

## CHAPTER- IV

### 4 FINANCE AND ACCOUNTS OF URBAN LOCAL BODIES

#### 4.1 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 subject to such conditions as may be specified there in with respect to (i) the preparation of plans for economic development and social justice and (ii) the performance of function and the implementation of the schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule.

#### 4.2 Status of ULBs in Gujarat

After the 74<sup>th</sup> Constitutional Amendment, the Urban Local Bodies (ULBs) were made full fledged and vibrant institutions of Local Self Government with clearly defined functions and responsibilities. Accordingly, the State Government reorganized (1993) these institutions into three tier system of ULBs namely Municipal Corporations (MCs), Nagarpalikas (NPs) and Notified Areas (NAs).

At present, there are seven MCs, 159 NPs and 23 NAs. The MCs were constituted under the Bombay Provincial Municipal Corporations Act, 1888 as revised in 1949 and amended from time to time by the State Government. The NPs were constituted under the provisions of Gujarat Municipalities Act, 1964. The NPs are classified into four categories on the basis of population as ascertained in the preceding census. Each NP is divided into a number of wards, which is determined by the State Government with regard to population, geographical condition and economic consideration of the respective area. An elected member / councilor represent each ward.

#### 4.3 Households and Populations covered

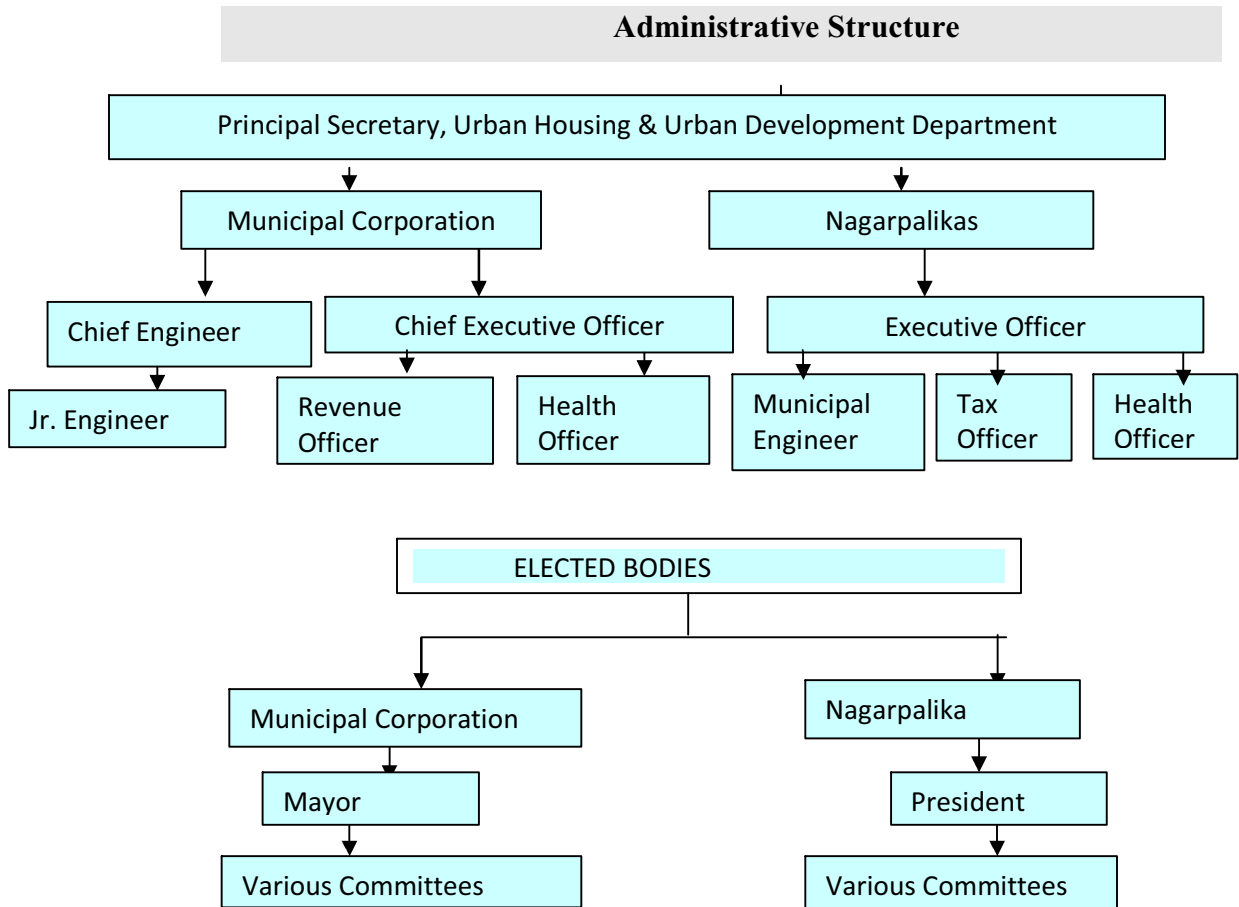
The Population of Gujarat is 5.07 crore (2001 census) of which 1.90 crore (37.36 *per cent*) reside in urban area. Total numbers of households in the State as per 2001 census are 96.44 lakh of which 37.58 lakh (38.97 *per cent*) reside in urban area.

