

# **CHAPTER-I**

## **INTRODUCTION TO ULB IN THE STATE OF BIHAR**

### ***1.1 Constitutional Background***

The Urban Local Bodies (ULB) have been in existence as institutions of urban local self-governance in a limited way in the State of Bihar since 1920s. Under the Bihar & Orissa Municipal Act, 1922 various Municipalities and Notified Area Committees were constituted and functioning. Patna Municipal Act, 1951 paved way for constitution of five Municipal Corporations in major cities/towns of the state.

After the 74th Constitutional Amendment Act, all State Governments were mandated to operationalise the urban local bodies as full fledged, vibrant institutions of local self-governments by vesting them with clearly defined functions and responsibilities. Accordingly, the State Government enacted a comprehensive Municipal Act and reorganized these institutions into a three-tier system of Urban Local Bodies, namely Municipal Corporations, Nagar Parishad (erstwhile Municipalities), and Nagar Panchayats (erstwhile Notified Area Committees) on the basis of population and level of urbanization achieved in an area. Bihar Municipal Act (BMA), 2007 was enacted in January 2007 replacing all prevailing Acts.

At present, there are seven Municipal Corporations, 42 Nagar Parishads, and 75 Nagar Panchayats in the State of Bihar catering to an urban population of about 98 lakh. Each urban local body is divided into number of wards with a minimum of 10 wards and a maximum between 37 and 65 depending upon the size of the body/area. At the state level, Urban Development Department (UDD) coordinates the functioning of all ULBs. An elected Councillor for the Corporation and Ward Commissioner for Nagar Parishads/Nagar Panchayats represent each ward.

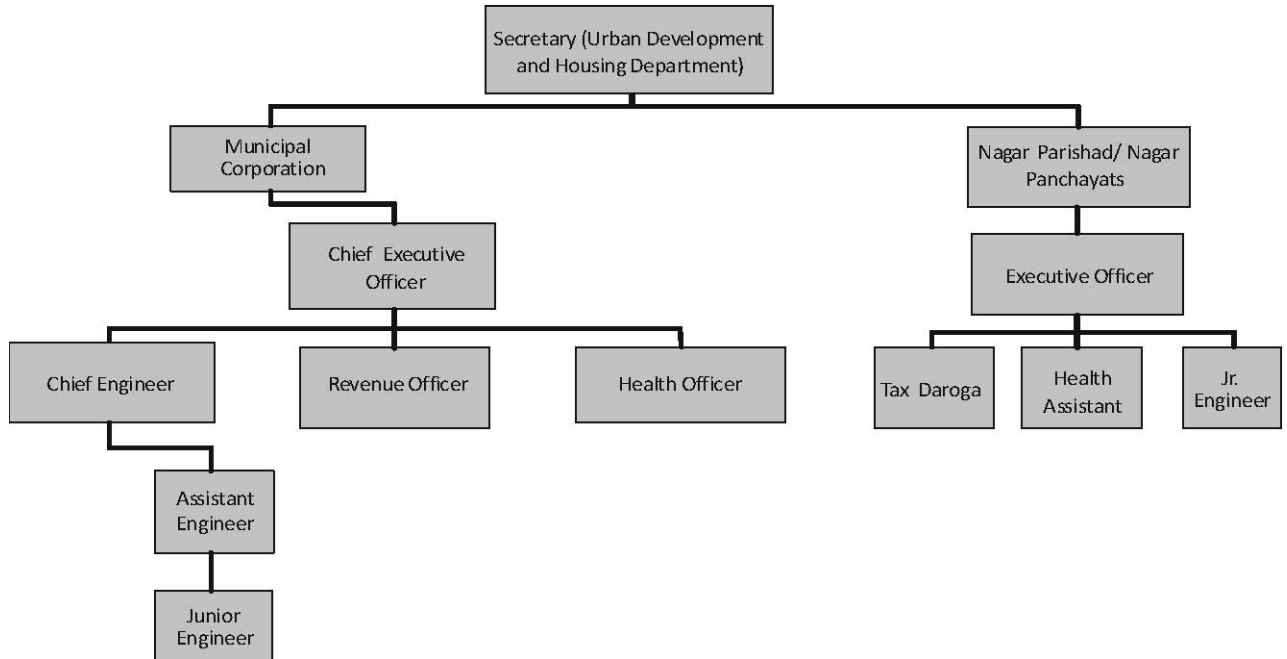
### ***1.2 Powers, Functions, & Functionaries of ULBs***

Under Article 243 of the Constitution, the ULBs were to be devolved with funds, functions and functionaries. The State Government is yet to make devolution based on complete activity mapping of functions of various departments. The transfer of functions, functionaries and consequently the funds to the ULBs by the State Government/departments, is yet to materialize.

