

CHAPTER 3

AN OVERVIEW OF ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

3.1 Introduction

The 74th Constitutional Amendment Act (1992) paved the way for decentralisation of powers and transfer and devolution of more functions and funds to Urban Local Bodies (ULBs). Consequently, more diversified responsibilities were devolved through three tier structure namely, *Nagar Nigam*¹ (NN), *Nagar Palika Parishad*² (NPP) and *Nagar Panchayat*³ (NP). To incorporate the provisions of the 74th Constitutional Amendment, the legislature of Uttar Pradesh enacted (1994) the Uttar Pradesh Urban Local Self Government Laws (Amendment) Act, 1994.

The Government implemented the system of democratic governance down to grass root level in ULBs through the Uttar Pradesh *Nagar Palika* Act, 1916 and Uttar Pradesh Municipal Corporation Act, 1959. The objective was to make ULBs self-reliant and to provide better civic facilities to the people of the areas under their jurisdictions.

3.2 State Profile

Uttar Pradesh is the fifth largest State in the country in terms of size and span with an area of 2.41 lakh square kilometre. There were 630 ULBs in the State, governed by elected members of the boards with normally five years tenure. The last election to these ULBs was held in 2012. The profile of ULBs as compared to national value is given in **Table 1**.

Table 1: Significant statistics of the state

Sl. No.	Indicator	Unit	State Value	National Value
1	Urban population	<i>Per cent</i>	22.27	31.16
2	Number of ULBs	Number	630	3,842
3	Number of NNs	Number	13	139
4	Number of NPPs	Number	194	1,595
5	Number of NPs	Number	423	2,108
6	Gender Ratio (Urban)	Females per 1000 Males	894	926
7	Literacy(Urban)	<i>Per cent</i>	75.14	84.98

(Source: Census Report 2011 and Thirteenth Finance Commission Report)

¹ Represents ULBs, having the population of more than five lakh.

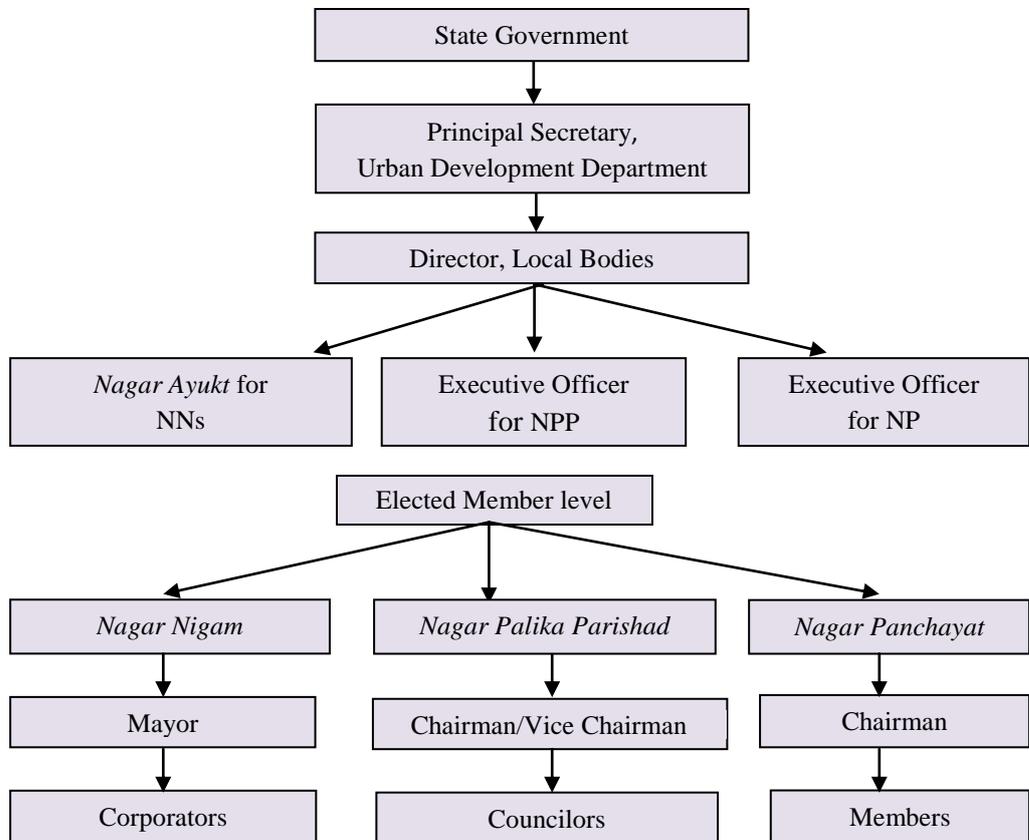
² Represents ULBs, having the population between 20 thousand and five lakh.

