

CHAPTER-III

- A. AN OVERVIEW OF URBAN LOCAL BODIES**
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CHAPTER-III

Section 'A' An Overview of Urban Local Bodies

3.1 Introduction

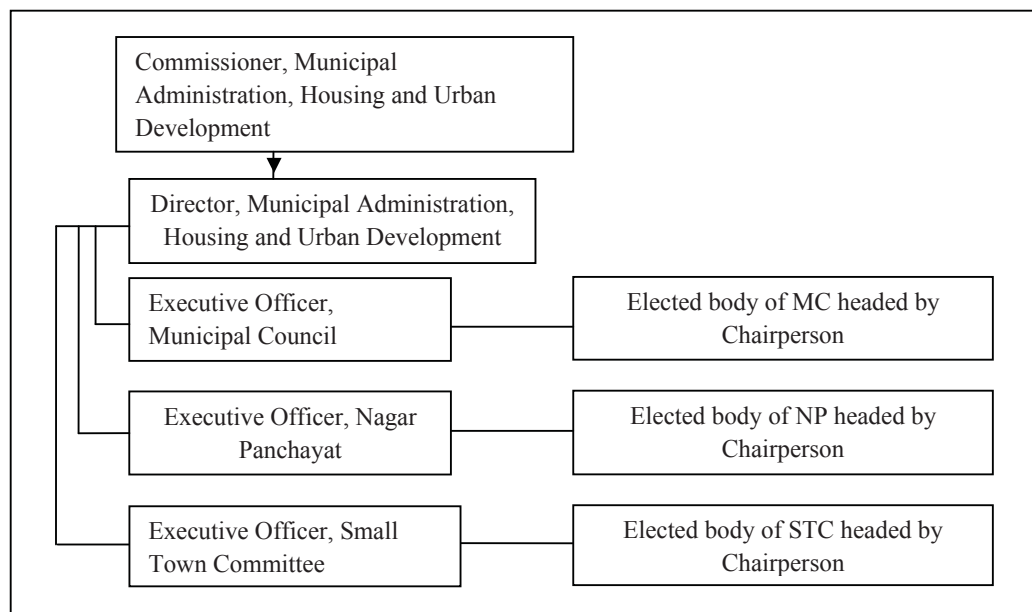
The 74th Constitutional Amendment Act, 1992 empowered Urban Local Bodies (ULBs) to function as local self-government and to deliver services for economic development and social justice more effectively with regard to the 18 subjects listed in the XIIth Schedule of the Constitution of India. The ULBs are spread out in the four valley districts of the State. The urban population as per 2011 Census is 8.35 lakh which is 32 *per cent* of the total population of the State.

In the State, there were nine Municipal Councils (MCs), 18 Nagar Panchayats (NPs) and one Small Town Committee (STC) as on 31 March 2014. Imphal MC having an area of 31 sq. km. with a population of 2.65 lakh (2011 census) 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 governed by the Manipur Municipalities Act (MMA), 1994 which specify the obligatory and discretionary functions to be discharged by these ULBs. The Act empowers ULBs to function as institution of local self-government in delivering social and economic development in urban areas.

3.2 Organizational Set up

The following organogram depicts the organizational set-up at State level and Local Body level with linkage between Administrative Set up and elected body:

Urban Local Bodies



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

Table 3.1: Detail of responsibilities of functionaries

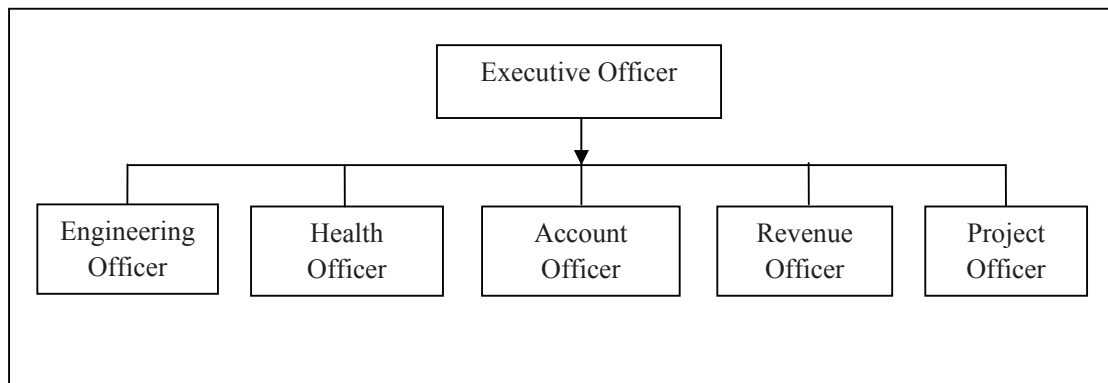
Authority	Responsibilities
Municipal Administration, Housing & Urban Development Department (MAHUD).	Administers the overall monitoring and implementation of schemes related to ULBs.
Small Town Committee/Nagar Panchayat/Municipal Council (elected body)	Preparation of Plans for economic development and 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.

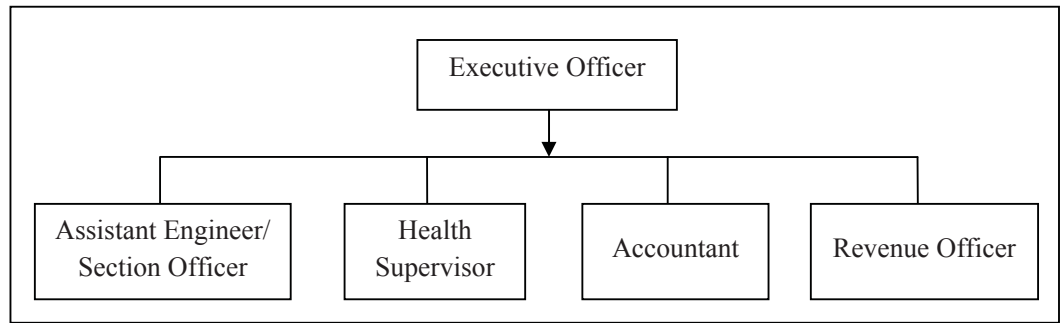
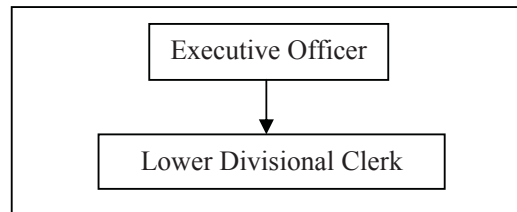
3.2.2 Composition of ULBs

All the ULBs have a body comprising Councilors elected by the people under their respective jurisdiction. The Chairperson elected by the majority of Councilors presides over the meetings of the MC/NP/STC and is responsible for the governance of the body.

The Executive Officer (EO) appointed by the State Government is a whole time Principal EO of the body for administrative control of a ULB. Other officers are also appointed to exercise such powers and perform such functions as notified by the State Government from time to time. The Executive set-up of the ULBs is depicted in the following organograms.

Executive Set-up of Imphal Municipal Council



Executive set-up of Other Municipal Councils**Executive Set-up of Nagar Panchayats/Small Town Committee**

Source: Compiled from the list of staff-strength furnished by ULBs

3.3 Staffing Pattern

Under Section 43 (1) of the MMA, 1994, every Nagar Panchayat or Council, as the case may be, shall have a Health Officer, a Revenue Officer and an Engineer for the efficient discharge of its functions. The Act further provides that a Nagar Panchayat or a Council may, by a special resolution determine the category and strength of employees required by it.

The Director, Municipal Administration Housing and Urban Development (MAHUD) stated (September 2014) that neither Engineers nor Officers were appointed in any of the NPs/STC. One Lower Division Clerk, one Peon-cum-Chowkidar and one Sweeper are being engaged in each of the NP/STC on daily wages basis the expenditure of which is born by the State Government.