The urban population of Gujarat has increased rapidly from 1.06 crore in 1981 to 1.42 crore in 1991 and again to 1.90 crore in 2001 representing 31.10 *per cent*, 34.47 *per cent* and 37.36 *per cent* of the total population respectively as against the national average of 23.70 *per cent* in 1981, 25.71 *per cent* in 1991 and 27.78

per cent in 2001. The last elections of six MCs and 53 NPs were held in October 2010.

#### 4.4 Organizational setup

The NP / MC is a body corporate having a Board of Councillors. All the ULBs consist of elected members (Councillors) form each ward. The minimum numbers of wards are 21 and the maximum number is kept between 21 and 192 depending on the size of the ULB with reservation for SC, ST, OBC and women as per provisions. The following organogram depicts the structure of ULBs in the State of Gujarat.



The President / Mayor, elected by the majority of the Board of Councillors, is the executive head of the ULB. The executive powers of ULBs are exercised by the Council. The President / Mayor enjoys powers delegated by the Board. Various committees are formed to assist the NPs/ MCs.

The Chief Executive Officer (CEO)/Executive Officer (EO) appointed by the State Government is a whole time Principal Executive Officer of the MC/NP 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, organizing board meetings, monitoring and implementation of schemes and get the budget estimates prepared.

#### **4.5 Powers and functions**

Twelfth Schedule (Article – 243 W) of the Constitution of India envisages that the State Government may, by law, endow the ULBs 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 works<sup>20</sup>, Education<sup>21</sup>, Public Health & Sanitation<sup>22</sup>, Development<sup>23</sup>, Town Planning<sup>24</sup> and Administration<sup>25</sup>. Similarly vide section 63 to 72 of the Bombay Provincial Municipal Corporations Act, 1949 the State Government had devolved various functions and powers to Municipal Corporations.

The details of functions devolved by the State could not be ascertained as State has not furnished (December 2010) the information though called for.

#### **4.6 Financial Profile**

The ULB fund comprises receipts from its own source, grants and assistance from Governments, SFC / Central FC grants and loans obtained from any public financial institutions or nationalized banks or such other institutions as the State Government may approve. A flow chart of finances of a ULB is as given in succeeding page.

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<sup>20</sup> Naming streets and numbers of premises, giving immediate relief in the event of natural calamities.