³ Represents ULBs having the population below 20 thousand.

3.3 Organisational structure of ULBs

Chart 1 depicts the organisational structure of ULBs in the State.

Chart 1: Organisational structure of ULBs



(Source: Director, Local Bodies, Lucknow)

While Mayor heads the NN, Chairman heads NPP and NP. The elected representatives exercise their powers and discharge duties through the committees of elected members. *Nagar Ayukt* in case of NN and Executive Officer in case of NPP and NP are the administrative heads. At the Government level the Director, Local Bodies is the head of respective bodies under overall control of Principal Secretary, Urban Development Department (UDD).

3.3.1 Standing Committees in ULBs

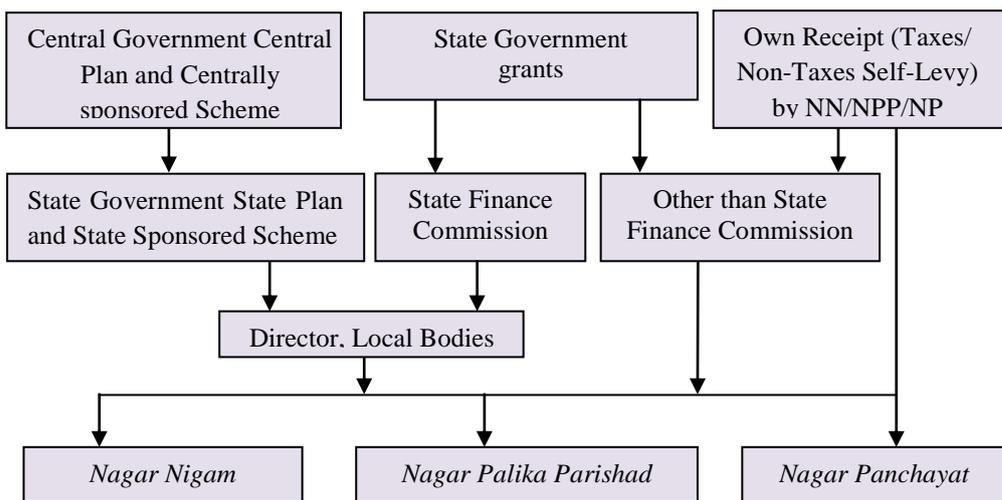
As per the provisions of Sections 88 to 105 of Uttar Pradesh *Nagar Nigam* Act, 1959 and Sections 104 to 112 of Uttar Pradesh *Nagar Palika* Act, 1916, a number of standing committees were required to be formed to carry out the business of ULBs. However, no information relating to committees formed and working in ULBs has been furnished by the Director, Local Bodies, though called for (January 2015).

3.4 Financial Profile

3.4.1 Fund flow to ULBs

The resource base of ULBs consists of own receipts, State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Centrally Sponsored Scheme (CSS) for maintenance and development purposes. The fund-wise sources and its custody for each level are given in **Chart 2 and Table 2**.

