

CHAPTER-III

SECTION 'A' AN OVERVIEW OF URBAN LOCAL BODIES

3.1 Introduction

The 74th Constitutional Amendment Act, 1992 paved the way for decentralization of power and transfer of 18 functions as listed in the Twelfth Schedule of the Constitution along with the corresponding funds and functionaries to the Urban Local Bodies (ULBs). To incorporate the provisions of the Constitutional Amendment Act the Manipur Municipalities Act, 1994 was enacted. It came into force from 24.05.1994. The Act empowered ULBs to function as ISG and to accelerate economic development in urban areas.

At present, there are 28 ULBs {9 Municipal Councils (MC), 18 Nagar Panchayats (NP) and one Small Town Committee (STC)} in Manipur. They cover a total area of 138.83 sq. kms with a total population of 8,22,242 as per 2011 census which is 30.21 *per cent* of the total population. Imphal Municipal Councils (IMC) having an area of 31 sq. kms with a population of 2,64,986 is the largest and the most populous among the MCs. The smallest NP is Sekmai with an area of one sq. km. Each ULB is divided into a number of wards with a minimum of 9 and a maximum of 27 wards. These wards are determined and notified by the State Government taking into account the population, dwelling pattern, geographical condition and economic consideration of the respective areas. The last election of the ULBs in the State excluding Imphal MC was held on 03.01. 2011.

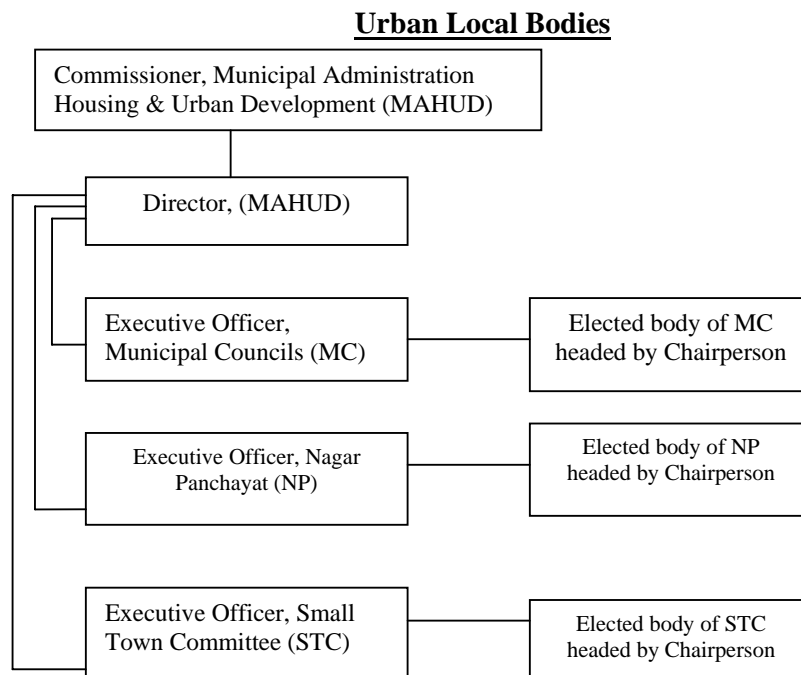
3.2 Organizational Set up

The MC/NP/STC is an ISG 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 and presides over the meetings of the MC/NP/STC and is responsible for the 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 shows the organizational set-up of the department and the ULBs in the State:



3.2.1 The broad details of responsibilities of functionaries are as under:

Table 3.1: Detail of responsibilities of functionaries

Authority	Functions
Commissioner, Municipal Administration, Housing & Urban Development	Administers the overall monitoring and implementation of schemes related to ULBs.
Small Town Committee/Nagar Panchayat/Municipal Council (elected body)	Preparation of Plans for economic development and social justice.
Executive Officer	Monitors the financial, executive and administrative functions of STC/NP/MC and performs all duties imposed or conferred upon him under the Manipur Municipalities Act.

3.2.2 Standing Committee

As per Section 56 of the Manipur Municipalities Act, 1994, the NP or the Council at a meeting may appoint, from time to time, committees to be called 'Standing Committee' to assist it in the discharge of any specific duties devolved upon it under this Act, within the whole or any portion of the Municipality. Further, the Urban Local Bodies may delegate to any such committee all or any of its powers which may be necessary for the

purpose of rendering such assistance. However, none of the ULBs have appointed any Standing Committee.

