

PART B URBAN LOCAL BODIES

CHAPTER – III

FINANCE AND ACCOUNTS OF URBAN LOCAL BODIES

3.1 Introduction

Article 243 (W) of the Constitution of India envisages that the State Government may, by law, endow the municipalities with such powers and authority as may be necessary to enable them to function as institutions of self Government and such law may contain provisions for devolution of powers and responsibilities upon municipalities.

After the 74th Constitution Amendment, the Urban Local Bodies (ULBs) were made full fledged and vibrant institutions of Local Self Government by vesting them with clearly defined functions and responsibilities. Accordingly, the State Government reorganized (1993) these institutions into three tier system of Urban Local Bodies namely Municipal Corporations, Nagarpalikas and Notified Areas.

At present, there are seven Municipal Corporations, 159 Nagarpalikas and 23 Notified Areas. The Nagarpalikas are classified into four categories on the basis of population as ascertained in the preceding census. Each Nagarpalika is divided into a number of wards, which is determined by the State Government with regard to population, geographical condition and economic consideration. Elected members/councilors represent each ward. The Nagarpalikas were constituted under the provisions of Gujarat Municipalities Act, 1964, while the Municipal Corporations were constituted under the Bombay Provincial Municipal Corporations Act, 1888 as revised in 1949.

This Act has a provision for audit of accounts of the Municipal Corporation by Chief auditor appointed for the purpose. The Director, Local Fund Audit does not have jurisdiction over the audit of Municipal Corporations in Gujarat.

The Population of Gujarat is 5.07 crore (2001 census) of which 1.90 crore (37.36 per cent) reside in urban area. The last elections for NagarPalikas were held in February 2008.

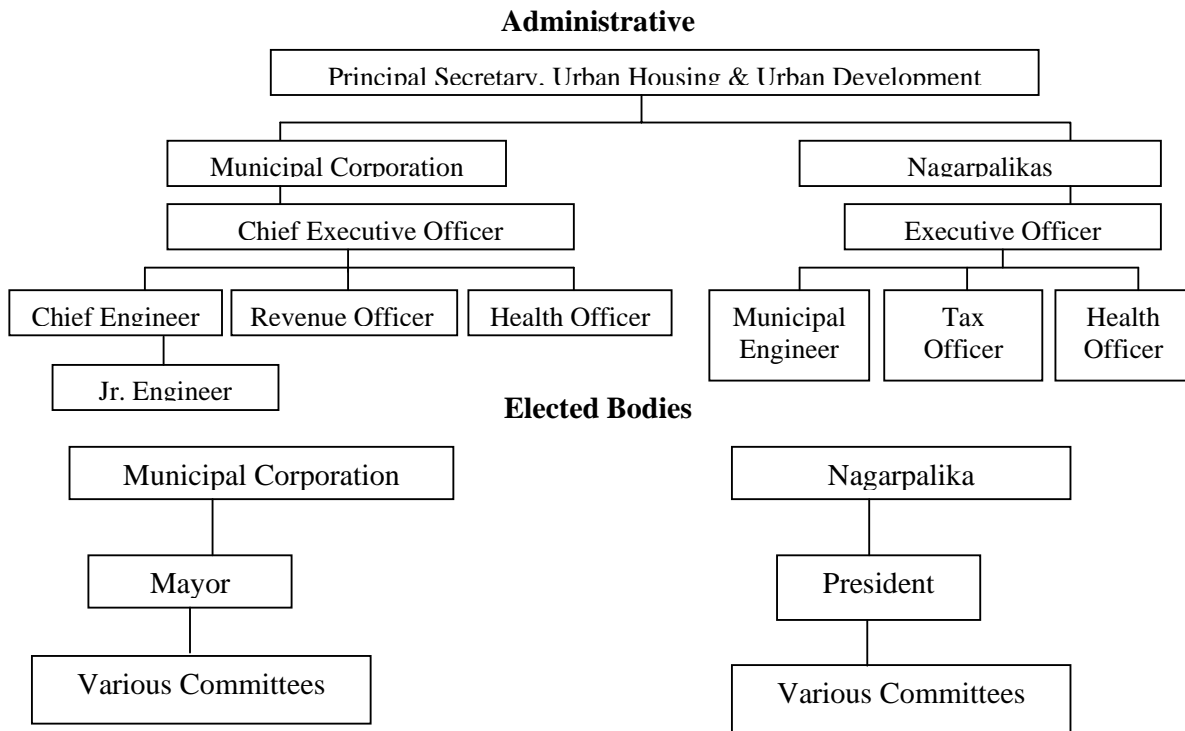
3.2 Organizational setup

The Nagarpalika/Municipal Corporation is body corporate having a Board of Councilors. All the ULBs consist of elected members (councilors) from each ward.