Chart 2: Fund Flow of Local Bodies



(Source: Director, Local Bodies, Lucknow)

Table 2: Fund flow arrangement in major Centrally Sponsored Flagship Scheme

Name of Scheme	Fund flow arrangement
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	As per guidelines issued by the Ministry of Urban Development, Government of India (GoI) fund under JNNURM from all sources (Central, State, ULB), according to their respective percentage share, flow to the State Level Nodal Agency's (SLNA) Account and from this, funds are released to the project account maintained by concerned ULBs for which project was sanctioned.

(Source: Director, Local Bodies, Lucknow)

3.4.2 Flow of revenue

With the constitution of Eleventh Finance Commission, ULBs were brought within purview of the Finance Commissions for the first time. The objective was to augment Consolidated Fund to enable the State to supplement resources of ULBs. Accordingly, the Twelfth Finance Commission recommended release of grants to the State Government. State Government was also to release grants to ULBs as recommended by its own State Finance Commissions. In all, the sources of revenues for ULBs comprised:

- Grants assigned under Twelfth/Thirteenth CFC;
- Devolution of seven *per cent* of net proceeds of total Tax Revenue of the State Government under recommendations of the Third SFC;

- Funds from departments for functions transferred to ULBs; and
- Revenue earned by ULBs out of their own resources *i.e.* taxes, rent, fee etc.

The position of receipt and expenditure of ULBs during 2009-14 is given in **Tables 3**.

Table 3: Receipt and expenditure of ULBs during 2009-14

(₹ in crore)

Sl. No.	Year	Source of revenue							Total receipt	Expenditure		
		Own Revenue				Transfers from 12 th CFC/ 13 th CFC	Assigned + Devolution (SFC)	JNNUR M+ Adarsh Nagar Yojana		Revenue	Capital	Total
		Tax Revenue		Non-Tax (Inclusive of User Charges)	Total Own Receipts							
		Immovable Property Tax	Other Taxes									
1.	2009-10	455.04	57.68	271.07	783.79	103.40	2,290.45	870.56	4,048.20	3,162.04	1,732.23	4,894.27
2.	2010-11	507.39	78.67	350.34	936.40	274.92	2,730.74	962.98	4,905.04	3,359.90	1,893.87	5,253.77
3.	2011-12	647.16	68.88	373.15	1,089.19	517.51	3,354.37	1,539.28	6,500.35	4,207.63	2,457.61	6,665.24
4.	2012-13*	776.60	82.66	447.76	1,307.02	756.49	3,993.98	1,355.34	7,412.83	5,049.15	2,949.13	7,998.28
5.	2013-14	N.A	N.A	N.A	N.A	760.01	5,809.65	1,108.67	N.A	N.A	N.A	N.A

(Source: Director, Local Bodies, Lucknow)

* (Estimated + Actual)

Note: Figures of 2013-14 was partially made available (January 2015) by Director, Local Bodies, Lucknow.

Table 3 indicates that expenditure during 2009-13 was in excess over the receipts. On this being pointed out, the Director, Local Bodies, Lucknow intimated that arrear funds of preceding years have been spent in following years.

3.4.3 Budget provision and releases to ULBs

The position of budget provision *vis-a-vis* funds released by State Government to ULBs is given in **Table 4**.

Table 4: Budget provision of SFC funds from State Budget

(₹ in crore)

Sl. No.	Financial Year	General		Revised		Total		Less (-)/ More (+)
		Budget Provision	Released	Budget Provision	Released	Budget Provision	Released	
1.	2009-10	2,120.59	2,065.13	25.15	25.15	2,145.74	2,090.28	(-)55.46
2.	2010-11	2,565.68	2,514.37	45.15	45.15	2,610.83	2,559.52	(-)51.31
3.	2011-12	2,790.00	2,758.76	326.13	326.13	3,116.13	3,084.89	(-)31.24
4.	2012-13	3,373.65	3,303.91	393.66	393.66	3,767.31	3,697.57	(-)69.74
5.	2013-14	4,875.00	4,808.61	1,001.04	1,001.04	5,876.04	5,809.65	(-) 66.39

(Source: Director, Local Bodies, Lucknow)

It would be seen from the **Table 4** that during 2009-14, SFC fund was not released according to budget provision and total release was less than the budget provision.