3.3 Devolution of Powers and Functions

Under the Manipur Municipalities Act, 1994, the State Government is required to transfer all the 18 functions listed in the Twelfth Schedule of the Constitution of India to ULBs. The SSFC in December 2005 recommended for speedy transfer of functional responsibilities including devolution of financial powers to local bodies in keeping with the spirit of the Constitution. Article 243W of the Constitution enables the State Government to empower the ULBs with such powers and authority, by enacting law, so that they function as ISG. However, Government of Manipur has not yet transferred funds, functions and functionaries to ULBs.

3.4 Annual Action Plan

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 is to avoid plurality in planning on various developmental issues. During audit, it was observed that no such action plan was prepared in any of the test-checked ULBs. Also in the absence of AAP, the overall district plan could not emerge. Preparation of AAP 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. In the absence of planning, the element of popular participation was compromised.

3.5 Financial profile

3.5.1 Funding to Urban Local Bodies (ULBs)

The ULBs are funded by grants and assistance received from State and Central Government, as well as by receipts from its own resources. However, the bulk of funds of ULBs were received from the grants and assistances given by the State and the Central Government for implementation of various schemes and projects. Administrative grants were also released by the State Government to ULBs to fund their expenditure. Regarding own source of revenue, under Sections 74 and 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 Act 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 for hire, rent on shops and buildings, tolls and other fees and charges etc., constitute the main sources of revenue of the ULBs.

The grants released to ULBs by the State and Central Government and their Own Sources of Revenue (OSR) during 2006-07 to 2010-11 are shown in **Table 3.2** below:

Table 3.2: Grants received by ULBs during 2006-07 to 2010-11

Source of revenue		Amount (₹ in crore)				
		2006-07	2007-08	2008-09	2009-10	2010-11
Central Government	GOI share + State share of CSS schemes (Swarna Jayanti Shahari Rozgar Yojana, National Slum Development programme, Valmiki Ambedkar Awas Yojna, Basic Services to the Urban Poor/Integrated Housing Slum Development Programme and Integrated Low Cost Sanitation Scheme)	1.62	1.05	1.09	4.56	15.14
	Additional Central Assistance and FC grants released through State Budget(EFC, TFC, 13th FC)	0.90	1.80	1.80	3.60	3.81
State Government	Honorarium/Salary Grants	5.24	4.75	4.08	4.77	4.94
	Other Grants (SFC)	Nil	Nil	17.79	18.68	11.25
Total (Grants received from Central and State Governments)		7.76	7.60	24.76	31.61	35.14
Own Source of Revenue (OSR)	MCs	0.13*	0.19*	0.06*	Not available	Not available
	NPs	Nil	Nil	Nil	Nil	Nil
	STC	Nil	Nil	Nil	Nil	Nil
Total revenue from all sources (Government Grants+OSR)		7.89	7.79	24.82	31.61	35.14

*The figures indicate resources of the Municipal Councils as furnished during audit.

The enhancement in release of funds against CSS during 2010-11 was due to more release of funds under Basic Services to the Urban Poor (Housing)/Integrated Housing Slum Development Programme (IHSDP) under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) Scheme.

3.5.2 Release of Second State Finance Commission Grant

The Report of the SSFC covered a period of 5 (five) years, beginning 01.04.2001. The State Government adopted the recommendations of the SSFC, and extended the period covered up to 31.03.2010.

The release of SSFC grants by the State Government during the last three years from 2008-09 to 2010-11 to ULBs is shown in the table below:-

Table 3.3: Funds released to ULBs under Second State Finance Commission Award

(₹ in crore)

Sl. No.	Name of ULB	2008-09	2009-10	2010-11
A	Imphal Municipal Council	3.56	3.73	2.25
B	Other Municipalities/Nagar Panchayats	12.81	13.45	8.37
C	Small Town Committee	1.42	1.49	0.63
Total		17.79	18.67	11.25

Being the amount released on the recommendation of the 2nd SFC under the head 'Assignment & Compensation' to Local Bodies during 2010-11.

The minimum level of fund to be transferred to each ULB as per the devolution criteria recommended by the SSFC was found to have been devolved/transferred as shown in the Table 3.3.

3.6 Audit Arrangement

Under Section 72(1) of the Manipur Municipalities Act, 1994, the accounts of the ULBs should be audited by the Director, Local Fund Audit. As of March 2011, out of auditable 28 ULB units to be audited, DLFA conducted audit of four units up to March 2008, audit of another eight units up to March 2009 whereas audit of remaining 16 units was conducted upto March 2010.

