

PART – I URBAN LOCAL BODIES

CHAPTER – I

OVERVIEW OF THE FINANCES OF THE URBAN LOCAL BODIES INCLUDING THE ACCOUNTING PROCEDURES

1.1 Introduction

Article 243W 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 Constitution (74th Amendment) Act, 1992, 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 re-organised these institutions into three types of ULBs namely Municipal Corporations for larger urban areas, Municipal Councils for smaller urban areas and Nagar Parishads for a transitional area¹.

The basic information about the State of Madhya Pradesh is given below:

Particulars	Unit	State figure	All India figure
Population*	Crore	7.26	121.02
Share in country's population*	<i>per cent</i>	6	--
Urban population*	Crore	2	38
Share of urban population*	<i>per cent</i>	28	31
Literacy rate*	<i>per cent</i>	71	74
Sex ratio (females per thousand males)*	Ratio	930/1000	940/1000
Municipal Corporations	Number	14 [#]	139 [@]
Municipal Councils	Number	100 [#]	1595 [@]
Nagar Parishads	Number	263 [#]	2108 [@]

Source: * provisional census 2011

As per UADD Bhopal

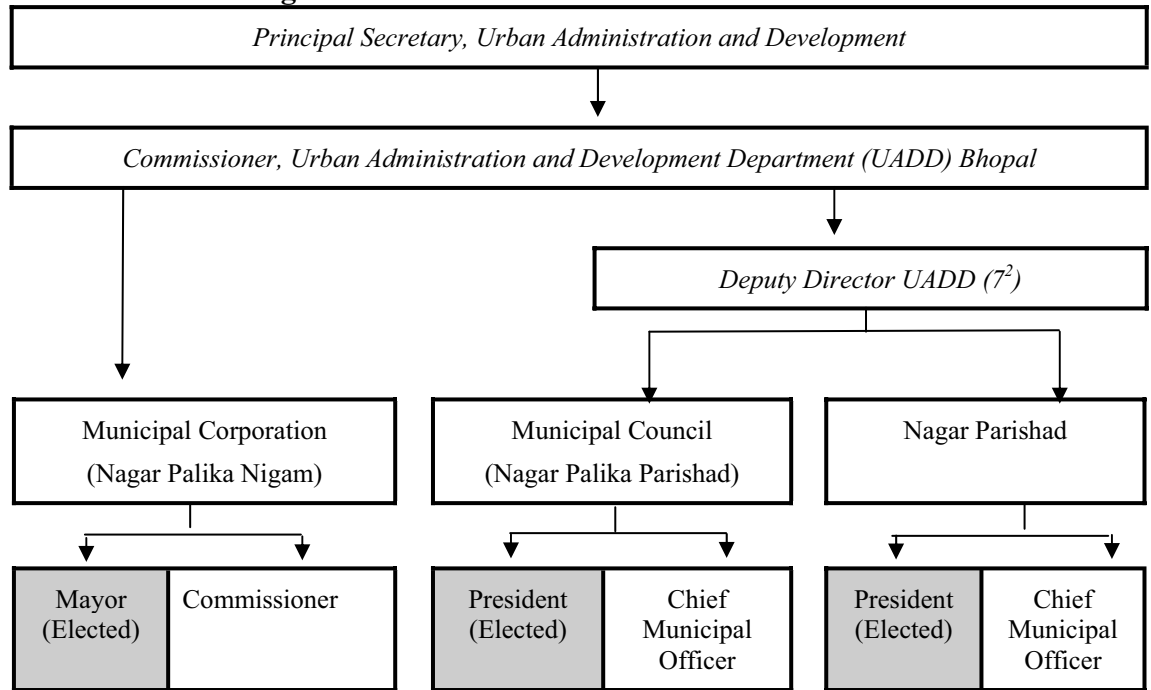
@ Thirteenth Finance Commission Report

1.2 Administrative arrangements

All the ULBs are empowered to discharge the functions devolved under the provisions of Madhya Pradesh Municipal Corporation Act, 1956 and Madhya Pradesh Municipalities Act, 1961 subject to monitoring powers vested in State authorities provided therein. The organisational structure of the Urban Administration and Development Department is as follows:

¹ It means such area as the Governor may decide as per population density, revenue generation, agricultural activities, economic importance etc

Organisational Chart of ULBs



1.3 Audit coverage

Out of 377 ULBs (14 Municipal Corporation, 100 Municipal Councils and 263 Nagar Parisads) in the State, 80 ULBs (10 Municipal Corporation, 20 Municipal Councils and 50 Nagar Parisads), were taken in audit plan. However, records of 68 ULBs (10 Municipal Corporation, 18 Municipal Councils and 40 Nagar Parisads) were scrutinised during the year 2011-12 as shown in **Appendix-1.1**. The short fall in coverage of audit plan was due to deployment of major staff in MGNREGA review.

