

CHAPTER I

AN OVERVIEW OF

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URBAN LOCAL

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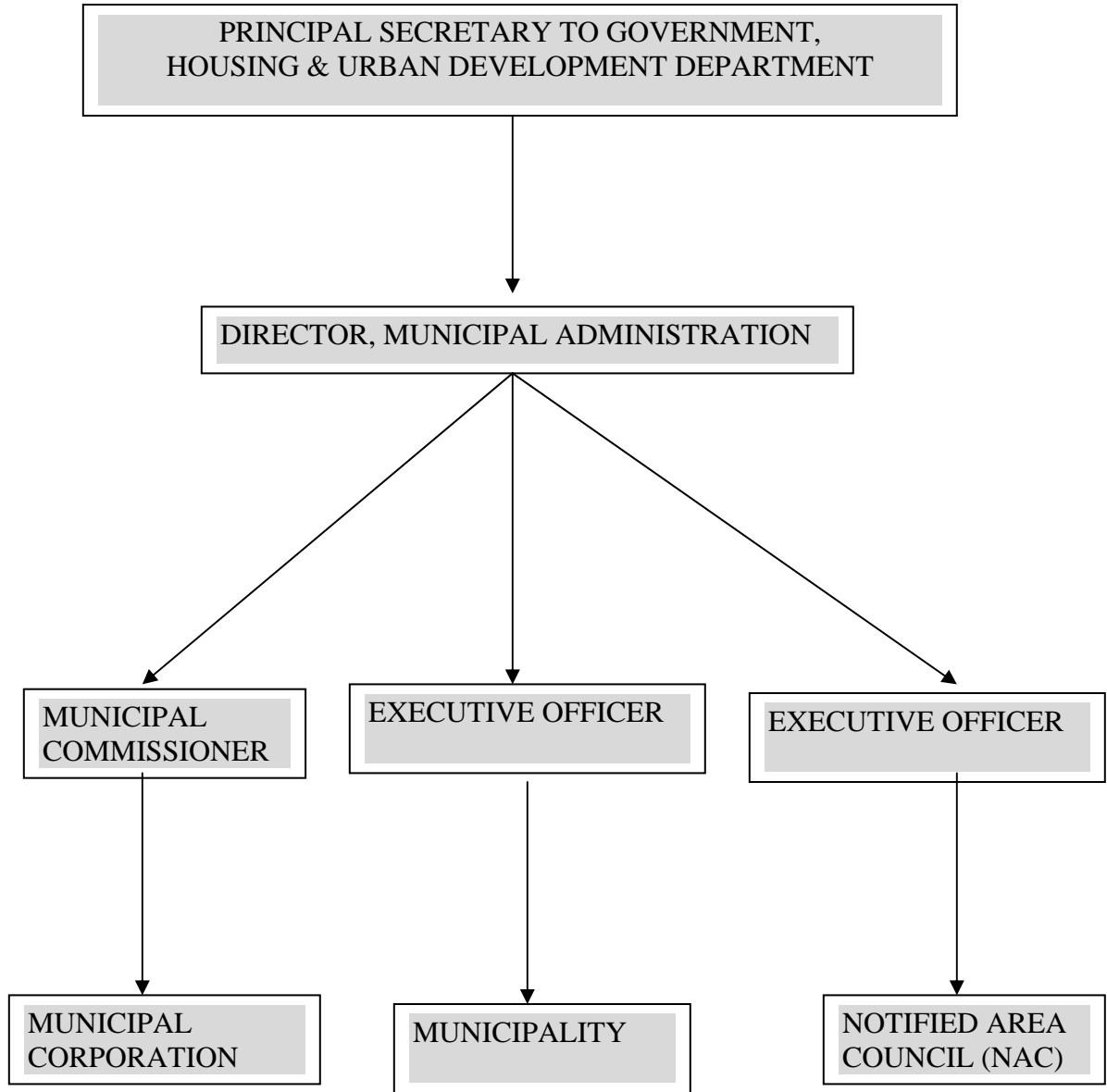
1.1 Introduction

