

# CHAPTER-1

## INTRODUCTION

### *1.1 Background*

Under Section 4 of the Jharkhand Municipal Act, 2000, the State Government may declare a town as a Municipal Corporation, a Municipality/Municipal Council or a Notified Area Committee/Nagar Panchayat on the basis of a population of more than two lakh, not less than forty thousand and twelve thousand respectively and if the town has (i) an average number of not less than four hundred inhabitants per square Kilometer and (ii) three-fourth of the adult population are engaged on pursuits other than agriculture.

The total population of Jharkhand State as per 2001 census was 26.95 million and the total population covered by the Urban Local Bodies (ULBs) was 5.93 million. Three Municipal Corporations, four Municipalities and 11 Municipal Councils, 18 Nagar Panchayats and three Notified Area Committees (NACs), declared by the State Government, were in existence in the State as on 31 March 2010. Deoghar Municipal Corporation was created (October 2009) by incorporating areas of Deoghar Municipality and Jasidih NAC whereas Kharsawan NAC was denotified (August 2009) and two Nagar Panchayats (Bishrampur and Manjhiaon) were created (August 2009). The Municipal Corporations are governed by Ranchi Municipal Corporation (RMC) Act, 2001, whereas Municipalities/Municipal Councils and NACs/Nagar Panchayats are governed by Jharkhand Municipal Act (JMA), 2000. Elections were held in March 2008 in 28 out of 39 ULBs. The other 11 ULBs were functioning without having elected bodies as on 31 March 2010.

