

CHAPTER-II

An Overview of Urban Local Bodies (ULBs)

2.1 Introduction

The 74th Constitutional Amendment Act, 1992 paved the way for decentralization of power and transfer of 18 functions as listed in the 12th Schedule of the Constitution along with the corresponding funds and functionaries to the Urban Local Bodies (ULBs). To incorporate the provisions of this Amendment Act the Manipur Municipalities Act, 1994 was enacted. It came into force from 24 May 1994. The last election of the ULBs in the State excluding Imphal Municipal Council (IMC) was held on 3 January 2011. The election to the IMC was held on 25 May 2011.

At present, there are 28 ULBs (9 Municipal Councils, 18 Nagar Panchayats and one Small Town Committee) in Manipur covering a total area of 138.83 sq. kms with a total population of 5,75,968 as per 2001 census which is about 25% of the total population. Imphal Municipal Council having an area of 31 sq. kms with a population of 2,17,275 is the largest and the most populous among the Municipal Councils (MC). The smallest Nagar Panchayat (NP) is Sekmai with an area of one sq. km having a population of 4,325. Each ULB is divided into a number of wards with a minimum of 9 and a maximum of 27 which is determined and notified by the State Government with regard to the population, dwelling pattern, geographical condition and economic consideration of the respective areas.

2.2 Organizational Set up

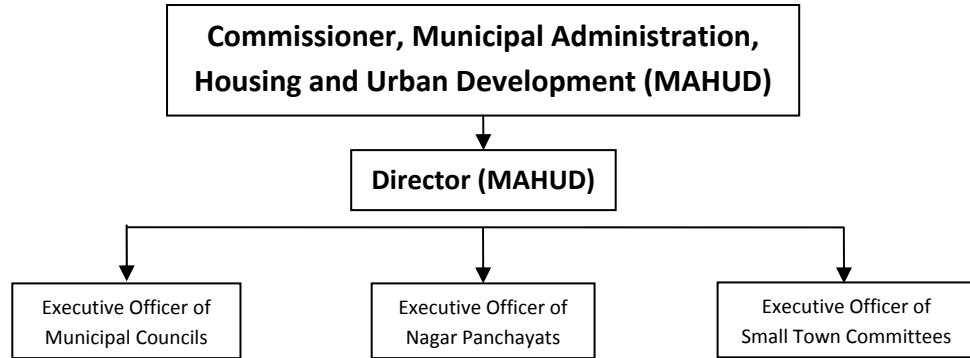
The MC/NP /Small Town Committee is an Institution of Self-Government having a Board of Councillors/Commissioners elected from each ward.

The Chairperson elected by the majority of Councillors/Commissioners is the executive head of the ULB. He/she presides over the meetings of the MC/NP/ Small Town Committee and is responsible for governance of the body.

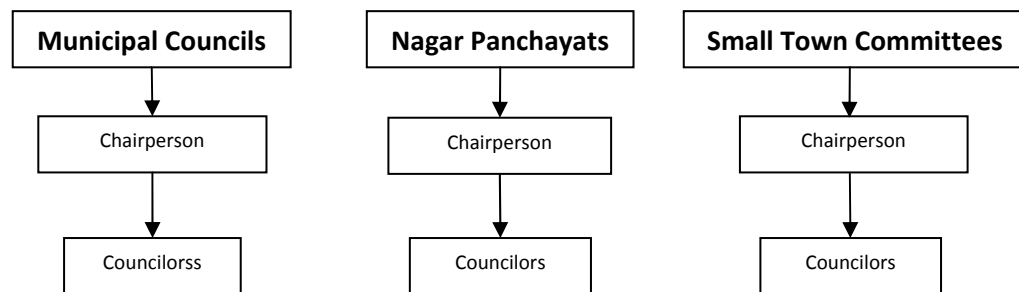
The Executive Officer appointed by the State Government is a whole time Principal Executive Officer of the body for administrative control of the ULB. Other officers are also appointed to discharge specific functions.

The following organogram will show the organizational set-up of the Department and the ULBs in the State:

Department



Urban Local Bodies



2.3 Devolution of Powers and Functions

The 12th Schedule of the Constitution enlists 18 functions to be devolved to the ULBs. The Second SFC in December 2005 recommended for speedy transfer of functional responsibilities including devolution of financial powers to local bodies in keeping with the letter and spirit of the Constitution. Article 243W of the Constitution mandates the State Government to empower the ULBs with such powers and authority, by enacting law, to function as institution of self Government. However, Government Notification in case of transfer of funds, functions and functionaries to ULBs is yet to be issued in Manipur.