1.4 Accounting arrangements

As per recommendations of the Eleventh Finance Commission (EFC) and the guidelines issued by the Ministry of Finance, Government of India, the Comptroller and Auditor General of India (C&AG) had constituted a Task Force to recommend budget and accounting formats for ULBs. The Task Force in its report, *inter alia*, suggested adoption of accrual basis of accounting by ULBs. The Urban Administration and Development Department (UADD) published the Madhya Pradesh Municipal Accounts Manual (MPMAM) in July, 2007 adopting such formats.

During test check of accounts of 68 ULBs in the year 2011-12, it was noticed that the accounts were not prepared on accrual basis except in 10³ Municipal Corporations.

On this being pointed out in audit (August 2012), the Commissioner, UADD accepted the facts (August 2012).

² (1) Indore (2) Bhopal (3) Jabalpur (4) Gwalior (5) Ujjain (6) Sagar (7) Rewa

³ (1) Indore (2) Satna (3) Jabalpur (4) Gwalior (5) Ujjain (6) Sagar (7) Rewa (8) Singrolli (9) Katni (10) Burhanpur

1.5 Audit arrangements

1.5.1 As per recommendations of the EFC, audit of ULBs by Director Local Fund Audit (DLFA) has been brought (November 2001) under the Technical Guidance and Supervision (TGS) of the C&AG. Accordingly, the records of 68 ULBs including 10 Municipal Corporations were test checked during 2011-12 and inspection reports were sent to DLFA for providing Technical Guidance.

Para 10.121 of recommendations of the Thirteenth Finance Commission (TFC) envisages that the C&AG be entrusted with the TG&S of all Local Bodies in the State and Annual Technical Inspection Report (ATIR) of C&AG as well as the Annual Report of the DLFA should be placed before the State Legislature. Accordingly, the State Government amended the Madhya Pradesh Municipal Corporation Act, 1956 and Madhya Pradesh Municipalities Act, 1961 in January 2012. The Ministry of Finance, Government of Madhya Pradesh has conveyed its consent for laying these reports before the State Legislature, (March 2012). A letter was written (February 2013) to the State Government to constitute PAC- like committee for pursuance of the Audit Product on Local Bodies.

1.5.2 Internal Audit System

Para 2.2 of chapter 2 of MPMAM envisages that an internal audit department would be created. The scope of internal audit would cover propriety audit, financial audit, ensuring internal control and transparency in operations.

During test check of the records of UADD during 2011-12 it was found that internal audit departments were not created in each ULB up to August 2012.

On this being pointed out in August 2012, the Commissioner UADD accepted the facts on the date.

1.5.3 Our efforts in carrying out duties entrusted upon us for TGS.

According to section 152 to 154 of Regulation on Audit & Accounts 2007, Audit of Panchayati Raj Institution and Urban Local Bodies is being conducted under section 20(1) of CAG DPC Act 1971. It is also agreed upon in the meeting (November 2008) between officers of Audit Department & State Government that suitable amendments are to be made in Act & Manual of PRI and ULB. The Accounting format would be accepted and maintained, database of finances and internal Control Mechanism would be developed. Suitable amendment in Accounts Manual would be carried out and the State Level Committee and Apex Committee would be constituted.

After continuous follow up on the issues at the end of March 2013, the State government published Madhya Pradesh Municipal Manual on the basis of National Modern Municipal Accounting Manual (July 2007) and accounting

formats was adopted from 1.04.2008. The Audit Plans are being prepared by DLFA and sent to PAG for approval. Trainings of staffs of DLFA are being conducted by the PAG.

Regular correspondences have been made to constitute the State level Committee for pursuance of audit findings on local bodies. Commissioner UADD and DLFA agreed upon strengthening the internal control mechanism and develop the data base on finances of ULBs.

1.6 Source of revenue

As per Section 105 of MP Municipalities Act, 1961 and Section 87 of MP Municipal Corporation Act, 1956, there are mainly two sources of revenue for local bodies (i) Government grants and (ii) own revenues. Own revenue resources of ULBs comprise of tax and non-tax revenues realised by them.

The Government grants comprising funds released by the State Government and Government of India (GOI) on the recommendation of State Finance Commission, Central Finance Commission respectively and State and GOI share for implementation of various schemes.

The ULBs also obtain loans from the State Government or any other source with prior permission of the State Government for the purpose of urban development.