Allocation of CFC fund

The allocation and release of CFC fund to ULBs during the period 2009-14 is given in **Table 5**.

Table 5: Allocations of CFC funds**(₹ in crore)**

Sl. No.	Financial Year	General Basic Grant		General Performance Grant		Total		Less (-)/ More (+) to total sanction
		Sanctioned	Released	Sanctioned	Released	Sanctioned	Released	
1	2009-10	103.40	103.40	-	-	103.40	103.40	-
2	2010-11	274.92	274.92	-	-	274.92	274.92	-
3	2011-12	318.83	344.60	109.02	172.91	427.85	517.51	(+) 89.66
4	2012-13	372.61	391.47	255.72	365.01	628.33	756.48	(+)128.15
5	2013-14	441.50	451.62	301.63	308.39	743.13	760.01	(+) 16.88

(Source: Director, Local Bodies, Lucknow)

It would be seen from the **Table 5** that the CFC fund released to ULBs during 2011-14 was higher than the fund sanctioned due to release of additional CFC grants as the State Government had fulfilled the nine conditions of the 13th Finance Commission for additional grants. In addition to that the fund of non-performing States is also distributed among the performing States.

During audit of ULBs, we also noticed the cases of improper preparation of accounts, irregular operation of bank accounts, non-reconciliation of bank accounts, non-implementation of e-governance.

3.4.4 Expenditure under major CSS

JNNURM was the major CSS being implemented in ULBs. The GoI launched (December 2005) JNNURM with the objective of encouraging the reforms and fast-tracking development of major cities. Expenditure through ULBs during 2009-14 under this scheme is given in **Table 6**.

Table 6: Expenditure under JNNURM**(₹ in crore)**

Sl. No.	Year	Allotment	Expenditure
1	2009-10	770.52	770.52
2	2010-11	866.50	866.50
3	2011-12	1,512.43	1,512.43
4	2012-13	1,279.38	1,279.38
5	2013-14	911.63	911.63
Total		5,340.46	5,340.46

(Source: Director, Local Bodies, Lucknow)

It would be seen from the **Table 6** that the entire funds allotted were utilised by the ULBs during 2009-14. Director, Local Bodies, Lucknow intimated that the funds released to ULBs were treated as final expenditure.

3.4.5 Revenue realised from own resources

ULBs were required to generate revenues by collecting taxes, rent, fees etc., from the people of the area under their jurisdiction. Position of target fixed by the Government for revenue realisation and achieved there against during 2012-14 is given in **Table 7**.

Table 7: Revenue realised from own resources

(₹ in crore)

Category of ULBs	No. of Units	2012-13			2013-14		
		Target	Achievement	Percentage of shortfall	Target	Achievement	Percentage of shortfall
NNs	13	1,117.80	999.84	11	1,334.46	806.98	40
NPPs	194	358.65	238.64	33	426.63	320.84	25
NPs	423	91.85	68.54	25	114.37	75.80	34

(Source: Director, Local Bodies, Lucknow)

