

CHAPTER III

Section-A

An Overview of Urban Local Bodies

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Section-A An Overview of Urban Local Bodies (ULBs)

URBAN DEVELOPMENT DEPARTMENT

3.1 Introduction

The 74th Constitutional Amendment Act, 1992 marked a new era in the federal democratic set up of the country as it conferred Constitutional status to the municipalities and recognised them as Local Self Government Institutions (LSGIs).

In Assam, for urban areas, a Municipal Corporation (MC) for Guwahati, Municipal Boards (MBs) for comparatively larger urban areas and Town Committees (TCs) for transitional and relatively small urban areas have been functioning.

The amendment provides for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice. It also provides transferring of 18 subjects listed in Schedule XII of the Constitution of India for Urban Local Bodies (ULBs). As a follow up, the State was required to entrust these ULBs with such powers, functions and responsibilities as to enable them to function as LSGIs. The Constitutional Amendments establish a system of uniform structure, conducting of regular election, regular flow of funds etc.

The administrations of urban local bodies are governed by the provisions of:

- Guwahati Municipal Corporation (GMC) Act, 1971,
- Assam Municipal (AM) Act, 1956 and
- Assam Municipal Accounts (AMA) Rule, 1961.

Article 243 of the Constitution of India provides that elections in Municipalities shall be held once in every five years. Elections in ULBs in the State were held in July 2009. State Government had dissolved the elected body of the GMC in May 2008. As per provision under Article 243(U)(3) of the Constitution of India an election to constitute a Municipality shall be completed before the expiry of a period of six months from the date of its dissolution. However, elections to the GMC in the State were last conducted during June 2013.

There are 93 ULBs in the State as on 31 March 2013. Of the 93 ULBs, 75 are in General Areas and governed according to the provisions of the AM Act, 1956. The remaining 18 ULBs falling within the Sixth Schedule Areas are governed by the rules framed by the respective ADCs. Recommendations of the Assam State Finance Commissions (ASFCs) did not cover the ADCs.

3.2 Size of ULBs

As on 31 March 2013, there were 93 ULBs in Assam. The position of ULBs in Assam in terms of number, area and average population is given in **Table 3.1**.

Table 3.1: Position of ULBs

Level of LB	No.	Area per ULB (Sq Km)	Average population
Municipal Corporation (MC)	1	216.79	963429
Municipal Board (MB)	34	20.35	90652
Town Committee (TC)	58	1.53	4960

Source: Assam State Finance Commission's report submitted for 14th CFC

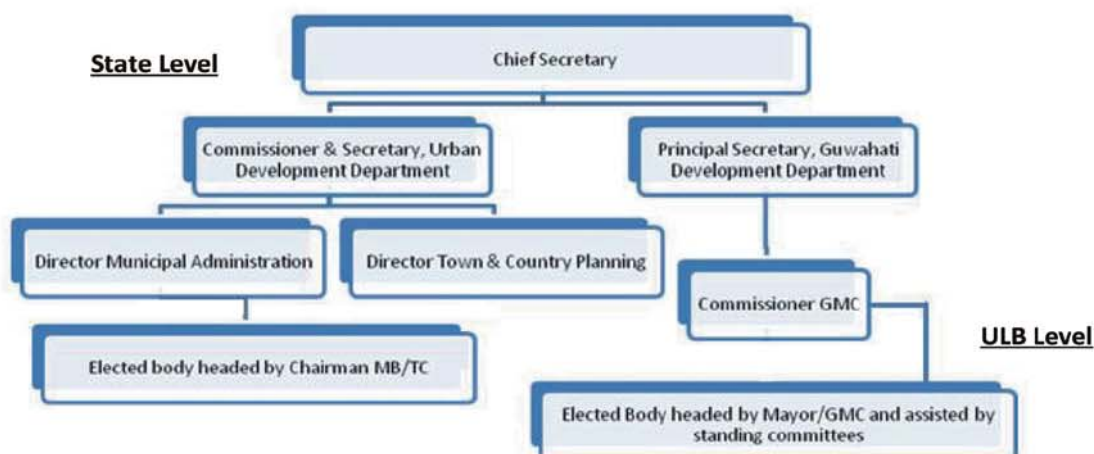
3.3 Organisational Setup in State Government and ULBs

The Commissioner and Secretary, Urban Development Department (UDD) is the administrative head of ULBs (MBs & TCs) and is assisted by the Director, Municipal Administration (MA) and Director, Town & Country Planning (T&CP). Commissioner and Secretary, UDD also allocates fund and exercises overall control and supervision of functions and implementation of schemes at the State level.

The Principal Secretary, Guwahati Development Department (GDD) is the administrative head of the Department and the GMC is headed by Commissioner, GMC.

