. The reply was not tenable as the corporation had not taken concrete steps to revise the rates of water charges proportionately to cover the gap. The other two local bodies attributed the reasons to weak financial position.

(b) The urban local bodies had been maintaining street lights in their jurisdiction and the payment for electricity being supplied by the HPSEB was to be made on billing basis.

In eight urban local bodies (Appendix-4), test checked, un-discharged liability amounting to Rs. 871.35 lakh on account of energy charges payable to HPSEB were outstanding (March 2006). Year wise break up of arrears in all the cases was not made available.

The reasons for un-discharged liabilities were attributed to weak financial position of these urban local bodies.

### **1.8.5 Non-maintenance of Assets Register.**

The Municipal Act, 1994 provides that every local body should maintain Asset register and also physically verify the assets.

The assets register had not been found maintained in 12 urban local bodies test checked. In the absence of asset registers the position of total assets created by each body was not known.

### **1.8.6 Non-Certification of Accounts**

With no specific provision in the State Acts/Rules, certification of accounts by any agency was not in vogue in any of the urban local body test checked. 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 these bodies could be given.

### **1.8.7 Awaited utilisation certificates.**

Test check of grants in aid records maintained in the Directorate (UD) revealed that utilisation certificates amounting to Rs.202.86 lakh pertaining to various grants released between 2002-03 and 2004-05 were awaited (June 2006) from 19 urban local bodies although their prescribed utilisation period had since been over.

In addition, the Utilisation Certificates in respect of the grants released during 1997-98 to Municipal Corporation amounting to Rs. 94.37 lakh were also awaited (June,2006).

No specific reasons were advanced for non submission of utilisation certificates by concerned local bodies.