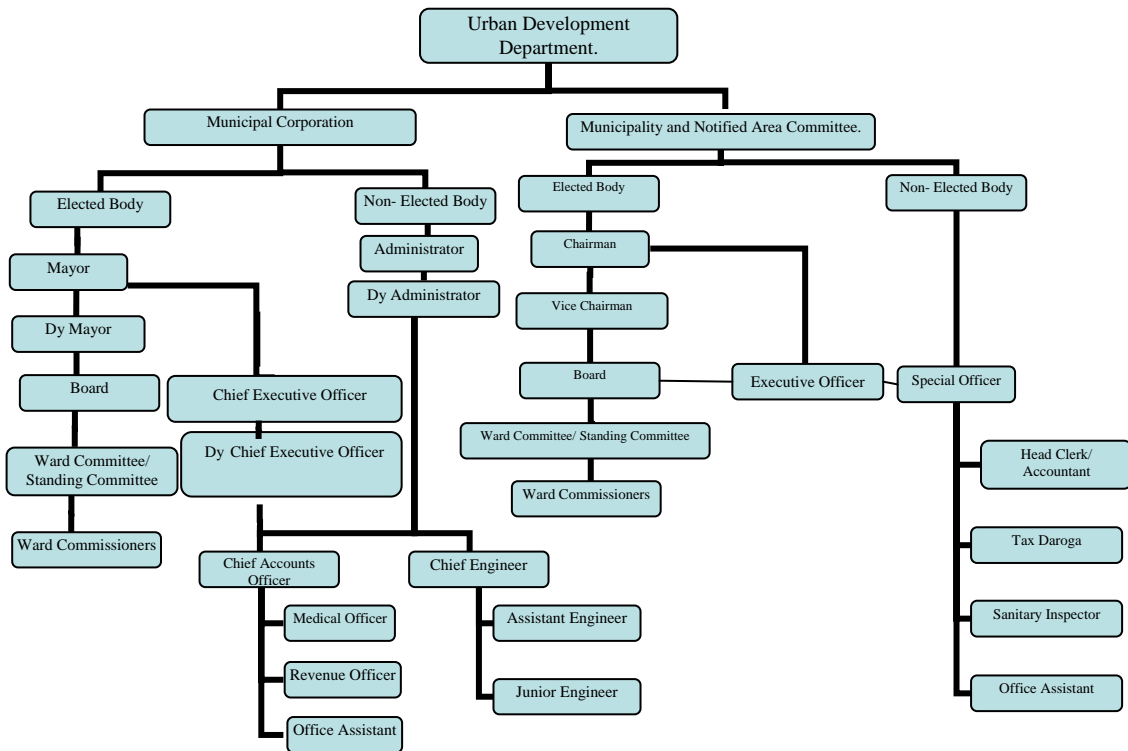
### *1.2 Organizational Setup*

The Urban Local Bodies are under Administrative control of Urban Development Department, Government of Jharkhnad. The Chairman/Mayor elected by the public is the executive head of a ULB and presides over the meetings of the Board. Thus, the executive power of a ULB is exercised by the Board. To assist the Board, various committees and ward committees are constituted. The Chief Executive Officer/Executive officer appointed by the State Government is a whole time officer of the Corporation/Nagar Parishad/Nagar Panchayat and the executive power for the purposes of carrying on the administration of the ULB, subject to the provisions of this Act and of any rules and bye-laws made thereunder and the

general control of the Municipal Board, vests in him. He also carries into effect every resolution of the Board passed in conformity with the provisions of law. In absence of elected bodies, Municipal Corporations, Municipalities and NACs are administered by an Administrator, a Special Officer and a SDO (Civil)-cum-ex-officio Chairman of the NACs respectively. Other officers are also appointed to discharge specific functions.

**Organograph**

The following Organograph will show the Organisational structure of a ULB.



**1.3 Powers and Functions**

The ULBs are required to perform, *inter alia*, 18 functions enumerated in the Twelfth Schedule to the Constitution inserted by the 74<sup>th</sup> Constitutional Amendment Act, 1992 (**APPENDIX-I**). These Powers and functions of the ULBs are described in Section 11A of JMA, 2000 and Section 63A of RMC Act, 2001. Some of the important functions performed by the ULBs are as follows:

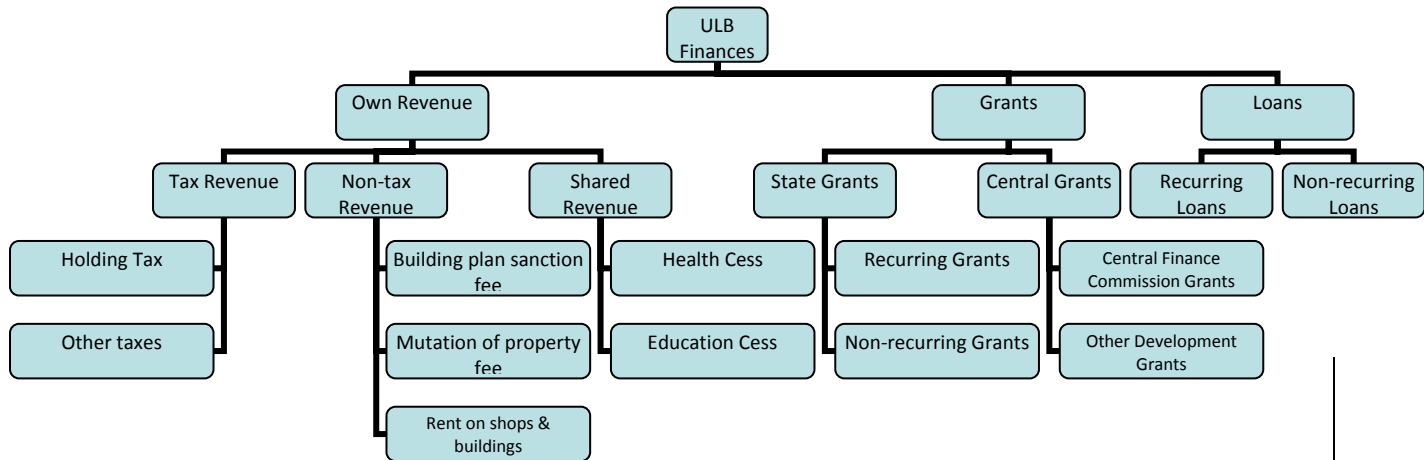
- Urban planning including town planning;
- Regulation of land use and construction of buildings;
- Construction of roads and bridges;

- Water supply for domestic, industrial and commercial purposes and
- Maintenance of public health, sanitation, conservancy and solid waste management.