Some obligatory functions as vested in the Manipur Municipalities Act, 1994 are given as under:

- Lighting public roads and places;
- Cleaning public roads, places and sewers;
- Regulating offensive or dangerous trades or practices;

- Securing or removing dangerous buildings or places and reclaiming unhealthy localities;
- Constructing, altering and maintaining public roads, culverts, markets, drains, tanks etc.;
- Constructing public latrines, privies and urinals;
- Supply of water;
- Registration of births and deaths and
- Naming streets and numbering houses.

2.4 Creation of Database on Finances & Maintenance of Accounts

For securing transparency and accountability in the maintenance of accounts of the ULBs, EFC recommended maintenance of database on finances in the formats prescribed by the C&AG of India. Data were to be collected and compiled in the prescribed formats. The State Government has conveyed its acceptance for adoption of the prescribed accounting format. The maintenance of the database was felt necessary by the TFC in order to keep accurate information on the finances of the ULBs for need based assessment of their requirements. Even though EFC recommended provision of ₹ 2.23 lakh to the State for creation of database relating to the finances of ULBs, the State Government made no allocation for creation of database out of ₹ 2.20 crore that was received as EFC awards during 2000-01 to 2002-03. However, provision for creation of database on finances from the TFC grants received is shown in Table 2.1 as under:

Table 2.1
Allocation of Funds for creation of Database on finances under TFC

(₹ in crore)

Year	TFC Grants received by State Govt.	Date of receipt	Amounts allocated for	
			Data base	Maintenance of accounts
2005-06	0.90	08-03-2006	0.23	0.23
2006-07	1.80	12-02-2007	0.45	0.45
2006-07	0.90	18-07-2007	0.23	0.23
2007-08	1.80	26-02-2008	0.45	0.45
2008-09	1.80	15-10-2009	0.45	0.45
2009-10	1.80	29-03-2010	0.45	0.45

Source: Finance Department

Despite sufficient fund provided for creation of database and maintenance of accounts, as of March 2010 the ULBs still maintained their accounts in conventional form.

2.5 Funding of Urban Local Bodies (ULBs)

The ULB fund comprises receipts from its own resources as well as grants and assistance received from the State and the Central Government. Under Section 74 and Section 75 of the Manipur Municipalities Act, 1994, the ULBs may levy, collect and appropriate such taxes, duties, tolls and fees etc., under prescribed conditions. Under the provisions of the acts in force, all collections such as tax on holdings, water tax, latrine tax, tax on vehicles, trades, profession, calling & employments, fees on the registration of vehicles kept or used or plying for hire, rent on shops and buildings, tolls and other fees and charges etc., constitute the main source of revenue of the ULBs. However, the bulk of fund of the ULBs were received from the grants and assistances given by the State and the Central Government for implementation of various schemes and projects. The State Government also released administrative grants to the ULBs to compensate their revenue expenditure. The grants released to ULBs by the State and Central Government and their Own Sources of Revenue (OSR) during 2005-06 to 2009-10 are shown in Table 2.2:

Table 2.2
Grants received by ULBs during 2005-06 to 2009-10

Source of revenue		Amount (₹ in crore)				
		2005-06	2006-07	2007-08	2008-09	2009-10
Central Government grants	GOI share + State share of CSS schemes(Swarna Jayanti Sahari Rozgar Yojana, National Slum Development programme, Valmiki Ambedkar Awas Yojna SGSY,Basic Services to the Urban Poor)	5.99	1.62	1.05	1.09	19.24
	Additional Central Assistance and FC grants released through State Budget(EFC, TFC)	0.45	0.90	1.80	1.80	1.82
State Government grants	Honorarium/Salary Grants	2.36	5.24	4.75	4.08	4.97
	Other Grants (SFC)	Nil	Nil	Nil	17.79	18.68
Total (Grants received from Central and State Governments)		8.80	7.76	7.60	24.76	44.71
Own Source of Revenue (OSR)	MC	0.36*	0.13*	0.19*	0.06*	Not available
	NP	0.02*	Nil	Nil	Nil	Nil
	Small Town Committee	Nil	Nil	Nil	Nil	Nil
Total revenue from all sources (Government Grants + OSR)		9.18	7.89	7.79	24.82	44.71

*The figures shown against own source of revenue (OSR) indicate resources of the Municipal Councils covered by audit only.

2.6 Release of State Finance Commission (SFC) grant

The Report of the Second Manipur State Finance Commission (SFC) covering a period of 5 (five) years beginning from 1st April, 2001 was laid on the Table of the House during December 2005. The recommendations of the Second State Finance Commission contained in its Report have been approved by the Government subject to detailed examination and appropriate action on the following:

- Transfer of functions and responsibilities to the local bodies
- The principles of devolution of funds and grants to the local bodies
- Power of levying taxes and fees including enhancement of rates
- Transfer of staff and administrative control thereof necessary for performing assigned functions
- Making the local body representative in character by holding timely and regular elections.