Following organogram depicts the organisational set up of ULBs:

Organisational set up of ULBs



3.4 Functioning of ULBs

The MBs and TCs in Assam were functioning without an Executive Officer (EO) for running the day to day administration. Of late, the Municipal Act had ensured putting in place an EO for each and every MB and TC. However, as of March 2013, there was no EO in any of the MB/TC where elected body was functioning. In the absence of suitable administrative machinery in ULBs, the amount earmarked for ULBs under transferred subjects was being spent through line departments.

3.5 Standing Committees

In case of ULBs, AM Act, 1956 also does not provide for constitution of any standing committee. However, though Section 20 of GMC Act, 1971 provides for constitution of standing committee (for Guwahati Municipal Corporation), no provision was made in the Act regarding timeline for formation of the standing committee and its constituent members.

3.6 Staffing pattern of ULBs

The ULBs do not have any approved staffing pattern for them. As a result, staff strength of ULBs varies from unit to unit depending on the size and paying capacity of ULBs.

UDD and GDD submitted study report of staffing pattern of ULBs and GMC to FASFC in December 2011 and in February 2012 respectively. However, GoA is yet to take decision on the issue (March 2013).

Unless ULBs were properly manned, they would be unable to handle huge funds obtained from various sources and their accounting in a proper way.

Hence, a clear policy in this regard was needed to be formulated by GoA keeping in view the imperatives of personnel requirement in the context of enhanced workload entrusted to ULBs under different programmes, schemes and projects.

3.7 State Finance Commission Grants

Article 243W of the Constitution had made it mandatory for the State Government to constitute a SFC within a year from the enactment of the Constitutional Amendment Act and thereafter on expiry of every five year to review the financial condition of the ULBs and to make recommendations to the Governor for devolution of funds to ULBs on the following aspects:

- The distribution of net proceeds of taxes, duties and fees between the State and the ULBs;
- Release of *Grants-in-aid* (GIA) to the ULBs from consolidated fund of the State and
- Measures needed to improve the financial conditions of the ULBs.

Accordingly, in respect of sharing of the net proceeds of State Taxes with Municipalities, a global approach of sharing the net proceeds of all State Taxes excluding Non-Tax revenue and share of Central Taxes is adopted. Details of quantum of devolution recommended by ASFC and fund released by the GoA to ULBs during the years 2008-09 to 2012-13 are indicated in **Table 3.2 and Table 3.3.**

Table 3.2: Devolution of Fund to ULBs

(₹ in crore)

Year	Net collection of the State Government	Amount to be devolved	Actual released under SFC	Short released
		ULBs including GMC	ULBs including GMC	
(1)	(2)	(4)	(8)	(9)
2008-09	4150.21	240.25	48.61	191.64
2009-10	4986.72	254.19	96.15	158.04
2010-11	5929.84	268.27	151.67	116.60
2011-12	7638.23	83.65	83.65	0
2012-13	8250.21	91.27	91.26	0.01
Total	30955.21	937.63	471.34	466.29

Source: The FASFC Report and information furnished by Director, Finance (Economic Affairs) Department, Assam.

Table 3.3: Allocation and release of GIA to ULBs

(₹ in crore)			
Year	Recommended by ASFC	GIA released to	Short released
2008-09	210.98	-	-
2009-10	144.60	-	-
2010-11	156.64	3.29	153.35
2011-12	334.28	106.03	228.25
2012-13	211.92	62.12	149.80
Total	1058.42	171.44	531.40

Source: The FASFC Report and information furnished to Fourteenth Finance Commission by GoA.

It can be seen from above tables that against ₹1996.05 (937.63+1058.42) crore recommended by ASFC, the GoA could release only ₹642.78 (471.34+171.44) crore.

Thus, due to short release of ₹997.73 (466.29+531.40) crore the ULBs were unable to implement various welfare activities for the overall economic development.

3.8 Status of devolution of 3Fs

The following eight subjects out of 18 subjects listed in the XIIth Schedule are being implemented by the ULBs as their traditional functions:

- Water supply for domestic, industries and commercial purposes;
- Conservancy and Solid Waste management;
- Slum improvement and upgradation;
- Provision of urban amenities and facilities such as park, garden play grounds;
- Burials and burial grounds, cremations, cremation grounds and electric cremations;
- Cattle ponds;
- Public amenities including street lighting, parks, gardens, play grounds and
- Regulation of slaughter houses.

Subjects relating to urban planning including town planning, land use and construction of buildings, slum improvement and upgradation, roads and bridges, urban forestry, ecology and environment, vital statistics including registration of births and deaths, planning for economic and social development, urban poverty alleviation etc. were not yet transferred to the ULBs. The approach adopted in this regard so far is limited to constituting a committee only. The devolution of funds, functions and functionaries (3Fs) as listed in the XIIth Schedule remain more or less in the paper till date (March 2013). In respect of Guwahati Municipal Corporation (GMC) out of 18 functions listed in the XIIth schedule, activities under four functions were transferred to GMC as of March, 2013. Remaining functions were still lying with the line department and other agencies working in parallel with GMC within the Municipal area. Thus, devolution of 3Fs to GMC in respect of the transferred subjects was far below the desired level.