In addition to the above, some other functions are also partly performed by the ULBs out of 18 functions given in **APPENDIX-I**.

#### 1.4. Financial Profile

The Urban Local Body Fund comprises of receipts from own resources and grants and loans from State Government and Central Government. A flow chart of finances of the ULBs is given below:



Under the provisions of the Acts in force, all collections such as tax on holding, water tax, latrine tax, collection charges of health cess & education cess, tax on vehicles, tax on trades, professions, callings and employments, fee on registration of vehicles etc. are sources of tax revenue and building plan sanction fees, mutation fees of property, rent on shops & buildings, tolls and other fees and charges etc. constitute the main source of non-tax revenue. The State Government releases grant-in-aid and loans to the ULBs to compensate their establishment expenses. Grant and assistance are also received from the State Government and the Central Government for implementation of specific schemes and projects.

Financial profile of the 14 test checked ULBs was as summarized in the table below:

**Table-1**

(Rs in lakh)

Sl. No	Name of ULBs	Period	Opening Balance	Receipts			Grand Total	Expenditure		Total	Closing Balance
				Grant	Loan	Own/Other Sources		Establishment	Scheme		
1.	Deoghar	2007-09	1411.65	1040.16	1078.02	2419.22	5949.05	603.73	1431.25	2034.98	3914.07
2.	Dumka	2007-09	1578.44	964.20	1903.33	36.18	4482.55	91.26	3048.84	3140.10	1342.45
3.	Sahebganj	2007-09	480.98	596.05	159.10	106.84	1342.97	170.29	186.71	357.00	985.97
4.	Medininagar	2007-09	743.36	336.73	178.86	149.20	1408.15	176.85	168.85	345.70	1062.45
5.	Madhupur	2007-09	173.45	212.50	99.65	59.97	545.17	125.08	165.73	290.81	254.86
6.	Jugsalai	2007-09	142.13	281.81	624.50	37.09	1085.53	88.40	892.07	980.47	105.06
7.	Chaibasa	2008-09	345.29	251.26	150.01	44.67	791.23	91.15	199.23	290.38	500.85
8.	Jhumri Tilaiya	2007-09	278.20	278.83	472.25	61.80	1091.08	95.42	263.85	359.27	731.81
9.	Jamshedpur	2007-09	1868.50	941.96	1309.21	929.78	5049.45	258.54	2385.74	2644.28	2405.17
10.	Lohardarga	2007-09	979.33	287.74	275.12	76.54	1618.73	137.51	746.83	884.34	734.39
11.	Adityapur	2007-09	322.80	216.14	146.13	75.00	760.07	62.42	186.71	249.13	510.94
12.	Gumla	2007-09	455.70	604.10	211.12	184.31	1455.23	147.05	556.79	703.84	751.39
13.	Pakur	2007-09	545.60	361.31	274.73	76.11	1257.75	62.85	608.45	671.13	586.45
14.	Kodarma	2007-09	122.35	138.68	87.42	11.01	359.46	9.59	135.28	144.87	214.49

From the above table it was clear that the ULBs were financially dependent on grants/loans from the Government and their own revenues were meager.

### **1.5 Audit Arrangement**

Audit of the ULBs is conducted by the Examiner of Local Accounts, Jharkhand under Jharkhand & Orissa Local Fund Audit Act, 1925.

Under Section 120 (1) of RMC Act, 2001, the Annual Accounts of the Municipal Corporation are subject to audit under the Jharkhand and Orissa Local Fund Audit Act, 1925. For this purpose, the Corporation is deemed to be a local authority whose accounts have been declared by the State Government to be subject to audit under Section 3 of the Jharkhand and Orissa Local Fund Audit Act, 1925 and the municipal fund is deemed to be a local fund.

### **1.6 Audit Coverage**

Out of 39 ULBs, accounts of 14 ULBs covering the financial year 2007-09 (**APPENDIX-II**) were test checked and findings of audit are discussed in the succeeding paragraphs.

