

CHAPTER-I

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF URBAN LOCAL BODY (ULB)

1.1 Introduction

The Seventy Fourth Constitutional Amendment Act, 1992 paved the way for decentralisation 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) and to establish a system of uniform structure, holding of regular elections and regular flow of funds through Finance Commission *etc.* As a follow up, the states were required to entrust these bodies with such powers, functions and responsibility so as to enable them to function as institutions of self-Government. The Constitutional amendments intended to pave the way for fiscal decentralization to the grass root level. To incorporate the provisions of this Amendment Act, the Mizoram Municipalities Act, 2007 (as amended in 2009) was enacted which came into force in 2008.

Consequently, the first election to the Aizawl Municipal Council (AMC) was held in November 2010. At present the lone Urban Local Body *i.e.* Aizawl Municipal Council covers a total area of 129 sq. kms and population of 2,91,822 as per 2011 census. Under the AMC, there are 19 Wards comprising of 83 Local Councils.

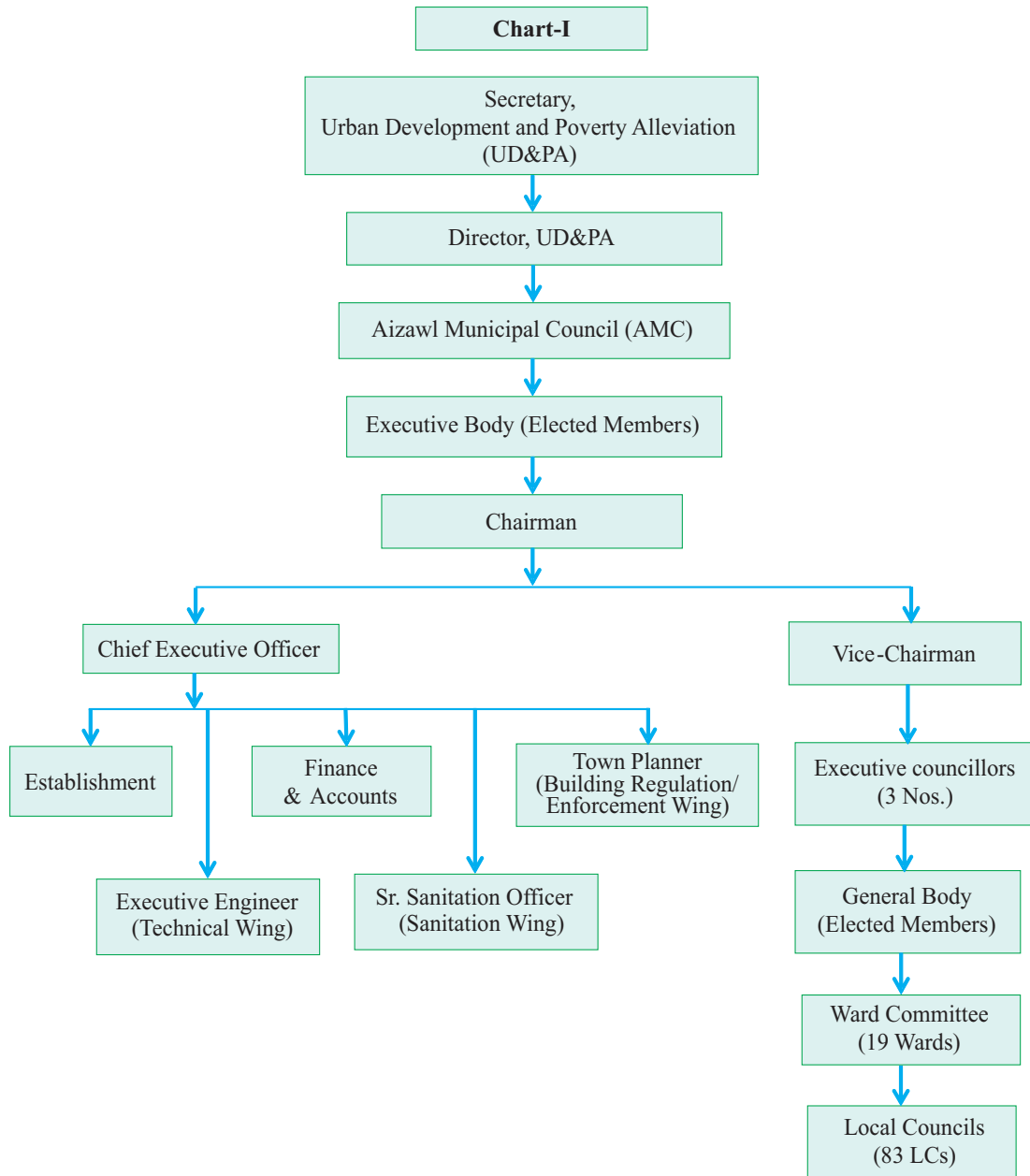
1.2 Organisational Setup in State Government and Local Body

The Secretary, Urban Development & Poverty Alleviation Department (UD&PA) is the administrative head of the Aizawl Municipal Council (AMC) and is assisted by the Director, UD&PA in allocation of funds and in exercising overall control and supervision of functions and schemes at the State level.