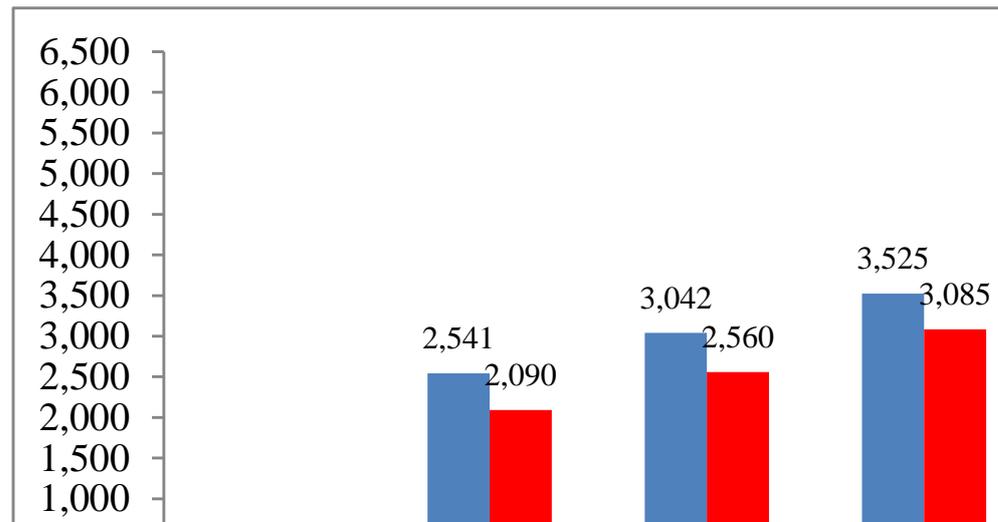
It would be seen from the **Table 7** that the target fixed by the Government was not achieved by ULBs during 2012-13 and 2013-14. However, the reason for non-achievement was not analysed by the ULBs for taking corrective steps in future.

3.4.6 Devolution of SFC grant

Second SFC recommended that *7.5 per cent* of net proceeds of the Tax Revenue of the State Government should be devolved to ULBs but the Third SFC reduced it to *7 per cent*. The devolution of funds during 2009-14 is given in **Chart 3** and **Appendix 3.1**.

Chart 3: Devolution of SFC grants vis-à-vis net proceeds

(₹ in crore)



(Source: Director, Local Bodies, Lucknow)

It would be seen from **Chart 3** that the Government did not devolve the envisaged share of net proceeds of the Tax revenue during 2009-13 as recommended by the Second and Third SFC, however, during 2013-14 the devolved fund was exceeded by *32 per cent*. No reasons for non-devolution of funds as per norms were made available to audit though called for.

3.5 Maintenance of Accounts

Adoption of account formats prescribed by the CAG

The CAG on the recommendation of the 11th Finance Commission prescribed the Budget and accounting formats for accrual based accounts for ULBs. The

Ministry of Urban Development circulated (June 2003) it to the State Governments for their acceptance. The State Government issued an order (June 2008) for the implementation of the same in ULBs from the financial year 2009-10 onwards.

As of July 2014, out of 630 ULBs, 611 were in advanced stage of operationalising accrual based Double Entry Accounting System. Only 436 ULBs had finalised their Balance Sheet from the financial year 2009-10 upto 2011-12. Director, Local bodies assured (July 2014) to implement it fully in all ULBs by March 2014, the status of implementation was not made available by the Director, Local Bodies, Lucknow (January 2015).

3.6 Audit Mechanism

3.6.1 Primary auditor

Director, Local Fund Audit (DLFA) is the primary auditor of ULBs in terms of the Uttar Pradesh Local Fund Audit Act, 1984. The accounts of such bodies ranging from 13 to 20 *per cent* remained unaudited by DLFA, Allahabad and were in arrears at the close of the years 2010-14. The year-wise position of audit of accounts conducted by DLFA and arrears thereof is given in **Table 8**.

Table 8: Year-wise position of audit of units

Sl. No.	Year	Number of units		Units in arrear	
		Planned for audit	Audited	In number	In per cent
1	2010-11	624	542	82	13
2	2011-12	625	529	96	15
3	2012-13	624	510	114	18
4	2013-14	628	500	128	20

(Source: Director, Local Fund Audit)