### **1.7 Accounting Reforms**

#### **1.7.1 Finalization of “State Municipal Accounts Manual”**

Based on C&AG’s Task Force Report on accrual accounting in ULBs, the National Municipal Accounts Manual (NMAM) was developed and circulated to all States and they were requested to prepare the State specific Accounts Manual (March 2004).

The Govt. informed (March 2007) that the draft of ‘State Municipal Accounts Manual’ had been prepared on the basis of National Municipal Accounts Manual and was under review at the Govt. level. Despite reminders (January 2008, July 2008 and January 2010), the Govt. did not intimate further progress in this regard (March 2010).

### **1.7.2 Adoption / Acceptance of database formats on finances of ULBs**

Formats of database on finances of ULBs prescribed by the C&AG as per Eleventh Finance Commission, were sent to the State Govt. (October 2003) and Hindi version of the same, as desired were also sent (August 2005) for adoption and implementation by ULBs.

In spite of several reminders, formal adoption / acceptance of the formats was not communicated by the Government (March 2010).

## **1.8 Devolution of functions, funds, and functionaries**

### **Functions:**

Visualizing ULBs as institutions of self-governance, the 74<sup>th</sup> Constitutional Amendment Act, 1992 left the extent of devolution to the wisdom of the State Legislatures. Major elements of devolution are transfer of functions, functionaries and funds to ULBs, accompanied by administrative control over staff and freedom to take administrative and financial decisions at local level. Though the functions listed in the 12<sup>th</sup> Schedule to the Constitution were inserted under Section 11-A of JMA, 2000, neither the extent to which the functions had been actually devolved on the ULBs nor any Action Plan for achieving devolution of all functions was communicated by the State Government though called for (August, September & November 2009; February 2010).

During audit, it was noticed that out of 18 functions mentioned in the Schedule, five functions (Sl.No.7, 8, 9, 13 & 15 of Appendix-I) were not being performed by the ULBs, whereas some functions were being partly performed by some ULBs. Two functions i.e. Urban Planning including Town Planning and Regulation of Land use and Construction of buildings were not being performed by two Corporations i.e. Ranchi and Dhanbad. These functions were performed by Ranchi Regional Development Authority (RRDA) and Mineral Area Development Authority, Dhanbad respectively. However, the powers and functions relating to Building Plan Approval for the buildings within the municipal limit of RMC were

transferred from RRDA to RMC wef 1<sup>st</sup> September 2009 by the orders of the State Government (August 2009).

**Funds:**

Devolution of funds to ULBs should be a natural corollary to implement the transferred functions. It was, however, noticed that no mapping of funds and functions was made by the State Government and financial assistance was being provided to ULBs by sanctioning recurring/non-recurring grants/loans. The quantum of assistance provided to ULBs by the Govt. during 2005-10 was as under:

**Table-2**

		(Rs in crore)				
Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1	Revenue receipt of the State Government	8464	10010	12027	13213	15118
2	Revenue expenditure of the State Government	8491	9064	10832	12877	15128
3	Financial assistance to ULBs	77.28	109.58	146.07	50.90	114.27
4	Assistance as percentage of revenue receipt of State Government.	0.91	1.10	1.27	0.39	0.76
5	Percentage of assistance to revenue expenditure of State Government.	0.91	1.21	1.38	0.40	0.76

Though the financial assistance to ULBs had increased from 0.91 *per cent* to 1.27 *per cent* of revenue receipts of the State Government during 2005-08, it came down to 0.39 *per cent* during 2008-09 and 0.76 *per cent* during 2009-10, which was not enough keeping in view the insufficient resources of the ULBs and the fact that 22 *per cent* of the total population of the State resided in urban areas.

**Functionaries:**

Devolution of powers and functions to the ULBs required availability of qualified and trained personnel at all levels for efficient discharge of these functions. The ULBs should have administrative control over the staff to command loyalty and directions of purpose in the new scenario. A review of the system of transfer of functionaries to ULBs revealed that the available manpower in ULBs was not sufficient and required attention of the State Government.