Regarding recommendations not related to the above, the State Government decided to implement them in phased manner. Further, the State Government has decided to adopt the recommendations of the Second State Finance Commission and extend the period covered by the recommendations up to 31 March 2010. However, State Government has not issued notification in case of transfer of funds, functions & functionaries to ULB.

Release of grants under SFC has been made only for two years, as of March, 2010. An amount of ₹ 17.79 crore was released by the Government of Manipur to ULBs as Grant-in-aid under Second SFC Award for the year 2008-09 and another amount of 18.67 crore for the year 2009-10 as detailed in Table 2.3:

Table 2.3
Funds released to ULBs under State Finance Commission Award

Sl. No.	Name of ULB	No. of Wards	Urban population (2001 census)	Amount (₹ in crore) 2008-09	Amount (₹ in crore) 2009-10
1	2	3	4	5	5
A	Imphal Municipal Council (20% of ₹ 17.79 crore)	27	2,23,177	3.56	3.73
B	Other Municipalities/Nagar Panchayats (90% of 80% of ₹ 17.79 crore)	272	2,95,282	12.81	13.45

C	Small Town Committee (10% of 80% of ₹ 17.79 crore)	19	21,385	1.42	1.49
Total		318	5,39,844	17.79	18.67

2.7 Audit Arrangement

Under Section 72(i) of the Manipur Municipalities Act, 1994, the accounts of the ULBs should be audited by the Director, Local Fund Audit (DLFA) in such manner as may be prescribed. As of March, 2010, out of auditable 28 ULB units, DLFA conducted audit of 4 units up to March 2008, audit of another eight units up to March 2009 whereas audit of remaining 16 (sixteen) units were conducted up to March 2010. Further, in pursuance of the recommendations of the EFC, Government of Manipur has entrusted Technical Guidance and Supervision (TGS) over the audit of accounts of ULBs to C&AG of India (June 2002) under Section 20 (1) of C&AG's (DPC) Act, 1971. However, amendment in the relevant State Acts/Rules to facilitate implementation of TGS is yet to be incorporated. As of now, the C&AG conducts test audit of the ULBs under Section 14 (1) and Section 20 (1) of C&AG's (DPC) Act, 1971.

2.8 Audit Coverage

Test audit of the accounts of the 8 ULBs were conducted during the year 2009-10. (Details at Appendix-II- B).

2.9 Internal Control Mechanisms

2.9.1 Non Preparation of Annual Action Plan and Budget

ULBs are required to prepare Annual Action Plan (AAP), which are to be consolidated at the district level by the DPC into a draft development plan for the district as a whole. The main purpose of preparing such plans was to avoid plurality in planning on various developmental issues in a district. No such action plans were prepared in any of the test checked ULBs. In the absence of local planning, the district plan did not also emerge. Preparation of Action Plans by ULBs and their consolidation along with the plans of the PRIs is crucial to ensure incorporation of local needs and wants in the development process. The absence of such planning also compromised on the element of popular participation and need for the plans to reflect peoples' wants. Similarly, Budgets were also not prepared by the ULBs except Imphal Municipal Council, in violation of Section 71(I) of Manipur Municipalities Act, 1994.

2.9.2 Non maintenance of accounts

Under Section 72(i) of the Manipur Municipalities Act, 1994, every ULB shall maintain such accounts for every financial year in such forms as may be prescribed and submit such statement to the Deputy Commissioner, the Director and the State Government. The need for municipal reforms has assumed urgency as proper financial reporting by ULBs would be one of the important instruments to achieve the objective of accountability. Realizing its importance, the 11th Finance Commission has devolved upon the Comptroller and Auditor General of India the responsibility for exercising control and supervision over the proper maintenance of accounts and their audit of all ULBs. In terms of paragraph 6.5 of the guidelines for utilization of local bodies grants issued by Government of India, Ministry of Finance, Department of Expenditure, the formats for preparation of budget and for keeping accounts of all ULBs shall be as prescribed by C&AG.

Ministry of Urban Development in collaboration with C&AG of India has developed National Municipal Accounts Manual (NMAM). The NMAM is based on accrual based accounting system. The ULBs are required to prepare their budget & maintain their accounts in the formats prescribed in NMAM with appropriate codification & classification.

Test check of accounts of 16 ULBs revealed that none of the ULBs kept their accounts in the prescribed formats as of March 2010.

State Government issued an order (March 2011) for adoption of NMAM with immediate effect. The State Government has not yet developed/prepared State specific Municipal Accounts Manual.

2.9.3 Non Reconciliation of balances

Bank Reconciliation is a procedure which aims at reconciling the bank balance as shown in the Cash Book of the local body with that of the bank balance as per the Pass Book/Statement received from the bank. The bank reconciliation should be carried out on a monthly basis or at such other shorter time intervals as the body may decide.