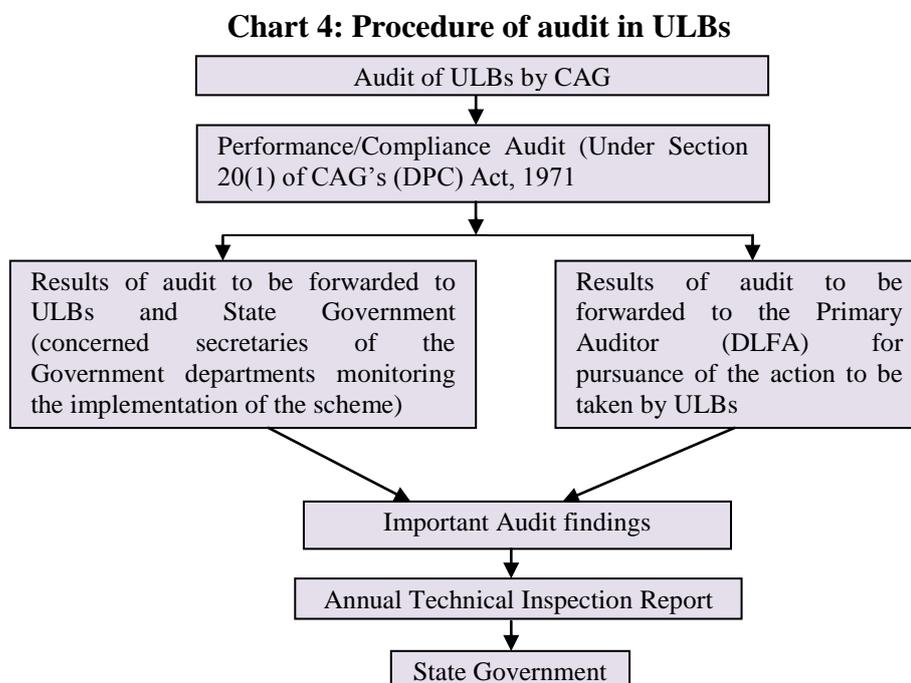
The DLFA, in terms of Section 8(3) of Uttar Pradesh Local Fund Audit Act, 1984, was required to prepare a consolidated audit report on the accounts of ULBs and submit it to the Government for placing it before the Legislative Assembly. However, such reports were placed up to 2009-10 only. Thus, the placement of consolidated Audit Report to State Legislature was in arrears for the period 2010-13.

3.6.2 Audit mandate of the CAG

- Technical Guidance and Support (TGS) to Local Fund Auditors/Director, Local Fund Audit is to be given by the CAG under Section 20(1) of CAG's (DPC) Act, 1971.
- The parameters of TGS include test-check of accounts of ULBs, review of the auditing system and the internal control system of the Local Fund Auditor.
- As a part of the TGS arrangements, the reports of the test-check of ULBs were sent by the Principal Accountant General (G&SSA), UP, Allahabad to Director, Local Fund Audit (DLFA) for ensuring compliance of audit paragraphs.

- The result of audit *i.e.*, Annual Technical Inspection Reports (ATIR) on ULBs were sent to the Secretary, Urban Development Department; Director, Local Bodies and DLFA for compliance and pursuance of action.

Procedure of audit of ULBs is depicted in **Chart 4**:



The 11th Finance Commission recommended TGS arrangements for proper maintenance of accounts of ULBs and their audit by the CAG under Section 20(1) of CAG's (DPC) Act, 1971. As per recommendations of the 13th Finance Commission, the CAG is to be entrusted with TGS for all Local Bodies for all States, which will be a necessary consequence of the standardisation of accounting formats for all local bodies across State and to provide a credible assurance from the audit of accounts. The Government entrusted the audit of local bodies to the CAG in October 2001 and reiterated in March 2011. Categories of ULB units planned and audited during 2012-14 are depicted in **Table 9**.

Table 9: Audit of ULBs

Category of ULB	2012-13		2013-14	
	Unit planned	Audited	Unit planned	Audited
NNs	8	6	11	10
NPPs	29	31	64	62
NPs	60	49	60	56

(Source: Audit plan of office of the Principal Account General (G&SSA), UP, Allahabad)

Four hundred eighty five audit paragraphs (value: ₹ 3,787.45 crore) relating to the year 2012-13 and 756 audit paragraphs (value: ₹ 4,107.19 crore) related to the year 2013-14 were communicated to the heads of offices of the ULBs and the DLFA. However, no audit paragraphs were settled upto March 2014.