Nevertheless, the GoA had created a Municipal window in the State Budget for devolution of fund and every year a substantial portion of budgetary outlays under plan and non-plan in the revenue account was earmarked for Municipalities against the

transferred subjects. However, in the absence of suitable administrative machinery under the ULBs, the earmarked amount was being spent through the functionaries of the line departments. Thus, the objective of creating the Municipal window in the State Budget was frustrated due to lack of effective action on the part of the Government to implement its own decisions on devolution of 3Fs to the ULBs.

3.9 Financial profile of ULBs

For execution of various developmental works, the ULBs arrange fund from its own sources as Tax and Non Tax revenue, grants and assistance from Government and loans from public financial institutions or nationalised banks. The authority for reporting and use of fund in respect of MBs and TCs is Chairperson and authority in respect of GMC is the Commissioner. Detailed sources of fund and its custody are given in **Table 3.4**.

Table 3.4: Fund flow mechanism in ULBs

Nature of Fund	MC, MBs, TCs	
	Source of fund	Custody of fund
Own receipts	Assesseees and users	Bank
SFC	State Government	Do
CFC	Gol	Do
SSS	State Government	Do

Source: Scheme guidelines

Details of fund flow arrangements in CFC Grants and CSS are given in the **Table 3.5**.

Table 3.5: Fund flow arrangements of CFC Grants and CSS to ULBs

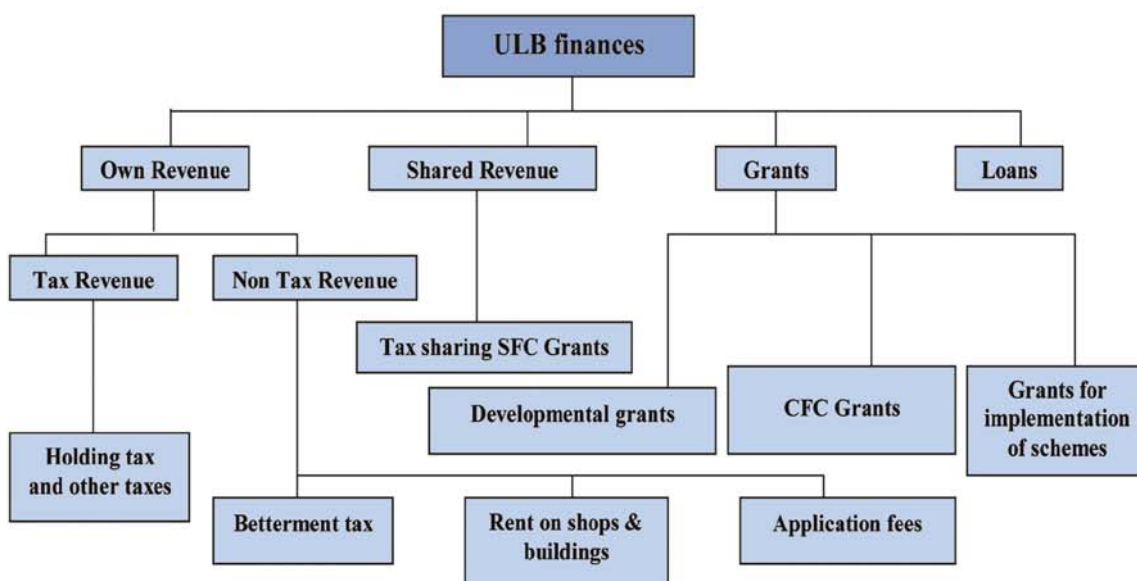
Sl. No	Scheme	Fund flow
1	Swarna Jayanti Shahari Rozgar Yojana (SJSRY).	Central share is released to the UDD, which is the State Urban Development Agency (SUDA). State share provided in the Budget is released to the Director, Municipal Administration who disburses the funds (Central and State share) to the respective ULBs.
2	Jawaharlal Nehru National Urban Renewal Mission (JnNURM).	Central share is released to the SUDA. The State Share provided in the budget is also released to the SUDA which disburses the fund to GMC through Guwahati Metropolitan Development Authority (GMDA).
3	Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT).	Central share is released to the UDD through the State Government. State share provided in the Budget is also released to UDD which disburses the funds to the ULBs through Director, T&CP.
4	Basic Service to Urban Poors (BSUP).	Central share is released to UDD and GDD through State Government. State share provided in the Budget is also released to UDD/GDD which disburses the funds to implementing ULBs through Director, T&CP while GDD disburses the fund to GMC through GMDA.
5	CFC	Gol transfers the fund to the State which is released through budget allocation to the DC of the District. The DC after drawal of the fund from treasury disburses the same to municipalities under its jurisdiction.
6	BRGF	Gol transfers the fund to the State which is released through budget allocation to the ZPs which after drawal of the fund from treasury, disburses it to municipalities within the district.