1.7 Budgetary Allocation and Expenditure

Funds (share of tax revenue of the State, schemes funds & grants etc.) allocated to ULBs by the State Government through Budget including State share of the GOI schemes and grants recommended by Central Finance Commission were as under:-

Table No. - 1

(₹ in crore)

Sl. No	Budgetary Allocation			Expenditure			Savings (5-8)	Percentage of Savings	
	Year	Revenue	Capital	Total	Revenue	Capital			Total
1	2	3	4	5	6	7	8	9	10
1.	2007-08	2027.08	306.30	2333.38	1695.40	305.55	2000.95	332.43	14
2.	2008-09	2263.38	355.24	2618.62	2112.90	205.42	2318.32	300.30	11
3.	2009-10	2878.76	391.83	3270.59	2726.60	208.54	2935.14	335.45	10
4.	2010-11	3577.21	323.15	3900.36	2983.60	202.64	3186.24	714.12	18
5.	2011-12	4148.30	208.00	4356.30	3743.23	152.54	3895.77	460.53	11

Source: Appropriation Accounts.

The above table shows that the savings were ranging between 10 and 18 per cent during 2007-12.

Details of receipt and expenditure of ULBs from their own sources were not maintained at Directorate Level. The Commissioner (UADD) Stated (August

2012) that the same would be collected and furnished to audit. The information was again sought from UADD through the State Government (November 2012) and reminder issued (May 2013) but reply has not been received so far.

1.8 Short Devolution of Grants

On the recommendations of third State Finance Commission, the State Government accepted (January 2010) to devolve as a grant one *per cent* of divisible funds⁴ to the ULBs, however the State Government did not release due share to ULBs, as detailed below:-

Table No. -1.2

(₹ In crore)

Year	Divisible fund of State Government	Funds to be devolved as per Third SFC recommendations	Funds actually devolved to ULB by State Government	Short release
2010-11	13960.22	139.60	122.74	16.86
2011-12	17410.17	174.10	141.41	32.69
Total	31370.39	313.70	264.15	49.55

Source: Commissioner, Urban Administration and Development Department (UADD)

The reasons for short release of funds to ULBs were not furnished (November 2012) by the department. Despite reminder issued (May 2013) to the Government, reply is awaited.

1.9 Submission of Utilisation Certificates

Rule 212 (1) of General Financial Rules, provides that in respect of recurring grants, Ministry or Department concerned should release any amount sanctioned for the subsequent financial year only after Utilisation Certificate (UC) in respect of grants of preceding financial year is submitted. The guidelines of the Thirteenth Finance Commission (para-6.2) also envisage that the release of any installment will be subject to utilisation certificate for the previous installment drawn.

Scrutiny of records revealed that the UCs of Grants-in-aid (GIA) was not received by the UADD, till August 2012 as detailed below:-

Table No. - 1.3

(₹ in crore)

Year	State Finance Commission	Central Finance Commission	Total	No. of UCs yet to be received form ULBs
2008-09	115.73	72.20	187.93	338
2009-10	131.09	72.20	203.29	357
2010-11	122.74	139.39	262.13	360
2011-12	141.41	202.10	343.51	360
Total	510.97	485.89	996.86	1415

Source: Figures furnished by the Commissioner UADD Bhopal

⁴ Divisible Fund means total tax revenue of previous year minus ten percent of expenditure for collection of taxes and deduction of assigned revenue to PRIs and ULBs.

A letter has been sent (May 2013) to the Commissioner UADD Bhopal for present status; in reply (July 2013) commissioner UADD stated that UCs were not received.

1.10 Status of outstanding Audit Paras

According to TGS arrangement, the DLFA would pursue the compliance of paragraphs in the inspection reports of the Principal Accountant General (Audit) in the same manner, as if, these are his own reports.

The status of outstanding audit objections of ULBs included in the PAG's Inspection Reports was as under:-

Table No. - 1.4

Sl. No.	Financial Year	ULB			
		Opening balance of outstanding paras of Inspection Reports	Addition	No. of objections settled	No. of objections outstanding
1.	2007-08	3109	514	0	3623
2.	2008-09	3623	778	61	4340
3.	2009-10	4340	598	0	4938
4.	2010-11	4938	453	193	5198
5.	2011-12	5198	797	409	5586

Source: Monthly Arrear Report of SSA-I wing

Despite regular correspondence made with DLFA, no active pursuance was made for settlement of outstanding objections. Latest correspondence has been made in April 2013 in this regard.

1.11 Bank Reconciliation Statements not prepared

Rules 97-98 of Madhya Pradesh Municipal Accounts Rules 1971 provide that the reconciliation of any difference between the balances of cash book and bank accounts is required to be conducted every month.