In pursuance of the recommendations of the EFC, Government of Manipur entrusted Technical Guidance and Support (TGS) over the audit of accounts of ULBs to C&AG of India under Section 20(1) of C&AG's (DPC) Act, 1971 in August 2005. However, necessary amendment in the relevant State Acts/Rules to facilitate implementation of TGS is yet to be carried out. As of now, the C&AG conducts test audit of the ULBs under Sections 14(1) and 20(1) of C&AG's (DPC) Act, 1971.

3.7 Audit Coverage

Test audit of the accounts of 5 ULBs were conducted during the year 2010-11 (**Appendix-II 'B'**)

3.8 Conclusion

The 74th Constitution Amendment Act of the Constitution was an important step in empowering the ULBs to enable them to function as ISG. To facilitate this, functions meant to be performed by the ULBs are listed in the Twelfth Schedule of the Constitution. The task of devolution of the Funds, Functions and Functionaries (3Fs) was left with the State Governments. The State Government has not yet made any gazette notification regarding the transfer of these 3Fs to ULBs. Hence, the devolution of 3 Fs is yet to take place.

Planning is an important exercise in decision making by the ULBs. However, none of the test-checked ULBs prepared the required AAP. This resulted in the sidelining of Local needs and wants in the development process.

SECTION 'B'**FINANCIAL REPORTING****3.9 Framework**

3.9.1 Financial Reporting by ULBs is the key instrument to achieve the objective of accountability. Under Section 72(1) of the Manipur Municipalities Act, 1994, every ULB shall maintain such accounts for every financial year in such form as may be prescribed and submit such statement to the Deputy Commissioner, the Director of MAHUD and the State Government. The ULBs are required to maintain their accounts in the formats prescribed in the National Municipal Accounts Manual (NMAM) with appropriate codifications and classifications.

3.9.2 Non-Compliance to previous Inspection Reports

Previous inspection reports of all the ULBs test checked as of March 2011 were forwarded to the respective Chairpersons, Executive Officers of the concerned ULBs as soon as audits were over. A copy each was also sent to the Commissioners of Finance/Municipal Administration, Housing & Urban Development (MAHUD)/Manipur Urban Development Agency (MUDA) and Director of MAHUD, Government of Manipur for information and necessary action. The audit observations pointed out not only irregularities in the implementation of schemes, but also highlighted non-production of important documents to audit. However, no compliance has been received from the Government so far.

The details of paras outstanding as of March 2011 are given in the **Table 3.4** below:-

Table 3.4: Detail of outstanding paras

Year	No. of IRs issued	No. of paras issued under part II-A	No. of paras issued under part II-B	Total	Clearance	Outstanding
2006-07	3	Nil	16	16	Nil	16
2007-08	3	2	25	27	Nil	27
2008-09	10	Nil	66	66	Nil	66
2009-10	8	Nil	59	59	Nil	59
2010-11	5	2	50	52	Nil	52
Total						220

3.10 Financial Reporting issues

3.10.1 Non-preparation of Budget

As per Section 71 of the Manipur Municipalities Act, 1994, a NP or a MC at a meeting specially convened for the purpose, two months before the close of the financial year, shall prepare the budget in such form and in such manner as may be prescribed. Budget showing *inter alia* the probable receipts and expenditure during the ensuing year and after such revision as may appear requisite shall be passed and submitted to the Director for obtaining approval of the State Government. However, test-check of four MCs and one NP revealed that other than the Imphal Municipal Council, no other ULBs had prepared budget in compliance to the provisions contained in the Act.

3.10.2 Non-Maintenance of Accounts in prescribed formats

The Ministry of Urban Development in collaboration with C&AG of India had developed the NMAM. The NMAM is based on the accrual accounting system. The ULBs were required to prepare their budget and maintain their accounts in the formats prescribed in NMAM with appropriate codifications and classifications. However, it was noticed that none of the test-audited ULBs kept their accounts as prescribed in NMAM, as of March 2011. However, the State Government issued an order in March 2011 for adoption of NMAM in ULBs with immediate effect.

3.10.3 Non-reconciliation of Cash Balances

Test check of five ULBs revealed that none of the ULBs prepared monthly or quarterly Bank Reconciliation Statements. As of 31.03.2009, the difference of cash balances as per Bank Pass Books and Cash Books in respect of Moirang MC and Ningthoukhong MC is shown in **Table 3.5**. The balances of remaining two ULBs *viz.*, Mayang Imphal MC and Yairipok NP were not made available to audit.