Source: Scheme guidelines

3.9.1 Sources of Revenue

The main sources of revenue for the ULBs are (a) Government Grants and (b) Own Revenue. Own revenue resources of ULBs comprises 'Tax' and 'Non-Tax' revenue realised by them. Property Tax is the major source of revenue. Government grants comprise fund released by the Central and State Governments based on recommendations of CFC, SFC and GoI's share for various CSS. Besides, ULBs also obtains loans from financial institutions for implementation of various schemes relating to Urban Development, Water Supply and Roads etc.

A flow chart of finances of an ULB is given below:



Under the provision of the Acts in force, all collections such as taxes on holdings, water tax, latrine tax etc., are the sources of tax revenue while building plan sanction fee, rent from shops and buildings, tolls and other fees and charges constituted the main source of non-tax revenue. The State Government also released GIA and loans to the ULBs to compensate their establishment expenses. ULBs also receive grants and assistance from State Government and Central Government for implementation of schemes and projects.

3.9.2 Resource Trends and composition

The trend of resources of ULBs for the period 2008-09 to 2012-13 is shown in **Table 3.6**.

Table 3.6: Time series data on ULBs resources

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Own Revenue	31.77	103.41	128.78	151.57	190.04
SFC transfers	48.61	96.15	151.67	189.68	149.59
CFC transfers	8.65	24.35	12.04	31.97	44.28
Interest for delayed payment of CFC grants	-	0.84	-	0.11	0.20
SSS	7.52	33.31	20.54	16.13	-
GoI grants for CSS	52.77	88.83	33.27	24.09	33.41

Source: The FASFC Report and information furnished by GoA.

The above table shows that the own resources have gradually increased in the last five years. However, the SFC grants though have an increasing trend during 2008-09 to 2011-12, it declined by 21.14 per cent in 2012-13.

3.9.3 Allocation and release of funds

During 2011-12 and 2012-13 public investment in urban development through major CSS and corresponding State shares are shown in **Table 3.7**.

Table 3.7: Statement showing investment through major CSS and SSS

Sl. No.	Name of schemes	Nature of grants	2011-12			2012-13		
			Budget provision	Allocation made	Fund released	Budget provision	Allocation made	Fund released
1	SJSRY	Central Share	54.00	32.74	32.88	34.13	34.13	37.78
		State Share	3.00	3.00		6.00	4.43	
2	IDSMT ⁵	Central Share	Nil	Nil	Nil	Nil	Nil	Nil
		State Share	2.00	2.00	2.00	7.74	7.74	7.74
3	IHSDP ⁶	Central Share	33.26	Nil	Nil	62.81	Nil	Nil
		State Share	4.44	4.44	1.02	6.98	0.68	Nil
4	UIDSSMT ⁷	Central Share	85.22	31.50	24.08	65.89	16.70	13.23
		State Share	8.73	8.73	8.73	7.32	7.32	Nil
5	10 per cent Pool Fund	Central Share	Nil	Nil	Nil	Nil	Nil	Nil
		State Share	12.00	11.90	4.27	11.00	4.00	1.44
6	Night Shelter for Urban Scheme	Central Share	Nil	Nil	Nil	Nil	Nil	Nil
		State Share	0.75	0.75	0.48	1.00	0.76	0.56
7	C.M Special Programme for Development of Small Town	State Share	1.40	0.98	0.98	1.50	1.50	1.50

Source: Director, MA, Director, T&CP, Secretary, GDD, Assam.

However, there was no readily available data on how much was actually spent in a particular year on the above mentioned schemes. Hence, utilisation of the funds remained unverified. Thus, there is a need to establish the mechanism for proper accounting of these schemes for better accountability.

⁵ Integrated Development of Small and Medium Towns.

⁶ Integrated Housing and Slum Development Programme.

⁷ Urban Infrastructure Development Scheme for Small and Medium Towns

3.9.4 Short release of fund under CSS to ULBs

Details of the amount of CSS provided by GoI which accumulated with the share of the State Government to ULBs during 2012-13 are given in **Table 3.8**.

Table 3.8: Status of funds for CS Schemes.

(₹ in crore)

Sl. No.	Name of scheme	Share of Grant	Budget allocation	Amount allocated	Amount Released to ULBs	Short release
1	IHSDP	Central Share	62.81	Nil	Nil	Nil
		State Share	6.98	0.68	NIL	0.68
2	UIDSSMT	Central Share	65.89	16.70	13.23	3.47
		State Share	7.32	7.32	Nil	7.32
3	10 per cent Pool Fund	Central Share	NA	NA	NA	NA
		State Share	11.00	4.00	1.44	2.56
4	Night Shelter for Urban Slum	Central Share	NA	NA	NA	NA
		State Share	0.76	0.76	0.56	0.20
Total			154.76	29.46	15.23	14.23

Source: Information furnished by the Director, T&CP

As would be seen from the above table that against the budget provision of ₹154.76 crore, the Director, T&CP received ₹29.46 crore and released ₹15.23 crore resulting a short release of ₹14.23 crore in 2012-13. The short released amount ₹14.23 crore is retained by the Commissioner and Secretary, UDD and Director T&CP in a joint account. The retention of funds adversely affected the work under the schemes resulting in denial of intended benefit to the beneficiaries.

