

# CHAPTER –1

## ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

### 1.1 Introduction

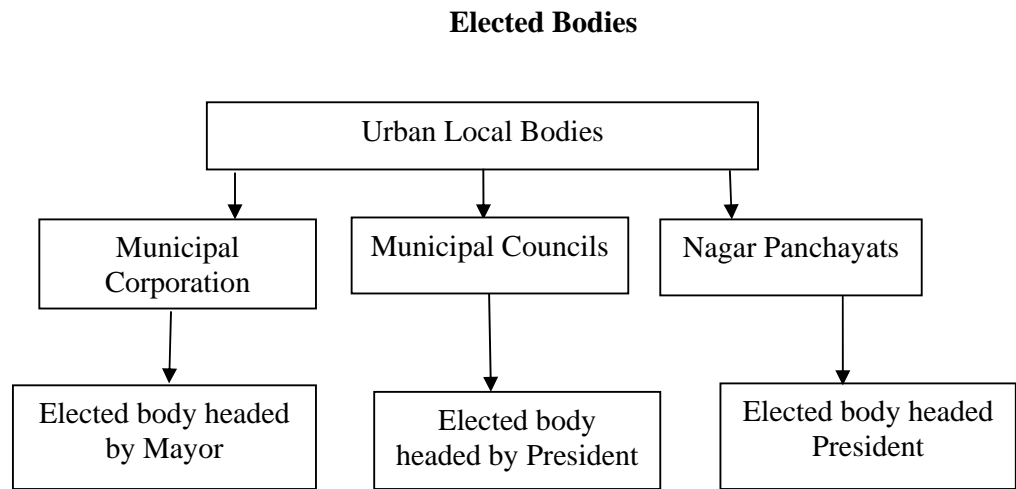
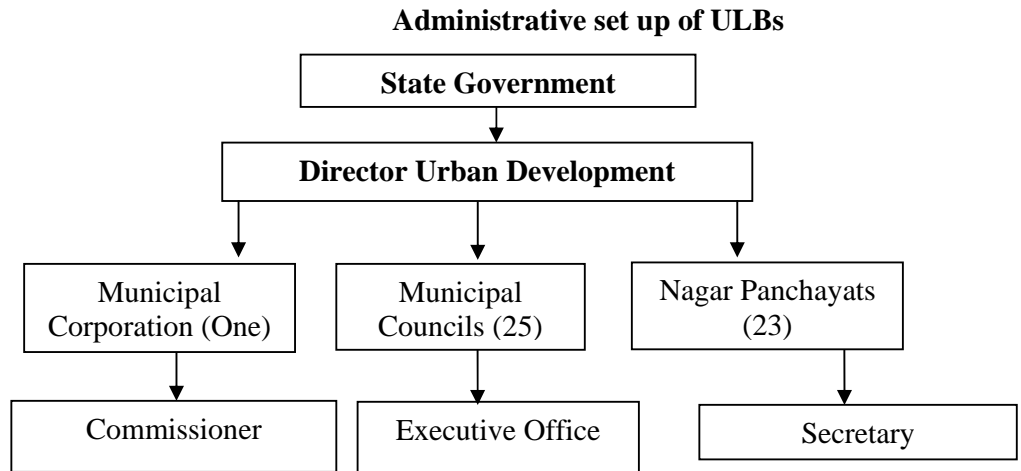
The Seventy Fourth Constitutional Amendment paved way for decentralization of powers and transfer of 18 functions listed in the Twelfth Schedule of the Constitution along with funds and functionaries to the Urban Local Bodies. To incorporate the provision of the Seventy Fourth Constitutional Amendment, the Government of Himachal Pradesh (Local Self Government) enacted the Himachal Pradesh Municipal Corporation Act, 1994 and Himachal Pradesh Municipal Act, 1994 for transferring the powers and responsibilities to Urban Local Bodies (ULBs). However, some obligatory and discretionary functions like maintenance of roads, streets, street lights, cleanliness etc. were with ULBs prior to enactment of these Acts.

The Eleventh Finance Commission (EFC) recommended that the Comptroller and Auditor General of India (CAG) should prescribe the formats for the preparation of budget and for keeping of accounts for the local bodies. EFC further recommended that CAG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all Urban Local Bodies (ULBs). Accordingly, State Government has entrusted audit of ULBs to C&AG under Technical Guidance and Supervision (TGS) module by issuing notification (October, 2008).