3.7 Human resource arrangement

Position of human resource arrangement for implementation of schemes and manpower sanctioned in ULBs *vis-a-vis* men-in-positions are given in **Table 10**.

Table 10: Human resource arrangement

Category of employees (As on 31-03-2013) ⁴						
Categories of employees		NNs	NPPs	NPs	Total	
Centralised	Sanctioned	1,456	1,124	427	3,007	
	Working	794	639	218	1,651	
Non-centralised	Sanctioned	16,997	12,665	3,215	32,877	
	Working	Regular	11,385	10,727	2,915	25,027
		Non-regular	726	804	539	2,069
	Total	12,111	11,531	3,454	27,096	
<i>Safai Karmchari</i>	Sanctioned	26,640	19,410	4,915	50,965	
	Working	Regular	18,314	15,263	4,166	37,743
		Non-regular	12,929	13,053	7,555	33,537
	Total	31,243	28,316	11,721	71,280	
Total employees	Sanctioned	45,093	33,199	8,557	86,849	
	Working	44,148	40,486	15,393	1,00,027	

(Source: Director, Local Bodies, Lucknow)

It would be seen from the **Table 10** that in centralised and non-centralised category employees, 1,651 against the sanctioned strength of 3,007 (shortage of 45 per cent) and 25,027 against the sanctioned strength of 32,877 (shortage of 24 per cent) were working respectively. The shortages in non-centralised category were met to some extent by engaging 2,069 non-regular employees. In the category of *Safai Karmchari*, 37,743 employees were working as regular against the sanctioned strength of 50,965 with a shortage of 25.94 per cent. Against the shortage of 13,222 regular *Safai karmchari*, 33,537 non-regular *Safai Karmchari* were engaged in excess.

3.7.1 Training

One lakh twenty seven employees were working (March 2013) in 630 ULBs. There were 630 Mayors/Chairmen and 11,290 elected Corporators/Members on the boards of ULBs. Director ULB intimated (July 2014) that for urban management and human resource development, UP lacks required infrastructure and institutional setup. To work in the spirit of the 74th Constitutional Amendment for empowerment of hub of urban development, there is an urgent need to design training module which is specific to the nature of duties and responsibilities of municipal functionaries. Director, Local Bodies proposed (August 2013) to establish an academy to improve the skill of the employees. We noticed that the Academy proposed for training was yet to be established as of July 2014.

⁴ Category-wise position as on 31 March 2014 was not available with the Director, Local Bodies, Lucknow.

3.8 Transfer of functions to ULBs

Article 243-W of the Constitution refers to the powers, authority and responsibilities that the legislature of a State may provide to municipal bodies for enabling them to function as institutions of self-governance. As a follow up to the 74th Constitutional Amendment Act, 1992, the State Legislature enacted (March 1996) laws for devolving 18 functions to ULBs as detailed in **Appendix 3.2**.

The Constitution envisages an active role of these bodies in poverty alleviation and planning for economic and social development of the urban areas. It was the responsibility of the States to strengthen the ULBs by devolving the specific powers and responsibilities.

The State Government specified (March 1996) that the functions of ULBs would be performed by different agencies. The functions of ULBs, listed in the 74th amendment incorporated in Sections 7 and 114 of the UP Municipal Act, 1916 and the UP Municipal Corporation Act, 1959 respectively, were being performed by Development Authorities and Regional *Jal Sansthan*s, Regulated Area Authorities and concerned Government Departments.

According to the aforesaid Government orders out of 18, the following eight functions would be performed exclusively by ULBs:

- i. Water supply for domestic, industrial and commercial purposes.
- ii. Public health, sanitation, conservancy and solid waste management.
- iii. Provision of urban amenities and facilities, such as parks, gardens and play grounds.
- iv. Burials and burial grounds, cremation and cremation grounds.
- v. Cattle ponds, prevention of cruelty to animals.
- vi. Vital statistics including registration of births and deaths.
- vii. Public amenities including street lighting, parking lots, bus stops etc.
- viii. Regulation of slaughter houses and tanneries.