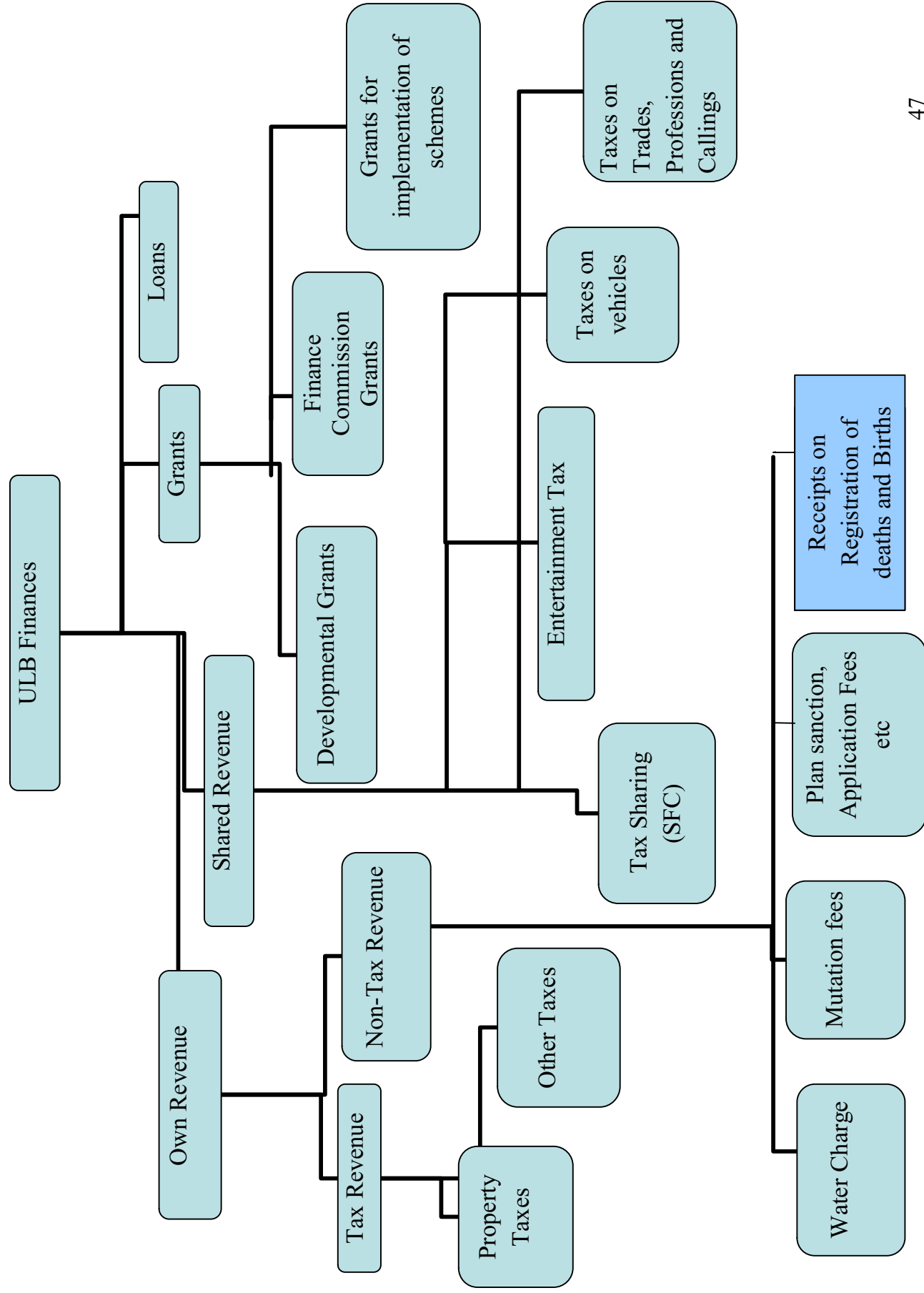
<sup>21</sup> Establishing & monitoring primary school.

<sup>22</sup> 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 the time of dangerous disease, establishing & maintaining public hospitals, dispensaries and family planning centers and providing public medical relief.

<sup>23</sup> Constructing, altering and maintaining public streets, suitable accommodation for cows and buffalos, printing such annual report of the municipal administration, paying the alary and contingent expenditure on account of such police or guards as may be required by the municipality and improving agriculture by suitable majors.

<sup>24</sup> Devising town planning within the limits of borough according to the relating to town planning.