3.10 Expenditure management of ULBs

During 2009-10, expenditure on salary, remuneration etc, of ULBs amounted to ₹95.16 crore and their internal revenue mobilisation during the year was ₹103.41 crore. However, in 2012-13, their salary and remuneration expenditure was ₹172.01 crore against revenue mobilization of ₹190.04 crore. It is evident that major portion of the revenue of the ULBs is consumed in payment of salary.

It is apparent that the actual receipt or generation of own fund is inconsequential even to meet the payment of remuneration and sitting allowance and there is a little scope for meeting any other exigencies. Thus, ULBs at all levels require to be proactive in augmenting and mobilising of internal revenues by working out periodical action plans after identifying the potential areas.

3.11 Thirteenth Finance Commission (13th FC) Grant

The weights adopted by the 13th FC Commissioner for inter distribution of funds among the states were 50 per cent population, 10 per cent area and 20 per cent distance from highest per capita income, 15 percent index of devolution and five percent CPC grant utilization index. Based on the above principles, the share of ULBs for the periods 2010-15 in Assam including sixth Schedule areas amounted to ₹1892.90 crore. The amount so

recommended has two components viz, General Basic grants and Performance Grants. For all five years, states will be eligible to draw their Basic grants subject to submission of UCs in time. However, Performance grants will be eligible from the second year of the award period subject to fulfillment of certain conditions laid down in the Thirteenth Finance Commission (13th FC) recommendations.

The position of grants released to ULBs during 2011-13 by the GoI and further released by the State Government as per recommendation of the 13th FC is shown in **Table 3.9**.

Table 3.9: Award of 13th FC to ULBs

(₹ In lakh)

Programme Year	Installment No	Scheme Components	Fund received/released		Penal interest for late release of Fund
			Received from GoI	Released to ULBs	
2011-2012	2 nd	General Basic Grant	14.92	14.92	0.07
		General Performance Grant	5.14	5.14	
		Special Area Basic Grant	0.25	0.25	
		General Performance Grant Forfeited by non performance State	4.67	4.67	0.05
2012-2013	1 st	General Basic Grant	15.98	15.98	0.08
		Special Area Basic Grant	0.25	0.25	
		Special Area Performance Grant	3.65	3.65	
	2 nd	General Basic Grant	17.60	17.60	NIL
		Special Area Basic Grant	0.25	0.25	NIL
TOTAL			62.71	62.71	0.20

Source: Director, Finance (Economic Affairs) Department, Assam

As per guidelines issued by the GoI, grants of 13th FC are required to be transferred by State Government to the ULBs within five days of receipt from the Central Government in case of states having easily accessible banking infrastructure and ten days in case of states with inaccessible banking infrastructure failing which State Government was liable to transfer interest amount to ULBs at RBI bank rate for the number of days of delay.

It was observed that State Government released 13th FC grants to ULBs with a interest liability of ₹0.20 crore respectively due to tardy transfer of fund. Delay in release of funds hampered the timely implementation of the projects in the field because time factor played an important role in Assam in view of season specific limitations in execution of works.

3.12 Accountability framework

3.12.1 Power of State Government over ULBs

The Constitution of India empowers States to legislate on Municipalities. Further, in exercise of relevant Acts and Rules, the State Government exercises its powers in relation

to ULBs. Details of the powers of the State Government over the ULBs in decentralised setup are given in **Table 3.10**.

Table 3.10: Power of State Government over ULBs

Act/Rule/Authority (1)	Power exercised by Government (2)
Section 301 of AM Act and Section 426 of GMC Act	Power to frame rules The State Government may make rules for carrying out the aims and objectives of this Act.
Section 298 of AM Act and Section 425 of GMC Act	Power to dissolve ULBs Government may, by notification in Gazette, dissolve the ULBs, if the Government is of the opinion that the ULB exceeds or abuses its powers or is not competent to perform or make persistent default in the performance of the duties imposed on it under this Act or any other law, for the time being in force.
Section 296 of AM Act and Section 424 of GMC Act	Powers to revoke or suspend resolution of ULBs The State Government may by an order in writing suspend and prohibit an order or a resolution of an ULB, if the resolution is improper, cause or likely to cause injury or annoyance to the public or lead to a breach of peace.

The AM Act, 1956 and GMC Act 1971, also contain the following provisions to enable the State Government to monitor and ensure proper functioning of the ULBs.

- Call for any municipality to furnish information or report, plan, estimate, statement, accounts or statistics;
- Inspect any office or any record or any document of ULBs;
- Inspect the works and development schemes implemented by ULBs and
- Take action for default of head of the ULBs.