The following functions would continue to be performed by Government departments/agencies as mentioned in **Table 11**.

Table 11: Functions performed by Government departments/ agencies

Sl. No.	Services	Department
1.	Fire services	Fire Fighting Department
2.	Urban forestry	Forest Department
3.	Protection of environment and promotion of ecological aspects	Environment Department
4.	Safeguarding the interest of weaker sections of society including handicapped and mentally retarded people	Urban Poverty Alleviation and Employment Department through SUDA and DUDA
5.	Slum improvement and up gradation	Urban Poverty Alleviation and Employment Department through SUDA and DUDA

(Source: Director, Local Bodies, Lucknow)

The responsibility for discharging the following functions has been shared between ULBs and other Government agencies as mentioned in **Table 12**.

Table 12: Sharing of functions between ULBs and Government Agencies

Sl. No.	Services	Department/ Government Agencies	
1.	Urban planning including town planning.	Urban Development Authorities in 27 cities and by ULBs in remaining towns.	
2.	Regulation of land use and construction of buildings.	Development Authorities in 27 cities, Regulated area Authorities in 74 towns and ULBs in remaining towns.	
3.	Promotion of cultural, educational and aesthetic aspects.	(i) Cultural Activities	State Culture Department and ULBs.
		(ii) Education	Education Department except middle level schools in Corporations.
		(iii) Aesthetic aspect	Government Departments and ULBs.
4.	Planning for economic and social development.	Development Authorities, <i>Vikas Parishads</i> , ULBs, SUDA, <i>UP Jal Nigam</i> , <i>UP Jal Sansthans</i> and other departments.	
5.	Roads and bridges	Development Authorities & ULBs.	

(Source: Director, Local Bodies Lucknow)

As per Paragraph 10.168 of the 13th Finance Commission recommendation, development authorities are to be dissolved and their functions taken over by the local bodies under whose jurisdiction they operate. It further pointed out (Para 10.132), one of the reform measures mandated under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is "assigning or associating elected ULBs with city planning functions and transferring all special delivery civic services in urban areas to ULBs over a period of seven years". In the interim, it was recommended that these bodies should share a percentage of their income (including income from sale of land) with local bodies.

The Constitution envisages an active role of these bodies in poverty alleviation and planning for economic and social development of the urban areas as well. However, partial devolution of the funds, functions and functionaries restricted the activities of ULBs.

3.9 Constitution of District Planning Committee

Article 243 ZD of the Constitution of India (Constitution) inserted vide 74th Constitutional Amendment Act in 1993 states that "There shall be constituted in every State at the district level a District Planning Committee (DPC) to consolidate the plans prepared by the *Panchayats* and the Municipalities in the district and to prepare a draft development plan for the district as a whole".

In pursuance with the above amendment, the Government of Uttar Pradesh enacted the Uttar Pradesh DPC Act, 1999 (July 1999). The Act provides that there shall be constituted a DPC in each district to prepare District Development Plan (DDP) for whole of the district integrating the plans prepared by ULBs and allocate funds to sectors and sub-sectors within outlines of the DDP.

DPCs were constituted in April 2008 but became functional from December 2009 only.

3.10 Internal Control

The State Government decided (2008) to adopt the accrual based double entry accounting system in the ULBs with a view to present true and fair picture of assets and liabilities in the balance sheet of test-checked records in audit of ULBs

3.11 Conclusion

- The grants made available to ULBs were treated as final expenditure in the records of the Director, Local Bodies Lucknow.
- The Government did not devolve the envisaged share of net proceeds of the Tax Revenue as per norms recommended by the Second and Third SFC.
- The maintenance of accounts was inadequate and the approved formats of account recommended by the CAG were not adopted.
- Compliance of audit paragraphs was pending since long.
- Full devolution of funds, functions and functionaries to ULBs as envisaged in the Constitution did not take place.

The matter was reported (October 2014) to the Government; reply is awaited (February 2015).