### 1.2 Organizational Set up

There is one Municipal Corporation, 25 Municipal Councils (MCs) and 23 Nagar Panchayats (NPs) in the State.

Overall control of the ULBs rests with Principal Secretary (Urban Development) to the Government of Himachal Pradesh through Director, Urban Development Department. The Organizational set up of Urban Local Bodies is as under:-



### 1.3 Powers and functions

To function as institution of self-governance and to carry out the responsibilities conferred upon them, the ULBs exercise their powers and perform the functions in accordance with the provisions of the Constitution. Under section 43 of MC Act, some obligatory functions of the ULBs are as follows:-

- Water supply for public and private purpose;
- Construction and maintenance of sewage and drainage system;
- Collection and disposal of solid waste;
- Construction and maintenance of streets, bridges, culverts, etc. ;
- Construction and maintenance of public latrines, urinals and similar conveniences;

- Lighting of public streets and other public places;
- Construction and maintenance of markets;
- Preventing and checking spread of communicable diseases including immunization;
- Town planning and development including preservation of monuments, places of historical, artistic and other importance;
- Overall administration including survey, removal of encroachment, dangerous buildings, registration of births and deaths and pollution control of all kinds.

Further, MC Shimla, under section 44 of MC Act 1994, at its discretion provides the following services either wholly or partially out of its property and funds:

- Education;
- Music and other entertainments in public places;
- Houses for deaf, dumb, disabled and destitute persons;
- Public works relating to relief, care of sick and medical service;
- Measure to promote public safety, health, convenience or general welfare;

The State Government may impose or transfer any such functions and duties of the Government to the ULBs including those performed by the departments.

#### **1.4 Sources and allocation of Funds**

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

Position of funds released to the ULBs during 2006-10 is given below:-

**Table 1: Funds released by State & Central Government**

(₹ in crore)

Year	Receipts				Total	Total expenditure incurred <sup>1</sup>
	State Govt.	Central Govt.	Total	Own revenue		
2006-07	44.11	0.82	44.93	41.35	86.28	82.23
2007-08	54.37	12.15	66.52	44.26	110.78	85.90
2008-09	59.90	11.75	71.65	46.98	118.63	102.10
2009-10*	-	-	144.64	46.95	191.59	110.91

\*Bifurcation of State/Central Grant is awaited.

The grants were allocated among the Municipal Corporation, MCs and NPs on the basis of total population and revenue earned by them from their own resources.

### 1.5 Budget Estimates

The budget estimates of ULBs are prepared as per Himachal Pradesh Municipal Code, 1975 in the prescribed form keeping in view the budget estimates of expected income and expenditure for the next financial year and placed before the house of the committee for passing the same. After passing the budget by the house of the committee it is submitted to the Director Urban Development for approval. The budget provisions and the expenditure there against for the test-checked Municipal Corporation, seven MCs and ten NPs for the years 2007-08 to 2009-10 were as under:-

**Table 2: Budget estimates vis-à-vis expenditure**

(₹ in crore)

Year	Budget Estimate	Actual Expenditure	Savings (-) Excess (+)	Percentage over all utilization
2007-08	46.67	45.53	(-) 0.14	98
2008-09	118.54	80.43	(-)38.11	68
2009-10	166.67	67.36	(-) 99.31	40

(Unit-wise position is given in **Appendix-1**)

<sup>1</sup> The department has no separate detail of expenditure incurred under revenue and capital.

## **1.6 Non-Certification of Accounts**

Out of 49 ULBs, 30 ULBs have maintained their Accounts on accrual based system. Instructions have been issued by the Director Urban Development Department to all the ULBs to maintain their accounts from April 2009 on accrual basis. The National Municipal Accounts Manual (NMAM) has been approved by the State Government but the same has not been published in Gazette. With no specific provision in the State Acts/Rules, certification of accounts by an independent agency was not in existence in the ULBs. 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 ULBs could be given.

## **1.7 Audit Arrangement**

The recommendations of Eleventh Finance Commission EFC stipulate that the CAG shall be responsible for exercising control and supervision over proper maintenance of the accounts of ULBs and their audit.

In Himachal Pradesh, audit of ULBs is being conducted by the Director Urban Development through Local Audit Department. In October 2008 the Government of Himachal Pradesh has entrusted audit of ULBs to C&AG under TGS arrangement. Accordingly audit for the year 2009-10 has been conducted under Technical Guidance and Supervision (TGS) as per recommendations of EFC.