3.13 Vigilance mechanism

3.13.1 Ombudsman

The Ombudsman conducts investigation and enquires into instances of maladministration, corruption, favoritism, nepotism, lack of integrity, excessive action, inaction, abuse of position etc, on the part of officials and elected representatives of ULBs. He can even register cases, *suo moto*, if the instances of the above kind come to his notice.

There was, however, no provision in the AM Act and GMC Act regarding setting up of Ombudsman for ULBs.

3.13.2 Social Audit

The primary objective of social audit is to bring the activities of ULBs under close surveillance of people to enable them to access the records and documents of ULBs. Such immediate access to information would facilitate transparency and accountability in day-to-day functioning of ULBs. The State Finance Department issued guidelines (May 2009) for social audit which, *inter alia*, included the following:

- Use of Ward Committees as important vehicles for spread of awareness about social audit;
- Appointment of nodal officer at the level of Ward Committees who would register complaints and fix the date for social auditing;

- Wide publication of the date of social audit through local newspapers, hand bills, leaflets and notice boards etc. and
- Presentation by the representatives of ULBs of the relevant data on revenue and expenditure of their organizations including bills, vouchers, muster rolls, measurement books, copies of sanction orders and other books of accounts and papers necessary for the purpose of social auditing;

The State Government was yet (March 2013) to amend the relevant Municipal Act by including a statutory provision for social auditing.

3.13.3 Lokayukta

The Assam Lokayukta and Upa Lokayukta Act, 1985 (Assam Act XX of 1985) was introduced to improve the standard of Public Administration through investigation of complaint against ministers, legislators and public functionaries including those of ULBs. The institution was headed by Upa-Lokayukta (March 2001) as the post of Lokayukta had been lying vacant for the last 18 years (since March 1995).

The State Government had taken various initiatives by publishing advertisement in local newspaper in Assam and launched a website and approved setting up of cells in all Districts and Sub divisional Headquarters to receive complaints of this forum to increase the awareness of the people regarding Lokayukta and Upa-Lokayukta Act. However, the Upa-Lokayukta had not received any complaints relating to ULBs during the year 2012-2013.

Thus, there was a need to increase awareness among the people about the existence and functioning of anticorruption mechanism to make it more effective and useful to the public.

3.14 Audit Mandate

3.14.1 Primary Auditor of ULBs

Director of Audit, Local Fund (DALF), Assam established under Assam Local Funds (Accounts & Audit) Act, 1930 is the primary auditor of all the ULBs in the State. The Local Fund Audit organisation in the State of Assam under DALF had 20 circle offices each of which was headed by an Assistant Director to perform audit functions at the District level. There are 131 audit parties comprising of one Audit Officer and one or more Assistant Audit Officers.

3.14.2 Audit by CAG of India

CAG of India conducts audit of substantially financed ULBs under Section 14(1) of CAG's (DPC) act, 1971 and audit of specific grants to ULBs under Section 15 of the Act *ibid*. The audit of ULBs is also conducted by CAG under section 20 (1) of the Act as per Technical Guidance and Support (TGS) module as entrusted by the State Government in May 2002 followed by acceptance of standard terms and conditions of TGS (May 2011) pursuant to the 13th FC recommendations.

Audit of accounts of 32 ULBs, (one MC, 16 MBs and 15 TCs) for the year 2012-13 were conducted during April 2012 to March 2013.

3.15 Conclusion

Consequent upon the 74th Constitutional Amendments, there has been considerable progress in empowerment of Municipalities. By and large, such empowerments remains confined to setting up of State Election Commission, conducting regular election to ULBs, constituting SFCs periodically and devolution of funds as per award of CFCs & SFCs. But little had been done so far to augment the capacity building of ULBs and to upgrade their weak administrative set up. Audited and authentic data base were not available. Despite dedicated fund allocation by the EFC and TFC in their award periods covering 2000-2005 and 2005-2010 respectively, little progress has been made in the situation even now. There is a need to increase the awareness among the people about the existence and functioning of anti corruption mechanism e.g. Lokayukta and Upa Lokayukta to make it more effective and useful.

CHAPTER III

Section-B

Financial reporting of ULBs

SECTION 'B'

FINANCIAL REPORTING OF ULBs

3.16 Legal framework

Financial reporting in the ULBs is a key element of accountability. The best practices in matters relating to drawal of funds, form of bills, incurring expenditure, maintenance of accounts, rendering of accounts by the ULBs are governed by the provision of the AM Act, AM (A) Rules GMC Act, Assam Public Works Manual, other Departmental Manuals and standing orders and instructions issued by the State Government from time to time.