The President/Mayor, elected by the majority of the Board of Councilors, is the executive head of the ULB. The executive powers of ULBs are exercised by the council. The President/Mayor enjoys powers as is delegated by the Board. Various committees are formed to assist the Nagarpalika/Municipal Corporations.

The Chief Executive Officer/Executive Officer appointed by the State Government is a whole time Principal Executive Officer of the Nagarpalika/ Corporation for administrative control of the ULB. Other officers are also appointed to discharge specific function. Functions of CEO/EO include general supervision control over the officials of the ULBs, organize board meetings, and get the budget estimate prepared, monitoring and implementation of schemes including acting as the Drawing and Disbursing Officer of the ULB.

The following organogram depicts the structure of ULBs in the State of Gujarat:-



3.3 Powers and functions

Twelfth Schedule (Article-243 W) of the Constitution of India envisages that the State Government may by law; endow the Municipality with such powers and authority as may be necessary to enable them to function as institutions of self Government.

Accordingly, the State Government vide Section 87 of the Gujarat Municipality Act 1963 devolved various functions to be exercised in the sphere of Public Works⁴, Education⁵, Public Health & Sanitation⁶, Development⁷, Town Planning⁸ and Administration⁹.

⁴ Naming streets and number of premises, giving immediate relief in the event of natural calamities.

⁵ Establishing & monitoring primary school

⁶ Regulating and abating offensive or dangerous trades or practice, securing and removing dangerous buildings or places and reclaiming unhealthy localities, obtaining a supply or and additional supply of water, proper and sufficient for preventing danger to the health of inhabitants from the insufficiency or unwholesomeness of the existing supply, when such supply or additional supply can be obtained at a reasonable cost, Public vaccination, watering public streets and places, cleaning public streets, introducing and maintaining the system of water closet, depositing night soil and rubbish, providing special medical aid accommodation for the sick in the time of dangerous disease, establishing & maintaining public hospitals, dispensaries and family planning centres and providing public medical relief.

3.4 Sources of revenue

To perform the functions devolved on them, ULBs raise funds from taxes, receive grants from Central/State, EFC/TFC grants and raise loans from financial institutions. The receipts and sector wise expenditure incurred during the last three year ending March 2008 are given below:

A Receipts

SI no.	Description	(Rs. in Crore)		
		2005-06 Receipt	2006-07 Receipt	2007-08 Receipt
1.	State Government grant	457.29	636.17	2432.39
2.	Government of India Grant	43.31	77.27	684.85
3	Own Revenue	122.43	132.69	609.69
4.	Loans	0.40	0	0.30
5	EFC grant, TFC Grant	82.80	41.40	82.80
Total		706.23	887.53	3810.03

Source: Budget Publications

B Expenditure

SI No.	Description	2005-06		2006-07		2007-08	
		Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure
1	General sector	139.16	297.73	151.98	314.20	65.57	65.57
2	Economic Sector	286.03	402.03	358.48	501.74	32.58	47.07
3	Social Sector	280.64	539.07	377.07	353.66	3711.58	3120.66
4	Loans	0.40	0.40	N.A.	N.A.	0.30	0.10
Total		706.23	1239.23	887.53	1169.60	3810.03	3233.40

Source: Budget Publications

The receipt and expenditure figures for the year 2007-08 are inclusive of Municipal Corporations. As evident from the table above, the receipt during the year 2007-08 in Social

⁷ Constructing, altering and maintaining public streets, suitable accommodation for calves, cows and buffalos, printing such annual report of the municipal administration, paying the salary and contingent expenditure on account of such police or guards as may be required by the municipality and improving agriculture by suitable majors.

⁸ Devising town planning within the limits of borough according to the law relating to town planning.