In pursuance of the 74th amendment of the Constitution envisaging three levels of Urban Local Bodies (Municipal Corporations, Municipalities and Notified Area Councils), the Orissa Municipal Act enacted in 1950 was amended in 2002 and the Orissa Municipal Corporation Act was enacted (2003) to decentralize the powers and functions by transferring them to the Local Bodies for ensuring proper and planned growth of cities and towns with adequate infrastructure and basic amenities. At present there are 104 ULBs (2 Municipal corporations, 35 Municipalities and 67 Notified Area Councils) in the state covering 13 *per cent* (48.88 lakh) of its total population.

The Eleventh Finance Commission (EFC) recommended that the C&AG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the three tiers/ levels of ULBs. Based on the recommendation as accepted by the Government of India (GOI), the State Government provided Technical Guidance and Supervision (TGS) to the C&AG over the work of the Examiner, Local Fund Audit and entrusted the audit of 20 *per cent* of ULBs (May 2004) to the C&AG under section 20(1) of the C&AG's (DPC) Act' 1971.

1.2 Organizational Set up

The organizational set-up of the ULBs is as follows:



The Municipal Corporation is headed by the Mayor and the Municipality/NAC by the Chairman who are elected representatives of the respective ULBs.

1.3 Devolution of Functions

The 74th amendment of the Constitution enacted (2003) to decentralize the powers and functions to the Urban Local Bodies (ULBs) for ensuring proper and planned growth of cities and towns with adequate infrastructure and basic amenities. Out of the 18 functions enlisted in the 12th schedule of the constitution, the Government of Orissa has transferred eight functions to the ULBs so far (March 2007). The remaining 10 subjects[†] have not so far been transferred to the ULBs.

1.4 Sources of Funds

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

During 2005-06, Government provided financial assistance of Rs.94.61 crore by way of grants and loans to ULBs viz., Municipal Corporations, Municipalities and NACs.

1.5 Flow of Funds:

The State Government on receipt of funds under the Centrally Sponsored Plan (CSP) Schemes releases the funds to the ULBs including its matching share through the budget provision of the state. The state Government also releases its own funds under State plan and Non-Plan schemes through the state budget. However the EFC/TFC grants are released directly through sanction orders by the State to the ULBs

[†] (1) Regulation of land-use and construction of buildings (2) Roads and bridges (3) Water supply (4) Public health, sanitation and solid waste management (5) Fire services (6) Provision of Urban amenities and facilities (7) Burials and burial grounds (8) Cattle pounds (9) Public amenities including street lighting (10) Regulation of slaughter houses and tanneries.

1.6 Functioning of ULBs

The ULBs execute their functions through constitution of different Standing Committees such as: Committee on Taxation, finance & accounts, PH water supply, Public works, Planning & development, Licenses & appeal, grievances and Social justice etc. While 10 standing committees function in Municipal Corporations, five of such committees function in Municipalities and NACs.

1.7 Accounting Arrangement

The Chief Finance Officer is responsible for maintenance of accounts in Municipal Corporations whereas the Executive officers in case of Municipalities maintain the accounts with the assistance of Accountants.

1.8 Audit Arrangement

The Examiner, Local Fund Audit (LFA) conducts audit of the three tiers of ULB through the District Audit officers, Audit Superintendents and Auditors. As regards arrears 269 nos of accounts[‡] in respect of 104 ULBs are pending for audit by the LFA as of 31 March 2007. Audit of 20 *per cent* of ULBs is conducted by the C&AG of India under section 20 (1) of the C&AG's (DPC) Act, 1971.

1.9 Audit Coverage

The audit of the accounts of 18 ULBs: two Municipal Corporations, nine Municipalities and seven NACs (Appendix-I) were test checked during 2006-07. The important audit findings are summarized in the succeeding paragraphs and chapters.

[‡] Audit of one year's accounts is treated as one account.