<sup>25</sup> Lighting public streets, places and building, 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.



#### 4.6.1 Sources of finances of ULBs

The property tax on land and building is the principal source of tax revenue of an ULB. The main sources of non-tax revenue of an ULB are plan sanction fees, mutation fees and water charges. All collections as permissible under the statute in force are meant for maintenance of administration and providing of services to the general public.

The State Government releases administrative grants to the ULBs to compensate their revenue expenditure. Grants and assistance released by the State Government and the Central Government are utilised for developmental activities as specified in the respective schemes or programmes.

The loans raised from different sources with prior approval of the State Government are utilised for execution of various projects / schemes.

#### 4.6.2 Sector wise receipts and expenditure

The receipts and sector wise expenditure incurred during the last five years ending March 2009 are given in Table No.1 below.

	2004-05	2005-06	2006-07	2007-08	2008-09
GoG grant <sup>26</sup>	560.61	457.29	636.17	2432.39	3236.65
GoI Grant	36.49	43.31	77.27	684.85	846.49
Own Revenue	121.51	122.43	132.69	609.69	402.10
Loans	0.18	0.40	0	0.30	0.30
FC Grants	136.02	82.80	41.40	82.80	82.80
<b>Total Receipts</b>	<b>854.81</b>	<b>706.23</b>	<b>887.53</b>	<b>3810.03</b>	<b>4568.34</b>
<b>Total Expenditure</b>	<b>715.10</b>	<b>1239.23</b>	<b>1169.60</b>	<b>3233.40</b>	<b>4534.61</b>

(Source: Budget publications and figures received from the Department)

It could be observed from the above that allotment of grants by GoG and GoI reflected increasing trend during the years 2007-08 and 2008-09 due to funding for TFC works and CSS works. The expenditure had also increased during 2007-09 due to above funding and it was within the receipts of the respective years.

#### 4.7 State Finance Commission

Article 243 W of the Constitution had made it mandatory for the State Government to constitute a State Finance commission (SFC) within a year from the commencement of the Constitutional amendment Act and thereafter on expiry of every five year to review the financial condition of the ULBs and to make

<sup>26</sup> Inclusive of JNURM and MCorps. funds

recommendations to the Governor for devolution of funds. GoI guidelines (June 2005) stipulated that state government was to act within six months of SFC's recommendations.

It was, however, noticed (as commented in paragraph 1.10 of this Report) that the State Government had neither maintained periodicity for constitution of SFCs nor placed reports (submitted by the belatedly constituted SFC) in Assembly within six months time, defeating the very purpose of the constitution of SFC.

#### **4.8 Finance Commission Grants**

As per the recommendation of TFC ₹.331.20 crore were released (2005-09) to the State Government by Government of India for ULBs which was in turn released to the ULBs. The audit observations on utilization of Finance Commission grants are included in Chapter III of Part-B of this Report.

#### **4.9 Annual Accounts**

The Accrual Based Accounting System is being followed with parallel running of cash based system on trial basis in all 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 operationlised (December 2010). As per respective Acts/ Rules, the ULBs prepare the accounts pertaining to the period from 1<sup>st</sup> April to 31<sup>st</sup> March of particular year and after getting it approved by the respective Standing Committees/General Body, the accounts are submitted to respective controlling/administrative department by 31<sup>st</sup> of July each year and submitted to DLFA for audit. The audit observations on Annual Accounts of the ULBs are included in Chapter-II of Part-B of this Report.

#### **4.10 Audit arrangements**

##### **4.10.1 Pending audit by Director, Local Fund Audit**

The DLFA is the primary Auditor of the NP and NA whereas in case of MC, this work has been assigned to the Chief Auditor of the respective MC. Audit of all the 23 NAs by DLFA is in arrear since 2008-09 onwards. Details of arrears in audit of NPs by the DLFA as of 31<sup>st</sup> March 2010 are given in the Table No 2:

**Table No 2**

<b>Year</b>	<b>Total Number of NPs</b>	<b>Arrears in audit by DLFA</b>
2005-06	140	22
2006-07	140	63
2007-08	161	126
2008-09	159	159
2009-10	159	159

DLFA stated (November 2010) that the arrears in audit was due to shortage of staff. The reply is not tenable as audit in abeyance for considerable period would

lead to weak internal monitoring and fraught with the risk of frauds and irregularities which cannot be timely detected.