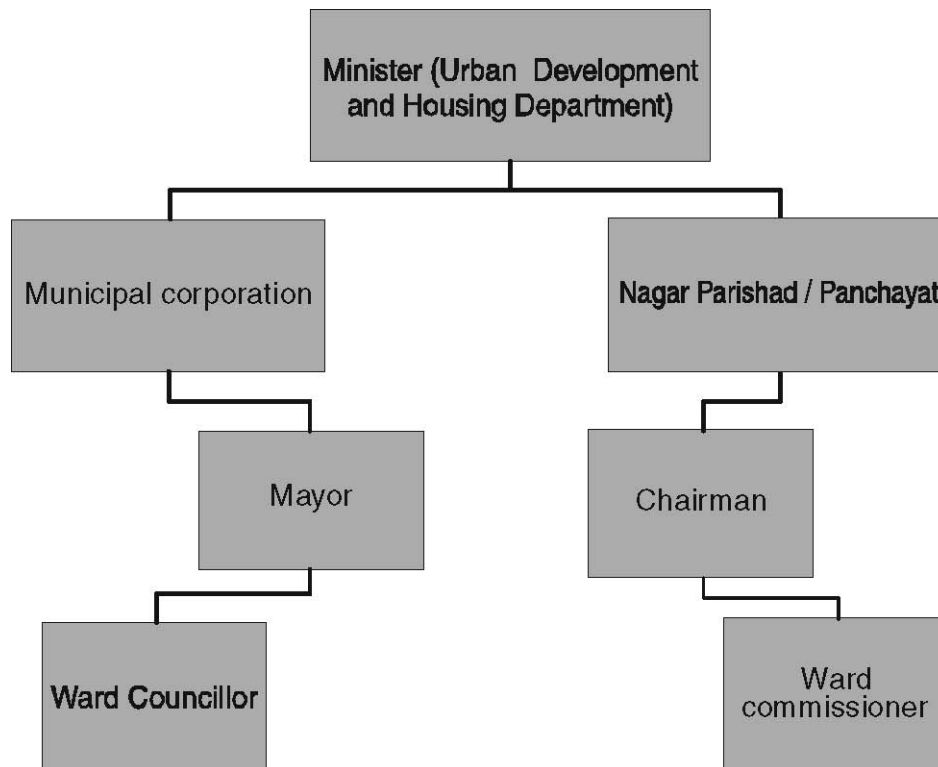
### 1.3 Organizational Structure of ULBs

The following organogram depicts structure of the ULBs in the State of Bihar.

#### ADMINISTRATIVE SET UP



#### ELECTED BODY



The Municipal Corporation/ Nagar Parishad / Nagar Panchayat is an institution of self-government which is a body corporate by the name of the Municipal Corporation/ Commissioners with perpetual succession having a Board of Councillors/Commissioners elected from each ward and ex-officio members of the House of People/Council of State and Members of the State Legislative Assembly/Council registered as electors within the Corporation/Municipal area.

The Mayor/Chairman elected by the majority of Councillors/Commissioners is the executive head of the Urban Local Body and presides over the meetings of the Corporation/Municipal Board and is responsible for governance of the body. To assist the Nagar Parishads/Panchayats, various Standing Committees and Ward Committees in the case of the Corporation for specified matters are functioning. Besides, there are various other committees too.

The Chief Executive Officer/Executive Officer appointed by the State Government is a whole time principal executive officer of the Corporation and Nagar Parishads/Panchayat respectively, for administrative control of the ULB. Other officers are also appointed to discharge specific functions.

Functions of the CEO/EO include general supervision control over the officials of the ULB, organize board meetings, get the budget estimates prepared, monitoring and implementation of schemes including acting as the DDO of the ULB.

#### ***1.4 Sources of Finance/Revenue***

The Urban Local Bodies are mainly financed by receipts from their own resources, which form a substantial part. Other sources of finance are grants from Union Government, other recurring/non-recurring grants released by the State Government including loans to compensate their establishment expenses.

Under the provisions of the Acts in force, all collections such as tax on holding, water tax, latrine tax, tax on the vehicles, tax on the trades, professions, calling and employments, fee on the registration of vehicles kept or used or plying for hire, etc. are sources of tax revenue and building plan sanction fees, mutation of property fees, rent on shops and buildings, tolls and other fees and charges etc, constitute the main source of non-tax revenue receipts.

#### ***1.5 Non revision of Assessment of holdings***

The assessment of holding, on the basis of which taxes are imposed and realised, was not revised in 12 ULBs (**Appendix I**). As per provision contained in section 106 of Bihar Municipal Act, 1922 and section 138(1) of Patna Municipal Corporation Act, 1951, assessment of the holding is required to be revised every five year. Due to non- revision of assessment, which was overdue, 12 ULBs were deprived of potential revenue of their own, which would have been received in the shape of increased taxes.