During the audit (2011-12) it was noticed that cash book balance of ₹5.70 crore was less than pass book balance in nine ULBs and cash book balance of ₹1.09 crore was more than pass book balance in two ULBs at the end of the year 2011-12. The position of the differences is shown in **Appendix- 1.2**.

On this being pointed out, ULBs replied that reconciliation would be made shortly. Due to non-preparation of monthly bank reconciliation statement, the actual financial status of the ULBs could not be depicted. Updated position called for (May 2013) reply is awaited.

1.12 Non recovery of tax/ non-tax revenue

As per Section 87 of MP Municipal Corporation Act, 1956, ULBs earn revenue from their own resources through taxes, rent, fees, issue of licenses etc.

During the audit, we observed in 18 ULBs (four Municipal Corporations⁵, eight Municipal Councils⁶ and six Nagar Parishads⁷) a sum of ₹49.23 crore as tax revenue pertaining to property tax, rent of the buildings and shops (as shown in **Appendix-1.3**) was outstanding against the taxpayers (March 2012). Similarly in 17 ULBs, non-tax revenue pertaining to four Municipal Corporations⁸, seven Municipal councils⁹ and six Nagar Parishads¹⁰ of water charges amounting to ₹21.95 crore as shown in **Appendix – 1.4** remained unrecovered (March 2012). Although the ULBs had powers under section 173 to 183 of the above Act to take suitable action for recovery by distress and sale of any movable property and attachment and sale of immovable property belonging to defaulters but they failed to take action to recover the dues, which led to hindrance in development works.

On this being pointed out during 2012, the ULBs replied that recovery would be made. Updated position called for (May 2013) reply is awaited.

1.13 Non adjustment of advances

Rule 112 (2) of the MP Municipal Accounts Rules, 1971 stipulates that no advance shall be drawn unless expenditure is likely to be incurred within one month and Rule 112 (6) specifies that the Accounts in the Advance's Ledger shall be balanced quarterly and signed by Accounts Officer.

Scrutiny of records of test checked six Municipal Corporations¹¹ three Municipal councils¹² and four Nagar Parishads¹³ during 2011-12, revealed that temporary advances with individuals and agencies of ₹ 8.56 crore as detailed in **Appendix-1.5** were outstanding from 1 to 33 years, which were not adjusted.

On this being pointed out during 2012, Commissioner/CMOs of concerned ULBs replied that the recovery of advances will be made. Updated position called for (May 2013), reply is awaited.

1.14 Non recovery of Rent / Premium of shops

As per Rule 57, 59 & 60 of Madhya Pradesh Municipal Accounts Rules 1971, lease rent/ premium on the immovable property was to be imposed and recovered by the ULBs.

Test check of records of MC Ratlam, three Municipal Councils (Jhabua, Narsinghpur & Sahdol) and three Nagar Parishads (Banmour, Harda &

⁵ MC Bhopal, Khandwa, Ratlam and Ujjain

⁶ Damoh, Jhabua, Kareli, Khargone, Morena, Nagda, Narsinghpur and Petlawad

⁷ Banmour, Byohari, Kannod, Manpur, Satwas and Orchha

⁸ MC Bhopal, Khandwa, Ratlam and Ujjain

⁹ Damoh, Kareli, Khargone, Morena, Nagda, Narsinghpur and Petlawad

¹⁰ Banmour, Byohari, Kannod, Manpur, Satwas and Orchha

¹¹ Bhopal, Gwalior, Khandwa, Ratlam, Rewa, and Ujjain

¹² Damoh, Harda and Jawra

¹³ Banmour, Byohari, Satwas and Orchha

Satwas) revealed that an amount of ₹ 1.41 crore¹⁴ was outstanding on account of rent/premium of the shops at end of year 2012.

On this being pointed out in audit during 2012, the Commissioner MC Ratlam and Chief Municipal Officers (CMO) of above ULBs replied that necessary action would be taken. Updated position called for (May 2013), reply is awaited.

1.15 Conclusion

- Budget and Accounts in the format prescribed by the C&AG, were not maintained by the ULBs.
(Paragraph 1.4)
- An internal audit system was not established in ULBs.
(Paragraph 1.5.2)
- The information regarding receipts and expenditure of all ULBs was not being maintained by the UADD.
(Paragraph 1.7)
- Short release of funds to ULBs.
(Paragraph 1.8)

¹⁴ Ratlam ₹ 43.85 lakh, Jhabua ₹15.66 lakh, Narsinghpur ₹ 5.92 lakh, Sahdol ₹55.73 lakh, Banmour ₹ 1.10 lakh , Harda ₹ 18.28 lakh & Satwas ₹.0.90 lakh