⁹ Lighting public streets, places and buildings, extinguishing fires and protecting lives and property when fires occur. Removing obstruction and projections in public places, erecting substantial boundary marks and registering births, marriages and deaths.

Sector is increased 10 times more as compared to previous year. Similarly, the expenditure is increased by 9 times more than the previous year. The main reason for increase was inclusion of receipts/expenditure pertaining to Municipal Corporations also during the current year.

3.5 Finance Commission Grants

During the period 2005-08, Rs. 248.40 crore on the recommendation of Twelfth Finance Commission (TFC) were released to the State Government by Government of India for ULBs, which was in turn released to the ULBs. There was no delay in releasing grant from State Government to the ULBs test checked. The audit observations on utilization of Finance Commission grant are included in Para 4.8 of Part-B of this Report.

3.6 Annual Accounts

Eleventh Finance Commission (EFC) recommended that the Comptroller & Auditor General of India (C&AG) shall exercise control and supervision over the maintenance of accounts and audit of the ULBs. Based on this, the State Government entrusted (May 2005) the audit of ULBs to the C & AG of India under section 20(1) of the C & AG (DPC) Act, 1971.

The annual accounts of the ULBs were being prepared on 'receipts and payments' basis without exhibiting the position of assets and liabilities. Further the Accrual Based Accounting System as suggested by CAG has been accepted and operationalised with parallel running of cash based system on trial basis in selected ULBs.

The formats for Database on finances of ULBs as prescribed by the C&AG have been accepted by the Government (September 2004 & August 2007). However, these are yet to be operationalised (March 2009).

3.7 Audit arrangements

DLFA is the primary Auditor of the Nagarpalika whereas in case of Municipal Corporations, this work has been assigned to the Chief Auditor of the respective Municipal Corporation. Details of outstanding audit of Nagarpalika by the DLFA till 31st March 2009 are given below:

Year	Total number of Nagar Palikas	Outstanding audit by DLFA
2004-05	140	17
2005-06	140	67
2006-07	140	121

Source: - As per details given by DLFA

3.7.2 C. A. G Audit

The C&AG has been entrusted the audit of ULBs under Section 20(1) of the C&AG's (DPC) Act 1971 vide Resolution dated 6th May 2005. The details of units planned and audited till 31 March 2008 are given below:

Year of audit	No. of NagarPalikas planned for audit	No. of NagarPalikas audited	Pendency of audit if any
2005-06	Nil	Nil	Nil
2006-07	9	9	Nil
2007-08	20	20	Nil

3.8 Pending Inspection Report Paragraphs

3.8.1 There are 139476 numbers of paras of Inspection Report as issued from time to time by DLFA are outstanding as on 31 March 2009. This needs the aggressive pursuance to get the proper compliance for closing outstanding paras.

3.8.2 There were about 705 paras outstanding in respect of Inspection Reports issued by Sr DAG (LBAA), Ahmedabad as of 31 March 2009 for want of proper compliance. The year wise break up is as given below:

Year of audit	Inspection Reports	Outstanding Paras
2007-08	19	324
2008-09	30	381
Total	49	705

3.9 District Planning Board

The State Government constituted District Planning Board (DPB) (1979) for each District headed by Minister in charge of the concerned district. The Government nominates the member from the presidents of the Nagarpalikas of the State. The N.Ps send proposals of the work to be taken up in their respective areas to the DPB for approval. The DPB approves the works and allocate to the NPs for execution/implementation.

3.10 Audit coverage

Accounts for the period 2004-07 of 20 NPs were audited during 2007-08. Results of audit are given in the succeeding chapter.

3.11 Conclusion

The State Government has not devolved all the functions enlisted in the 12th Schedule of the Constitution to the ULBs. Though the formats for database on the finances of ULBs prescribed by CAG have been adopted by the State Government, the same are yet to be operationalised. Pendency of audit by DLFA and arrears in settlement of outstanding

Inspection Report paragraphs of DLFA and that of Sr. DAG(LBAA) indicate weak internal control system in ULBs.

3.12 Recommendations

The following measures are recommended for ensuing better accountability system in ULBs.

- All functions enlisted in the 12th Schedule may be devolved to the ULBs with adequate funds and functionaries.
- Database on finances of ULBs may be maintained in the formats prescribed by CAG.
- Outstanding Inspection Report paragraphs may be settled by effective compliance.