#### **4.10.2 Audit by C&AG**

The recommendations of the EFC stipulate that the C&AG shall be responsible for exercising control and supervision over proper maintenance of the accounts of ULBs and their audit. Accordingly State Government has entrusted (May 2005) the audit of ULBs to C&AG under section 20(1) of the C&AG's (DPCs) Act, 1971.

Regarding entrustment of audit of MCs in the State to C&AG, it was stated (December 2010) by the UH &UDD in GoG that exercise of entrusting the audit was under process and would be finalized by March 2011.

#### **4.11 Outstanding Inspection Report Paragraphs**

##### **4.11.1 Outstanding paras of DLFA Inspection Reports**

Total 1,41,308 numbers of paragraphs of Inspection Reports (IRs) as issued from time to time by DLFA were outstanding as on 31 March 2010, as detailed in Table No.3 below:

**Table No. 3**

	Up to 2000-01	Addition during 2001-09	As of March 2010
Nagarपालikas	94,899	46409 <sup>27</sup>	1,41,308

The reasons for huge outstanding paras though called for (November 2010) details were not provided by the DLFA.

##### **4.11.2 Pending paragraphs of Accountant General (Civil Audit), Gujarat**

Status of outstanding IRs and paragraphs issued by Sr. DAG (LBAA), Ahmedabad, Gujarat, is given in Table No 4 below:

**Table No. 4**

Year of audit	Inspection Reports	Outstanding Paras
2007-08	19	320
2008-09	30	381
2009-10	20	247
<b>Total</b>	<b>69</b>	<b>948</b>

#### **4.12 District Planning Board**

The State Government constituted (1973) District Planning Board (DPB) for each district headed by the Minister in-charge of the concerned district. The State

<sup>27</sup> 2001-02 ;6407.; 2002-03:9779; 2003-04:4824; 2004-05:.,10934; 2005-06:.,4728; 2006-07:.,9626; 2007-08:.,111;

Government under provision of Article 243 Z D of the Constitution of India constituted (July 2006 and January 2009) District Planning Committees (DPC) in all the District by a Government Resolution. Minister in-charge of the district is chairperson of the DPC in each district. The DPC consolidates the plans prepared by the ULBs in the district and prepares a Draft Development Plan (DDP) for the district as a whole on the matters of common interest of the LBs keeping in view the available resources, whether financial of otherwise, and forwards the DDP to State Government with recommendations. The DPCs in the State are working as envisaged in the Constitution.

#### **4.13 Audit coverage**

Accounts for the period 2004-08 of 29 NPs were test-checked during 2008-09 and 2009-10. Results of audit are given in the succeeding chapters.

#### **4.14 Conclusion**

The State Government has not devolved all the functions enlisted in the 12<sup>th</sup> Schedule of the Constitution to the ULBs. State Government adopted the formats for database on the finances of ULBs. However, the same are yet to be operationalised. Neither the prescribed periodicity for constitution of SFCs, as per Constitutional provisions, was maintained nor action was taken by the State Government on recommendations of the belatedly constituted SFCs. Pendency of audit by DLFA and arrears in settlement of outstanding IRs and paragraphs of DLFA and that of Sr. DAG (LBAA) indicate weak internal control system in ULBs.

#### **4.15 Recommendations**

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

- Functions enlisted in the 12<sup>th</sup> 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 the C&AG.
- SFCs should be constituted as per Constitutional provision and immediate actions be taken on the SFCs recommendations.
- Government should initiate Steps on priority to finalise the accounts and its audit of ULBs by the primary auditors.
- Director Municipalities and concerned COs are required to form an apex level committee for clearance of outstanding paragraphs.