The present system of accounting of urban bodies suffers from various shortcomings relating to formats used, manner of reporting and more importantly the way budget is prepared. The National Municipal Accounts Manual (NMAM) *inter-alia* provides for preparation of Annual Financial Statement of Income and Expenditure and Balance Sheet showing the status of assets and liabilities of the ULBs at the end of a financial year. The important provision so far has not been acted upon. However, the Amended Act inserted provision for maintenance of accounts, preparation of Financial Statement and Balance Sheet. In addition to this, the State Government and ULBs were required to accept implementation of an agenda of mandatory reforms as specified in JnNURM guidelines. The reforms for ULBs included:-

- adoption of accrual-based double entry system of accounting in ULBs;
- application of e-governance using IT applications for various service provided by the ULBs;
- reform in property tax with GIS to enhance collection efficiency and
- levy of user charges etc.

Test check in audit observed that the accounts of ULBs were maintained on cash basis and thereby true and fair view of financial affairs of ULBs and their assets and liabilities were not disclosed. Further, the prescribed mandatory reforms were also not introduced by the ULBs.

3.16.1 Reporting arrangements

Findings of audit on accounts of ULBs conducted by the CAG are presented in the form of Annual Technical Inspection Reports (ATIRs). ATIRs on ULBs for the years ended 31 March 2005 to 2012 have been submitted to the State Government. On 19 December 2011, ATIR for the year ended 31 March 2010 was laid before the State Legislature for the first time. Subsequent two ATIRs i.e. ATIR for the year ended 31 March 2011 and 2012 were also been laid before the State Legislature on 04 April 2013 and 19 July 2013 respectively.

State Legislature has constituted (October 2012) a Local Fund Accounts Committee (LFAC) for the first time to discuss the Audit Report on ULBs. ATIR for the year ended 31 March 2010 was discussed by the Committee. However, Action Taken Report (ATR) on the ATIRs submitted to Government was awaited (March 2013).

In May 2011, Section 53 of AM Act had been amended and new Section 53A had been inserted in the Act and entrustment of TGS and placement of ATIR on Municipalities before the State Legislature had been incorporated. No provision had been made in this Act so far for placement of Audit Report of DALF before the State Legislature. Section 138 of GMC Act had also been amended (August 2012) and provision had been made in sub Section (5) of the aforesaid Act for the placement of accounts of Corporation along with Audit Report before the State Legislature. However, neither provision of TGS nor any specific provision for placement of ATIR before the State Legislature have been made in the amended Act.

3.17 Financial reporting issues

A sound internal control system significantly contributes to efficient and effective governance of the ULBs by the State Government. Some of the discrepancies relating to financial reporting noticed during test check are enumerated below:

3.17.1 Non preparation/un-realistic preparation of budget

Nine ULBs had prepared the budget un-realistically having little regard to past trend of receipt and expenditure **Appendix-V(B)**. As a result, estimated receipts were unduly inflated and estimate of expenditure were based on such inflated receipts. However, funds were released by the Government in a routine manner, without taking into account the requirements of the people at grass root level.

3.17.2 Non Adjustment of Advance paid to JE/Contractor

State financial rules stipulate that advances paid should be adjusted without any delay and DDO concerned should watch their adjustment. Though the Chairpersons of MBs and TCs are custodians of all Municipal accounts, it was noticed that in Hailakandi MB advance given to JEs/Contractor for implementation of schemes was not adjusted as detailed in **Appendix VI (B)**.

3.17.3 Non- deduction of VAT

According to Income Tax (IT) Act and State Value Added Tax (VAT) Act, IT & VAT will be deducted from the payment of contractor/suppliers. Test check of records revealed that in Karimganj MB an amount of ₹2.02 lakh of VAT/IT was not deducted. Due to non-deduction of taxes Government suffered a loss of revenue to that extent.

3.17.4 Short collection of Kist Money

During test check of records it was noticed that there was short collection of kist money of ₹ 43.82 lakhs in four ULBs as shown in **Appendix VII (B)**.

3.17.5 Maintenance of Annual Accounts

The Monthly and Annual Accounts showing the details of income and expenditure during the year duly supported by the necessary documents should be prepared by all ULBs. However, annual accounts were not prepared by two out of 32 ULBs test checked ULBs, reflecting poor internal controls and inadequate accounting arrangements in ULBs. These

records are important as they are included to constitute evidence of proper receipt and utilization of funds.

Though, non maintenance of annual accounts by ULBs have been brought to the notice of State Government on several occasions through AR and ATIRs, no effective action has so far been taken by the Government.

3.17.6 Fiscal reform path in ULBs

The State Government had enacted the Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005 to ensure best practices of financial management of the departments. But Principal Secretary, Finance, Assam observed that ULBs being the LGSIs in a federal structure of Indian Union as per 74th amendment of the Constitution of India, this AFRBM Act would not be applicable for ULBs and instructed (April 2011) the Finance (Economic Affairs) Department to expedite the process of finalization of separate AFRBM Act for ULBs for streamlining fiscal activities and bringing fiscal discipline of LSGIs.