1.10 COMMENTS ON ACCOUNTS

1.10.1 Receipt and Expenditure of funds under ULBs

The funds in form of grants received vis-a-vis the expenditure incurred by the Urban Local Bodies (ULBs) of the State during 2005-06 were as under:

(Rs in crores)

Type of ULB	Receipt	Expenditure	Balance
Municipal Corporations	65.60	65.23	0.37
Municipalities	77.75	76.97	0.78
NACs	23.30	22.18	1.12
Total	166.65	164.38	2.27

Of the total grants received by the ULBs, 78 per cent (Rs 129.85 crore) constituted octroi compensation grant, 10 per cent (Rs 16.00 crore) related to road maintenance/development grants and 12 per cent (Rs 20.80 crore) pertained to Twelfth Finance Commission (TFC) grants. The information regarding the receipt of fund by the ULBs from their own sources was not available with the Government. No centralized agency for consolidation of such information existed. Scrutiny of grants with reference to population of 48.88[§] lakh in ULBs revealed, the Government provided grants for per capita expenditure in Municipal Corporations for Rs 555.00 while in Municipalities and NACs for Rs 314.00 and Rs 190.00 respectively during 2005-06.

1.10.2 Un-utilization of Funds.

Test check of Receipt and Expenditure statements of three Municipalities and three NACs revealed that the unutilized balances of Rs.4.11 crore and Rs 5.79 crore (Appendix-II) constituted 16 to 40 per cent of the total funds available to the ULBs for expenditure during 2004-05 and 2005-06 respectively. During these years the percentage of expenditure to the total fund available was 73.72 and 67.73 respectively.

[§] The population of Municipal corporations (11.83 lakh), Municipalities (24.77 lakh) and NACs (12.28lakh)

Poor utilization of funds indicated defective planning and inadequate financial management which deprived the people of the benefits of developmental works implemented by the ULBs.

1.10.3 Non preparation of Annual Accounts

Soon after the closure of the financial year and not later than the 15th April following, the annual accounts of ULBs should be prepared showing totals of receipts and expenditure under different heads during the year. In violation of the above, Baripada and Sundargarh Municipalities did not prepare annual accounts for 2005-06.

Due to non maintenance of accounts, the actual position of income and expenditure could not be verified and the true and fair view of the accounts could not be confirmed

1.10.4 Certification of Accounts

The State Government has not made any provisions in the State Acts/Rules for certification of accounts for the ULBs by the Examiner of Local Fund Audit.

1.10.5 Non maintenance of Data Base on Finances prescribed by C&AG

On the recommendations of the EFC, data base on finances were required to be maintained at all levels of ULBs for securing accountability and transparency in maintenance of accounts. Accordingly, the Data Base Formats on Finances were prescribed by the C&AG which have not yet been adopted by the Government. The Government is preparing Accounting Manual and Municipal law on the basis of “National Municipal Accounting Manual” and “Model Municipal Law.” Apart from this no centralized accounting and financial information system is adopted by the Government for which the financial and physical progress of the ULBs could not be ascertained.

1.10.6 Non utilization of Twelfth Finance Commission Grants (TFC)

The Government (Housing & Urban Development department) received the TFC grant of Rs 20.80 crore in 2005-06 towards expenditure on Solid Waste Management and creation of Data base and maintenance of accounts. Scrutiny of records of four Municipalities (Appendix-III) revealed, Rs 1.42 crore TFC grants received by them were not utilised at all. The reason for non-utilisation of fund was attributed to non receipt of clearance from the Government to incur expenditure. Release of funds by the Government with the instructions not to spend the amount till further orders defeats the purpose for which the GOI grants were received.

1.10.7 Non maintenance of Records/Registers

Scrutiny of records of Cuttack Municipal Corporation and Keonjhar Municipality revealed, important records and registers like Asset Register, Property Register, Register of loans and Investment, Deposit register etc were not maintained by them. Due to non-maintenance of records, the sources of the revenue receipts of their own could not be ascertained.

To ascertain the sources of their revenue receipts, the above mentioned records should be maintained.