## **1.8 Audit Coverage**

Test check of the records of Municipal Corporation, Shimla, seven Municipal Committees (MCs)<sup>2</sup> out of 25 MCs and eight Nagar Panchayats (NPs)<sup>3</sup> out of 23 NPs was conducted during 2010-11. In addition, a performance reviews of State Schemes viz. Rajiv Gandhi Urban Renewal Facility (RGURF) was conducted covering twenty out of 30 ULBs where the Scheme was implemented units<sup>4</sup>. Audit finding of the review on RGURF are incorporated

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<sup>2</sup> Hamirpur, Kangra, Nurpur Parwanoo, Poanta, Rampur, and Theog

<sup>3</sup> Banjar, Bhunter, Chowari, Daulatpur, Dehra, Jogindernagar, Jubbal, Kotkhai, Mehatpur and Rajgarh

<sup>4</sup> MCs, 11: Bilaspur, Chamba, Dharmasala, Kangra, Shri Naina Deviji, Nalagarh, Poanta, Parwanoo, Rampur, Solan, Una; NPs, 9: Chowari, Daulatpur, Gagret, Jwalaji, Jubbal, Kotkhai, Narkanda, Sangokhgarh and Talai

in Chapter II and important audit findings are incorporated in Chapter-III of the Report.

### 1.9 Internal Audit of ULBs

Under Section 161(3) of Himachal Pradesh Municipal Corporation Act and Section 255(1) of Himachal Pradesh Municipality Acts, 1994, the accounts of the local bodies are to be audited by a separate and independent agency. Government of Himachal Pradesh issued notification (October 2008), according to which Director Local Audit will prepare Annual Audit Plan. As per their Audit Plan for the year 2010-11, twenty ULBs were planned for audit and the target was fully achieved.

### 1.10 Utilization of Twelfth Finance Commission (TFC) grants

The position of funds released to the ULBs under TFC in the State and actual utilization there against during the period from 2006-07 to 2009-10 was under:-

**Table 4: Position of TFC grant**

(₹ in crore)			
Year	Funds allocated to ULBs	Funds released	Expenditure incurred
2005-06	1.60	...	...
2006-07	1.60	3.20 <sup>5</sup>	1.86
2007-08	1.60	1.60	0.08
2008-09	1.60	1.60	0.15
2009-10	1.60	1.60	0
<b>Total</b>	<b>8.00</b>	<b>8.00</b>	<b>2.09</b>

Source: Director UDD

It would be seen that only 26 percent of the funds released were utilized and the unspent amount of ₹ 5.91 crore was lying in savings bank accounts of the concerned ULBs. The Director, UDD stated (December 2010) that due to resentment of local peoples for establishment of Solid Waste Management Plants (SWM) the amount could not be utilized. He further stated that new sites have been/ are being identified and in some of the ULBs the work relating to SWM are in progress.

<sup>5</sup> Includes grant of ₹ 1,60 crore (2005-06)

### 1.10.1 Non-receipt of Utilization Certificates (UCs) from ULBs

As per TFC guidelines, ULBs are required to furnish UCs to Director, UDD within a period of six months from the date of receipt of grant. It was noticed that utilization certificates in respect of the unspent grants of ₹ 5.91 released by the State Government during 2005-10 to eight ULBs were not received by the Director UDD whereas State Government has issued UCs to GOI for the grants received during the aforesaid period.

### 1.11 Pending Audit objections

The Commissioner/Executive Officer/Secretary of the Municipal Corporation, MC and NP respectively having administrative powers are required to comply with the observations contained in the Inspection Reports (IRs) issued by Local Bodies Audit and Accounts office and rectify the defects/omissions and report their compliance to settle the observations. The details of IRs and paragraphs issued, settled and outstanding as on 31<sup>st</sup> March 2010 was as under:-

**Table 3: Position of pending IRs/ Paras.**

Year of issue	No. of IRs/Paras issued		Position as on 31.03.09		No. of IRs/Paras Settled		No. of IRs/Paras outstanding	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
Upto 2008-09	70	724	70	687	1	87	69	600
2009-10	16	222	16	222	0	9	16	213
2010-11	15	157	0	0	0	0	15	157
<b>Total</b>	<b>101</b>	<b>1103</b>	<b>86</b>	<b>909</b>	<b>1</b>	<b>96</b>	<b>100</b>	<b>970</b>

Increasing trend of IRs and Paras is indicative of inadequate response to audit findings and observations and resulted in erosion of accountability.