The chairperson elected by the majority of Councillors is the executive head of the AMC. He presides over the meetings of the Municipal Council (MC) and is responsible for the governance of the body. The AMC (ULB) consists of all elected members.

A Chief Executive Officer was appointed by the State Government for administrative control of the AMC. Other officers are also appointed to discharge specific functions of the body.

An organogram of the Urban Development Department and AMC is shown below:



1.3 Devolution of Powers and Functions

The Seventh-fourth Constitutional amendment provides scope for devolution of funds, functions and functionaries to Urban Local Bodies by the State Government with respect to preparation of plans and programmes for economic development and social justice relating to 18 subjects listed in the XII Schedule of the Constitution of India. The Government of Mizoram has enacted the “Mizoram Municipalities Act, 2007” (amended in 2009) to

establish municipalities in towns, transitional areas and urban areas in Mizoram to enable the municipalities in the state to function as local self-Government institutions.

As per Section 59 (2) of the Act, the State Government may transfer to the Municipality such functions and duties as are performed by the Department of the State Government on any of the following matter:

1. Town and country planning;
2. Urban development;
3. Water supply and sanitation;
4. Transport system including regulation of traffic terminus;
5. Employment schemes and programmes;
6. Health and family welfare;
7. Relief and social welfare including social security schemes and programmes;
8. Public works including road construction and housing;
9. Cottage and small scale industries, business and services including programme for skill development;
10. Education including primary education, adult education, vocational education, social education, non-formal education, audio-visual education and library services;
11. Food and supplies including rationing and distribution;
12. Civil defence;
13. Fire protection and fire fighting;
14. Sports and youth services;
15. Welfare of the Scheduled Caste and Scheduled Tribes;
16. Environmental safety and improvement; and
17. Social forestry and plantation programme.

It was, however, noticed that out of 17 functions to be transferred to the Municipality Council, the State Government has so far transferred (October 2012) only six functions and duties to the Aizawl Municipal Council as follows:

- i. Management of transportation terminals;
- ii. Providing of civic services & street vending;
- iii. Management of market sheds;
- iv. Management of parking lots;
- v. Solid waste Management; and
- vi. Collecting of property tax.

Thus, full devolution of powers and functions to the ULB as envisaged in the Act is yet to be carried out by the State Government.

1.4 Accounting Manual

The need for municipal reforms has assumed urgency as proper financial reporting by ULBs would be an important instrument to achieve objective of accountability. Considering the importance of maintenance of accounts, the Eleventh Finance Commission in its recommendation has entrusted the responsibility for exercising control and supervision over the proper maintenance of accounts and the audit of ULB to the Comptroller and Auditor General of India (C&AG). Accordingly, The Ministry of Urban Development, GoI in consultation with the C&AG developed the National Municipal Accounts Manual (NMAM) (December 2004) which is based on accrual based double entry accounting system for greater transparency and control over finances. The ULBs were required to prepare their budget and maintain their accounts in the formats as prescribed in NMAM with appropriate codifications and classifications.

In terms of Paragraph 10.116 of the Thirteenth Finance Commission's (TFC) guidelines, the State should implement an accounting framework consistent with the accounting format and codification pattern suggested in the NMAM. As per Government Notification (March 2011), the AMC is required to prepare its budget and maintain accounts in the formats prescribed by NMAM with appropriate codification and classification.

It was, however, noticed that the AMC had not maintained its accounts in the formats prescribed in NMAM, as of March 2012.

1.5 Creation of database on Finances & Maintenance of Accounts

Based on the recommendations of the Eleventh Finance Commission (EFC), the C&AG had prescribed database formats for capturing the finances of all ULBs. The database formats were prescribed with a view to have a consolidated position of sector-wise resource and application of funds by ULBs, details of works executed by ULBs and their physical progress *etc.*

It was, however, noticed that the development of database was not started (December 2012) for want of formal acceptance of the prescribed formats by the State Government. The Chief Executive Officer of the Aizawl Municipal Council stated (December 2012) that the matter related to database formats on finances as prescribed by the C&AG was referred to the Urban Development and Poverty Alleviation Department for acceptance.

1.6 Recommendations of State Finance Commission

In pursuance of the Sub-Section (1) of Section 3 of the Mizoram Finance Commission Act, 2010 (Act No. 17 of 2010), the State Government, Finance Department constituted

(30 September 2011) Mizoram Finance Commission under the chairmanship of the Chief Secretary of the State.

The Commission was constituted to make recommendations as to the following matters:

- (i) The principles which *inter alia* should govern –
 - a) The distribution between the State and the Village Councils, Aizawl Municipal Council and the Autonomous District Councils of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them to enable these bodies to perform the functions assigned, and which may be assigned to it under any laws in force or orders, and the allocation between the Village Councils, Aizawl Municipal Council and the Autonomous District Councils at all levels of their respective shares of such proceeds;
 - b) The determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by, the Village Councils, Aizawl Municipal Council and the Autonomous District Councils;
 - c) The grants-in-aid to the Aizawl Municipal Council from the Consolidated Fund of Mizoram;
- (ii) The measures needed to improve the financial position of the Aizawl Municipal Council.