The position of sanctioned post and men- in- position in respect of the 14 ULBs was as under:

**Table-3**

Sl.No.	Name of the ULBs	Sanctioned Strength	Men in Position	Shortage	Percentage of shortage	Position as of 31 st March
1.	Deoghar	311	173	138	44.38	2009
2.	Dumka	224	64	160	71.43	2009
3.	Sahebganj	210	85	125	59.52	2010
4.	Medininagar	195	88	107	54.88	2009
5.	Madhupur	156	89	67	42.94	2009
6.	Jugsalai	143	55	88	61.54	2010
7.	Chaibasa	137	61	76	55.48	2010
8.	Jhumri Tilaiya	82	51	31	37.81	2009
9.	Jamshedpur	73	35	38	44.38	2009
10.	Lohardarga	62	44	18	29.04	2009
11.	Adityapur	48	26	22	45.84	2009
12.	Gumla	36	10	26	72.23	2009
13.	Pakur	26	22	04	15.38	2010
14.	Kodarma	09	Nil	09	100.00	2010
<b>Total</b>		1712	803	909	53.10	

The above table shows that in Kodarma NAC, there was no permanent staff, whereas in other ULBs the shortage of staff ranged from 15.38 *per cent* to 72.23 *per cent*. Due to shortage of manpower, the ULBs were facing difficulties in running offices and in performing their primary duties of sanitation as well as other civic facilities to their inhabitants.

### **1.9 Non-receipt of Grants from the State Finance Commission**

The State Finance Commission (SFC) is constituted by the State Government under Section 80-B of JMA, 2000. The major function of the SFC was to frame the principle that would govern the distribution of the net proceeds of taxes, duties etc. between the State and ULBs and also the grants-in-aid to ULBs with the main aim of improving their financial position. No recommendation had, however, been made by the first SFC constituted in Jan 2004 (March 2010). The State Government has constituted the second SFC in December 2009 for five years.

### **1.10 Response to Audit Observations**

There was poor response to outstanding audit observations. 2605 audit paras up to the period 2009-10 involving Rs 211.63 crore were outstanding as of March 2010.

The Executives of the ULBs (CEO/ Executive Officer/Administrator/Special Officer, etc) are required to comply with observations contained in the Audit Reports and rectify the defects and omissions and report their compliance through proper channel to the Examiner of Local Accounts, Jharkhand within three months from the date of issue of Audit Report. As per Section 121 of RMC Act, 2001, the Municipal Authority shall take effective steps for remedy of defects or

irregularities within a period considered by the auditor to be reasonable while forwarding Audit Report with a copy to the State Government. As on 31 March 2010, 164 Audit Reports containing 2605 paragraphs involving total amount of Rs 211.63 crore were still outstanding even after settlement of 635 paragraphs during 2009-10.

**Table-4**

(Rs in crore)

Period	AUDIT REPORTS					PARAGRAPHS					
	Opening Balance	Additions	Total	Settlement	Outstanding	OB	Addition	Total	Settlement	Outstanding	Amount involved
FY08	103	23	126	Nil	126	3207	844	4051	641	3410	206.71
FY09	126	18	144	Nil	144	3410	449	3859	847	3012	214.87
FY10	144	20	164	Nil	164	3012	228	3240	635	2605	211.63
<b>Total</b>											

A review of the Audit Reports revealed that the Executives, whose records were inspected by the Examiner of Local Accounts, did not send any reply in respect of most of the outstanding audit reports /paragraphs. The replies, wherever received, were mostly inconclusive and interim in nature. The matter was brought to the notice of the Secretaries of the Urban development Department and Finance Department as well as the Chief Secretary (March 2009, February 2010) demi-officially.

### **1.11 Surcharge under Local Fund Audit Act, 1925 made ineffective**

Concerned Deputy Commissioners were not taking action on the Surcharge Notices issued by the Examiner of Local Accounts, Jharkhand. As a result, 126 notices involving Rs 1.43 crore issued during 2000-2010 were pending.