### ***1.6 Application of funds***

As per section 67 and 68 of Bihar & Orissa Municipal Act, 1922, the municipal fund is applicable firstly, for liabilities and obligations arising from a trust legally imposed upon or accepted by the Govt., secondly, for repayment of loan and interest incurred under the provisions of the Local Authorities Loans Act, 1914 and thirdly, for payment of the salaries and allowances of their own establishment including such contributions as are referred to in section 39 of the Act.

So far the new act i.e. Bihar Municipal Act, 2007 is concerned, money credited to the municipal fund from time to time shall be applied for payment of all sums, charges and costs necessary for carrying out the purposes of this Act and the rules and regulations made thereunder and for payment of all sums payable out of the municipal fund under any other law for the time being in force.

### ***1.7 Role of Standing Committees***

The Empowered Standing Committee was required to consider the audit report as early as possible and if necessary, to take prompt action therein and shall also, if necessary, to surcharge the amount of any illegal payment on the person making or authorizing it and to charge against any person responsible therein for the amount of any deficiency or loss incurred by negligence or misconduct of such person or any amount which ought to have been but is not brought into account by such person to certify the amount due from such person. However, whether the standing committees were constituted and functioning in existing 124 ULBs was not ascertainable as reply to our enquiry in this regard is still awaited.

### ***1.8 Accounting Arrangements***

In exercise of powers conferred under section 81 of Bihar and Orissa Municipal Act, 1922, the State Government enacted namely the Bihar Municipal Accounts Rule, 1928 for maintenance of accounts and records of ULBs. These rules came into effect from 1 April 1929.

Since these rules provide for maintenance on accounts in single entry system, the State Government in pursuance of decision taken, made a Steering Committee of the following members on 28 June 2004 for municipal accounting reforms and enforcing double entry system in ULBs

- (i) Commissioner cum Secretary, Finance Department, Patna.
- (ii) Commissioner cum Secretary, Urban Development Department, Patna
- (iii) Accountant General (A & E) Bihar, Patna
- (iv) Examiner of Local Accounts, Bihar, Patna

- (v) Chief Executive Officer, Patna Nagar Nigam
- (vi) Deputy Secretary-cum-Director, Directorate of Local Bodies, Bihar

The first meeting of the Steering Committee was held on 13th July 2004 in which it was decided to appoint technical expert through tender for enforcing the accounting system and for preparing specific accounting rules. The second meeting of the Steering Committee was held on 25th July 2005 wherein it was decided to take steps for updating of accounts in all ULBs and for the said purpose services of retired officials of AG office might be taken. Thereafter, no progress was reported.

Under Section 87 of the Bihar Municipal Act, 2007 the State Government is required to prepare and maintain a manual to be called Municipal Accounting Manuals containing details of all financial matters and procedures relating thereto in respect of municipality. This manual is yet to be prepared. Section 88 and 89 *ibid*, provides for preparation of Annual Financial Statements containing Income and Expenditure Account and Balance Sheet in the formats to be notified by the Government of Bihar.

### ***1.9 Audit Arrangements***

The Accounts of Urban Local Bodies are subject to audit under the Bihar and Orissa Local Fund Audit Act, 1925. The Act also provides for the Examiner of Local Accounts (ELA), Bihar as the sole auditor to carry out the mandate. With the enactment of BMA, 2007 and provisions thereunder, the State Government, in exercise of power conferred under section 91(1) of the Act, appointed the Examiner of Local Accounts, Bihar as Auditor of the Urban Local Bodies and the audit is to be conducted under the provisions of the Local Fund Audit (LFA) Act, 1925. Accordingly, the Examiner of Local Accounts (ELA), Bihar functions as the sole auditor of ULBs under the supervision of the Principal Accountant General (Audit), Bihar. The ELA is assisted by the Local Audit Department (LAD) to discharge of his duties & responsibilities.

### ***1.10 Audit Coverage***

During the financial year 2006-07, audit of accounts of 40 Urban Local Bodies were conducted covering

the period up to 2005-06. These report discuss the important audit findings of all 40 ULBs (4 Corporations, 20 Nagar Parishads, 16 Nagar Panchayats).

*Nagar Nigam-Darbhanga, Gaya, Muzaffarpur, Bhagalpur, Nagar Parishad-Jamui, Sasaram, Dehri Dalmianagar, Khagaria, Katihar, Araria, Buxar, Jehanabad, Munger, Nawada, Sheikhpura, Hazipur, Bagha, Sitamarhi, Supaul, Aurangabad, Lakhisarai, Motihari, Barh, Khagaul, Nagar Panchayat-Sultanganj, Mairwa, Dumra, Shahpur, Daudnagar, Sugauli, Mahnar, Bhabhua, Nirmali, Jagdishpur, Bahadurganj, Rosera, Maharajganj, Revelganj, Dumrao, Murliganj.*