Audit observed that State Legislative Assembly had passed (9 July 2011) the Local Self Government Fiscal Responsibility Act 2011, and the State Government notified the Act (September 2011) in the State Gazette. But preparation and submission of medium term Fiscal Plan as envisaged in the Act was not carried out by any ULBs, defeating the purpose of the Act of ensuring fiscal stability and sustainability and greater transparency in fiscal operations.

3.18 Internal Audit

Internal Audit is an important instrument to examine and evaluate the level of compliance with rules and procedures as envisaged in the relevant Acts as well as in the Financial/Accounting Rules so as to provide independent assurance to management on the adequacy of the risk management and internal control frame work in the ULBs.

There was no provision for internal audit in relevant Municipal Acts and Rules and a system of internal audit did not exist in ULBs. The Director, Municipal Administration (MA), Assam confirmed that the system of internal audit had not been introduced in the municipalities in Assam.

Periodical inspection of records had never been carried out either at the Directorate or at ULBs level. This affected the sense of accountability to ensure proper compliance of rules and procedure as envisaged in the relevant Acts/Rules.

3.19 Audit of accounts of ULBs

3.19.1 Audit coverage by Director of Audit, Local Fund (DALF)

DALF is the primary auditor to conduct the audit of ULBs of Assam. Based on information furnished by DALF (May 2013), the arrears in audit of ULBs during the period 2009-13 ranged between 37 and 85 *per cent*. The year-wise position of units to be audited and those actually audited are detailed in **Table 3.11**.

Table 3.11: Shortfall in covering the units planned for audit by DALF

Year	No. of units planned for audit	No. of units audited	Shortfall	Percentage of shortfall
2009-10	61	9	52	85
2010-11	71	24	47	66
2011-12	54	34	20	37
2012-13	58	26	32	55

Source: Information furnished by DALF, Assam.

Apart from shortfall in the number of units audited against the number of units planned for audit, there was also arrear in issue of 31 audit reports prepared from conduct of audit during 2009-13 by DALF. The reasons for shortfall in 2012-2013 for covering planned units by audit and arrear in also issue of audit reports were attributed to non production of records and engagement of Audit Officer in Panchayat Elections.

3.19.2 Presentation of annual consolidated audit report

As per para 101 (i) of Assam Audit Manual, DALF is required to send an Annual Audit Report to the Finance Department by 30 September each year incorporating major outstanding audit objections relating to LBs which were pending settlement for further action by the Finance Department. However, no consolidated Annual Report had so far been sent to Finance Department.

Thus, the results of audit conducted by DALF remained unreported in the absence of Annual Consolidated Reports. As a result no follow up action could be taken up by the Finance Department thereby weakening the accountability mechanism of ULBs in Government.

3.19.3 Response to Audit Observations

Inspection Reports (IRs) were issued to audited ULB authorities with a copy of each to the State Government. ULB authorities were required to comply with the observations contained in the IRs and rectify the defects and omissions and report their compliance within three months from the date of issue of IRs. Important audit findings are processed for inclusion in the ATIR.

The details of outstanding paragraphs as of March 2013 are shown in **Table 3.12**.

Table 3.12: The details of outstanding IRs and paragraphs

Year of issue	No. of Inspection Reports	No. of outstanding Paras	Money value (₹ in crore)
Up to 2006-07	4	64	4.47
2007-08	12	103	6.32
2008-09	23	286	13.19
2009-10	10	157	78.66
2010-11	14	179	79.33
2011-12	11	135	49.32
2012-13	06	59	12.38
Total	80	983	243.67

Source: Progress Register

Thus, 983 paragraphs with monetary value of ₹243.67 crore were pending settlement (March 2013) for want of replies from concerned ULBs. Increasing trend of outstanding paragraph was indicative of non-compliance of audit observations which shown low level of accountability. The Administrative Heads of the Departments concerned also did not ensure that the concerned officers of the ULBs took prompt and timely action in furnishing replies to IRs and thereby weakening the accountability mechanism of ULBs in Government.

3.20 Administrative Reports

Annual Administrative Report of GMC for the preceding year together with a statement of receipts, disbursements and balance at credit of the Municipal Fund at the close of the year is required to be submitted to the Government under Section 136 of GMC Act. However, no information regarding submission of Administrative Report of GMC was made available to audit.

3.21 Conclusion

The accounts of ULBs were maintained on cash basis and thereby true and fair view of financial affairs of ULBs and their assets and liabilities were not disclosed. Important provision of NMAM has not yet been adopted. Mandatory reforms agenda as specified in JnNRUM were also not introduced by the ULBs. Expenditures were done either by preparing unrealistic budget or without preparing any budget. There were instances of non-deduction of VAT, non-adjustment of advances and short realisation of *kist* money causing significant loss to the Government. Internal Audit, periodical inspection of records had never been carried out which affected the sense of accountability and proper compliance of Rules and procedures as envisaged in the relevant Acts/Rules could not be ensured. Outstanding paragraphs were indicative of non-compliance of audit observations which showed low level of accountability.