Table 3.5: Cash Balances of 3 ULBs as per their Bank Pass Books & Cash Books

Sl.No.	Name of the Bank & A/C No. with relevant scheme.	Pass Book figure (₹)	Cash Book figure (₹)	Difference (₹)
1	Ningthoukhong MC (UBI, Imphal Branch, Current Bank A/C No. 22545)	2,38,084.25	2,42,294.00	4,210.25
2	Moirang MC (Allahabad Bank, Imphal Branch, Savings Bank A/C No.8629)	36,47,737.00	No Main Cash Book maintained	Not available
3	Moirang MC (State Bank of India, Bishnupur Branch, Savings Bank A/C No.30762395442)	8,500.00	-Do-	- Do-
4	Moirang MC Moirang Primary Co-Op Bank Ltd. Savings Bank A/C No.1140	50,538.00	-Do-	-Do-
5	Moirang MC, Manipur Rural Bank, Moirang Branch, Savings Bank A/C No.49	1,000.00	-Do-	-Do-
6	Imphal MC (Allahabad Bank, Imphal Branch A/C No. 618 for TFC)	55,19,517.73	54,81,777.73	37,740
7	Imphal MC (Allahabad Bank, Imphal Branch A/C No. 6232 for SJSRY)	3,99,420	3,72,652	26,768
8	Imphal MC (Allahabad Bank, Imphal Branch A/C No. 6444 for NSDP)	84,073	80,991	3,082
9	Imphal MC (UBI, Imphal Branch A/C No. 32510261 for Revenue)	13,924	14,251.97	327.97
10	Imphal MC (SBI, Imphal Branch A/C No. 10929177141 for Revenue)	1,70,491.58	1,67,218.58	3,273

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Thus, due to non reconciliation of balances between Cash Book and Bank Pass Book, the correct financial position could not be ascertained and incidence of fraud, embezzlement and misappropriation of funds could not be ruled out.

3.10.4 Non-Maintenance of Cash Book

Out of five ULBs test checked, it was noticed that Principal Cash Books were not maintained in Moirang MC (from August 2008 to March 2010) and Yairipok NP (2009-2010), despite operating more than one subsidiary Cash Book. In the absence of Principal Cash Book, all receipts and payments for a particular period were not consolidated. Audit further observed that Subsidiary Cash Books were not maintained in the Ningthoukhong MC and Yairipok NP for the period from April 2006 to March 2011. Thus, due to non-maintenance of Cash Books, analysis of

cash receipts and disbursements for a particular scheme for a period of time could not be carried out.

3.10.5 Deficiencies in maintenance of Cash Books

All moneys received at the ULBs shall immediately and without exception 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 deficiencies in maintenance of Cash Books of Imphal MC, Moirang MC, Ningthoukhong MC 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.

Due to such deficiencies, the incidence of fraud, embezzlement and misappropriation cannot be ruled out.

3.10.6 Deficiencies in maintenance of records/accounts

The following deficiencies were noticed in maintenance of other records/accounts in the test checked ULBs:-

- No voucher was serially numbered and bill registers were not properly maintained.
- Subscribers' Ledger Cards pertaining to Municipal Provident Fund (MPF) were not maintained.
- Daily Collection Registers were not properly maintained and also Issue Registers of Receipt Books were not maintained.

3.11 Conclusion

Timely and correct financial reporting is of utmost importance for accountability and functioning of ULBs. Financial reports are documents that help put together and review whether fiscal prudence has been observed. The purpose is to deliver information to the stakeholders, the Government, the ULBs, the citizens, and the funding agency. Such information will reflect whether funds were utilised for the purpose they were released and whether the appropriate authority had sanctioned the release and whether the benefits accrued to the intended beneficiaries. Thus, it makes the ULBs accountable for the responsibilities that have been thrust upon them. However, weak internal control mechanism was evident as none of the test-audited ULBs prepared the Annual Accounts. There were also deficiencies in maintenance of accounts/records.

Thus, due to the prevalence of such weak internal control mechanism, a true and fair view of the financial affairs of ULBs, their assets and liabilities remained undisclosed. Without a proper financial reporting system, mis-utilisation of fund may remain undetected; as a consequence timely and corrective measures may remain uninitiated.