Section 9 (2) (b) of the Jharkhand and Orissa Local Fund Audit Act, 1925 required the notices to be served upon the surchargees, responsible for irregular payments, loss of amount etc. ascertained in course of audit. The Examiner of Local Accounts sends the notices to the Deputy Commissioner of the District where the ULBs are situated for serving the notices to the surchargees.

Audit found that 126 notices covering Rs 1.43 crore issued during 2000 to 2010 in respect of 21 ULBs (**APPENDIX-III**) were pending due to non-receipt of service reports of the notices from the concerned Deputy Commissioners. As a result, further action viz. issue of surcharge order and requisition of certificate for recovery of the amounts from the surchargees could not be taken.

The matter was taken up with the Chief Secretary from time to time (April 2009 and February 2010), but no concrete action was taken.



### **1.12 Result of Audit**

As a result of audit of 14 ULBs, a sum of Rs 7.68 crore was suggested for recovery, of which Rs 3.98 lakh was recovered during audit, whereas Rs 11.00 crore was held under objection.

Besides proposal for recovery by surcharge, as dealt in previous paragraph, excess and irregular payment amounting to Rs 7.68 crore, which was detected in audit in 14 ULBs, was suggested for recovery from person(s) responsible. At the instance of audit, Rs 3.98 lakh was recovered from the persons concerned.

In addition, payment of Rs 11.00 crore was held under objection (*APPENDIX-IV*) owing to non-production of records/vouchers/supporting documents/sanction of competent authority, non-furnishing of desired informations/explanations, etc.

### **1.13 Follow up action on previous Reports of the Examiner of Local Accounts, Jharkhand**

Replies/Action Taken Notes on the paras appeared in the previous Reports of the Examiner of Local Accounts, Jharkhand were not furnished by the UDD, Government of Jharkhand

The UDD, Government of Jharkhand did not send replies/Action Taken Notes (March 2010) on the paragraphs appeared in the Reports of the Examiner of Local Accounts, Jharkhand on ULBs for the year ended March 2006, March 2007 and March 2008 and March 2009, which were forwarded to the Government in September 2007, July 2008, August 2009 and January 2011 respectively.

Government was also requested to incorporate suitable clause in the Acts for providing institutional arrangement for placement of the Reports of the Examiner of Local Accounts, Jharkhand in the Legislative Assembly/discussion on the Reports. Though, the Finance Department accepted the proposal and requested the UDD (October 2008, November 2009) to take necessary action, final action in this regard was still awaited (February 2011).

### **1.14 Conclusions**

- The State Municipal Accounts Manual had not been finalized (March 2010).
- Formats of database on finances of ULBs as prescribed by the C&AG had not been adopted (March 2010).

- There was no mechanism of internal audit and no efforts were made by the ULBs for the settlement of paras raised in the Audit Reports.
- Lack of action on ARs and paragraphs resulted in continuation of serious financial irregularities and loss to Government

### **1.15 Recommendations**

- The Finances of ULBs should be improved by taking action to enhance own revenues and to curtail avoidable expenditure by the ULBs.
- The State Municipal Accounts Manual based on NMAM, incorporating inter-alia, standard policies, documentation, and reporting requirement under accrual based double entry accounting system, should be prepared and implemented to remove the present drawbacks in the accounting and financial management system of the ULBs
- The formats of Database on finances of ULBs should be adopted by the Govt. and preparation of Database by ULBs be ensured.
- Govt. should prepare a time-bound action plan for achieving devolution of functions, funds and functionaries as envisaged by the 74<sup>th</sup> Constitutional Amendment Act.
- Government should ensure timely and proper response to the Audit Reports of the Examiner of Local Accounts and ensure accountability in case of failure on the part of the ULBs.
- Government should incorporate suitable clause in the Acts for providing institutional arrangement for placement/discussion of the Reports of the Examiner of Local Accounts, Jharkhand in the Legislative Assembly/Committee etc.
- Prompt action on ARs and paragraphs is needed to avoid recurrence of financial irregularities and loss to Government