The Report of the Mizoram Finance Commission for the coming period of five years starting from 1 April 2013 to 31 March 2018 was scheduled to be available by 30 November 2012. However, it was noticed in audit that the same has not been submitted by the Commission as of February 2013.

1.7 Formation of Ward Committees

Section 23 of the MM Act, 2007 (as amended in 2009) provides that every Municipality shall, at its first meeting after the election of Councillors thereto or as soon as may be thereafter form a Ward Committee for every ward. Further, the municipality shall form a Local Council in every locality within the ward for matters of local internal nature according to the Mizo traditions, customs and practices and such other matters necessary for effective functioning of the Local Councils.

It was noticed that the first election to form 83 Local Councils was held in February 2012 and subsequently 19 Ward Committees were formed on 24 May 2012 to oversee the matters of local internal nature according to the Mizo traditions, customs and practices and such other matters necessary for effective functioning of the Local Councils.

1.8 Financial Profile of the ULB

The resource base of AMC consists of Own Source of Revenues (OSR), Central Finance Commission grants and State Government grants for maintenance and development purposes.

Under Section 210 of the Mizoram Municipalities Act, 2007 (as amended in 2009), the AMC may levy taxes such as property tax, profession tax, tax on carriages and animals, tax on carts and advertisement tax other than advertisements published in newspapers. However, the AMC was authorised to collect parking fees from May 2012 and property tax (October 2012) with retrospective effect from 7 August 2011. Property tax, building regulation, Ch. Chunga Bus Terminal fees, Ch. Saprawnga Truck Terminal fees, parking fees, etc. constituted the main source of revenue of the AMC.

The Thirteenth Finance Commission (TFC) grants released by the GoI, fund from State Government and the amount released to the AMC besides their Own Sources of Revenue (OSR) during 2010-12 are shown in Table-1.1:

Table-1.1

(` in crore)

Source of fund		Amount released to UD&PA Department			Amount released to AMC by UD&PA Department/OSR		
		2010-11	2011-12	Total	2010-11	2011-12	Total
(A) Grants from Go I & State Government:							
GoI	Grants under 13 th FC	8.64	5.48	14.12	2.12	5.48	7.60
State Government	Salary & OE	1.62	1.94	3.56	1.62	1.68	3.30
	Capital assets	-	0.34	0.34	-	0.34	0.34
Sub-total (A)		10.26	7.76	18.02	3.74	7.50	11.24
(B) Own Source of Revenue (OSR):							
Own Source of Revenue (OSR)	Property tax & building regulation	-	-		0.04	1.37	1.41
	Fees	-	-		0.21	0.23	0.44
	Others	-	-		-	0.02	0.02
Sub-total (B)		-	-		0.25	1.62	1.87
Grand Total (A) + (B)		10.26	7.76	18.02	3.99	9.12	13.11

It could be seen from the above table that the bulk of fund (` 11.24 crore) constituting 86 per cent of the total fund (` 13.11 crore) was received by the AMC from the Central and the State Governments for implementation of various schemes and activities against the 14 per cent OSR of ` 1.87 crore during the year 2010-11 and 2011-12.

Further, against the receipt of Central TFC grants of ` 8.64 crore during 2010-11, the UD&PA Department has released an amount of ` 2.12 crore only to the AMC resulting in

short-release of ` 6.52 crore (` 8.64 crore minus ` 2.12 crore). Reason for short release of fund was not on record.

1.9 Audit Mandate

As per provision under Section 90 (1) of the Mizoram Municipalities Act, 2007 (as amended in 2009), the municipal accounts as contained in the Annual Financial Statement shall be examined and audited by an auditor appointed in that behalf by the State Government.

Accordingly, the State Government appointed (June 2011), the Examiner of Local Funds Accounts (ELFA), Mizoram as auditor of the AMC with the responsibility of certification of accounts and statutory audit of the local bodies under the administrative control of the Finance Department.

It was noticed that the Annual Financial Statement of the AMC for the period ending March 2011 was audited by the ELFA and its Report was duly laid in the State Legislative Assembly.

Besides, in pursuance of the recommendations of the TFC, State Government entrusted (June 2011) the Technical Guidance & Supervision (TGS) over the accounts and audit of local bodies to the Comptroller & Auditor General of India under Section 20 (1) of the C&AG's DPC Act, 1971.

1.10 Conclusion

- As against 17 statutory functions, the State Government transferred only six functions to the AMC as of October, 2012. Thus, the actual devolution of powers and functions at the level of AMC has not been fully achieved.
- There was instance of short-release of TFC grants of ` 6.52 crore during 2010-11 by the UD&PA to AMC.

1.11 Recommendations

- The process of devolution of powers and functions to AMC should be expedited by the State Government.