The test check of 5 ULBs revealed that none of the ULBs prepared monthly or quarterly Bank Reconciliation Statements. As on March 2009, the position of cash balance as per Bank Pass Books and Cash Books were as in Table 2.4:

Table 2.4
Cash Balance of 5 ULBs as per their Cash Books & Pass Books

Sl.No.	Name of the Bank & A/C No. with relevant scheme.	Pass Book figure (₹)	Cash Book figure (₹)	Difference (₹)
1	<u>Bishnupur Municipal Council</u> UCO Bank Account No. 494/CI UCO Bank Account No.67/CI UCO Bank Account No. 224/CI SBI Account No. 30531353710	5,41,151 12,587 14,595 97,173	7,04,260	38,754
2	<u>Heirolk Nagar Panachayat</u> Manipur State Co-Op.Bank Ltd. Imphal Br. Manipur State Co-Op Bank Ltd. Thoubal Br	7,253 4,437	12,219	529
3	<u>Wangjing Lamding Nagar Panchayat</u> Manipur Rural Bank, Yairipok Branch Account No.CD 139 Manipur Rural Bank, Wangjing Branch Account No.CD 420 United Bank of India, Thoubal Branch Account No. S 6221	1,042 1,441 911.90	Due to non maintenance of Cash Book since 6-12-2006, no cash book figure was available	Not Available
4	<u>Andro Nagar Panchayat</u> Manipur Rural Bank, Yairipok Branch Account No. SB-1950	74,562	The exact cash book figure could not availed due to poor maintenance of Cash Book.	Not Available
5	<u>Sikhong Sekmai Nagar Panchayat</u> Manipur Rural Bank, Yairipok Branch Account No. SB-175 Manipur Rural Bank, Yairipok Branch Account No.CD-59	41,001 76,441	41,001 76,441	Nil Nil

Non reconciled balances with the bank pass book reflect incorrect financial position of the Urban Local Bodies.

2.9.4 Non maintenance of Main Cash Book and Subsidiary Cash books

Out of eight ULBs test checked, it was noticed that Main Cash Book was not maintained in NP, Wangjing Lamding (from 6th December, 2006 to March, 2009) whereas Subsidiary Cash Books and Separate Bank Accounts for each & every scheme were not maintained in MC, Nambol, NP, Sikhong Sekmai, NP, Lilong (Thoubal) and NP, Andro during the period from April 2006 to March 2010.

2.9.5 Deficiencies in maintenance of Cash Books

All moneys received at the ULBs shall immediately and without reservation be brought to account in the Cash Book under the direct supervision of the finance officer or in his absence the officer authorized for the purpose. The following common and persistent deficiencies in the maintenance of Cash Books in all eight selected test checked ULBs were noticed:

- Entries in the Cash Book were not authenticated by the competent authority;
- Daily Cash Balance was not verified and certified by the concerned authority;
- Transactions were not entered in the Cash Book on the date of occurrence;
- Cash Book was not maintained as per the prescribed format;
- Corrections and alterations in the Cash Book were made without the initials and verification of the competent authority;
- Narration for a number of transactions was not mentioned in the Cash Book;
- Voucher number and Head of Accounts were not indicated against numerous transactions

2.9.6 Irregularities in Maintenance of Bills and Vouchers

A Bill becomes a Voucher only when it is stamped “paid”.

While maintaining the bills/vouchers, the following points should be observed:

- (i) All paid vouchers must be stamped ‘paid’ or so cancelled that they can not be used for a second time. Stamps affixed to vouchers must be also cancelled so that they may not be used again.
- (ii) All sub vouchers to bills must be cancelled in such a manner that they cannot be subsequently used for presenting fraudulent claims or other fraudulent purposes by means of a rubber stamp or by an endorsement in red ink across the voucher, the cancellation being initialed by the officer authorized to draw the contingent bills of the office.

Further, in order to pick up the details of the vouchers in the Cash Book, those paid vouchers must be serially numbered. However, on test check of the contingent vouchers passed for payment in all selected eight ULBs, it was evident that no cancellation of vouchers was made. Moreover, no voucher was serially numbered and bill registers were not properly maintained.

2.9.7 Non compliance to previous Inspection Reports

Previous inspection reports of the Bishnupur MC and the Nambol MC have been forwarded to the respective Chairpersons, Executive Officers of the concerned ULBs as soon as the audits were over with a copy each to the Commissioners (Finance/Municipal Administration Housing and Urban Development (MAHUD)/Manipur Urban Development Agency) and Director (MAHUD), Govt. of Manipur for information and necessary action at their end. The observations pointed out not only irregularities in the implementation of schemes, but also highlighted non production of important documents to audit which leads to doubtful misappropriation of funds. However, no compliance was received from their end in this regard (March 2011).