Thus, it emerges that provision of adequate staff for smooth functioning of the ULBs and maintenance of accounts was not at all considered for the NPs/STC. The existing staff is insufficient for the NPs/STC to carry out their functions in view of their ever increasing financial and developmental activities. Engagement of casual staff in NPs/STC may have been unavoidable to make the bodies operational. The ULBs could not discharge their duties more efficiently and effectively as staff at different levels were not available.

3.4 Standing Committees

Section 56 of the MMA, 1994, provides for constitution of committees to be called "Standing Committee" in each NP or Council to assist it in the discharge of any specific duties devolved upon it under this Act. Each Committee shall consist of the members of Councilors as members. However,

out of the 10 test audited ULBs only four ULBs (Imphal MC, Bishnupur MC, Lilong (Thoubal) NP and Sikhong Sekmai NP) though constituted Standing Committee, they are not fully functional as of 31 March, 2014.

3.5 Annual Action Plan

As per section 227(6) of the Manipur Municipality Act 1994, District Planning Committee (headed by the Deputy Commissioner of the district as Chairman) shall consolidate the plan prepared by GP, ZP, NP, MC and prepare a draft development plan titled Annual Action Plan (AAP) for the district as a whole and submit to the Government. 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 people participation was compromised.

The issue was brought to the notice of the State Government in the ATIR⁷ for the year ended 31 March 2013. However, the State Government has not taken up any concrete step in this regard.

3.6 Transfer of Funds, Functions and Functionaries to ULBs

The 74th Constitutional amendments provide for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice relating to 18 subjects for Municipalities listed in the XIIth Schedule of the Constitution of India. The Directorate of MAHUD, Government of Manipur intimated (September 2014) that out of 18 functions seven functions⁸ are now being performed by ULBs.

3.7 Financial Profile

3.7.1 Source of funds

The finances of the ULBs comprise of own sources, grants and assistance from Government of India (GoI) and State Government. Sections 74 and 75 of the MMA, 1994, empower the ULBs, being the local self-government, to impose taxes and collect fees for various services rendered by them.

The grants/assistance released to ULBs by the State and Central Government and their Own Sources of Revenue during 2009-10 to 2013-14 are shown in the table as follows:

⁷ Para 3.5 of the ATIR, placed in the State Assembly on 16 July 2014.

⁸ 1. Regulation of Land Use and Construction of Buildings, 2. Solid Waste Management and Sanitation, 3. Urban Poverty Alleviation, 4. Cattle Pounds, 5. Regulation of Slaughter Houses and Tanneries, 6. Registration of Birth and Death Certificates and 7. Slum Improvement and Up gradation.

Table 3.2: Time series data on resources of ULBs

(₹ in crore)					
Source of Revenue	2009-10	2010-11	2011-12	2012-13	2013-14
GoI/State grants for Centrally Sponsored Schemes	4.56	15.14	36.20	21.46	5.94
Central Finance Commission	3.60	3.81	3.72	4.82	5.91
State Finance Commission	18.68	11.25	Nil	11.25	11.25
Salaries/Honorariums	4.77	4.94	6.07	12.97	11.14
Own Revenue	Not available	Not available	Not available	2.07	1.80
Total	31.61	35.14	45.99	52.57	36.04

Source: Compiled from the records furnished by MAHUD Department.

GoI: Government of India; CFC: Central Finance Commission; SFC: State Finance Commission.

From above it is seen that there was decline in release of funds against Centrally Sponsored Scheme (CSS) during 2013-14. The reasons for decrease were due to the Centre Government not releasing funds under Integrated Low Cost Sanitation Scheme (ILCSS), Integrated Housing and Slum Development Programme (IHSDP), Basic Services to Urban Poor (BSUP) under the Jawaharlal Nehru National Urban Renewal Mission (JnNURM) Scheme. This was because these Schemes were at the terminal stage and no funds released again. The release of funds under CSS was limited to Swarna Jayanti Sahari Rozgar Yojana (SJSRY) only.

3.7.2 Release of Second State Finance Commission (SFC) Grant

The 73rd and 74th Constitutional amendments mandated the constitution of State Finance Commission (SFC) every five years to determine sharing of revenue between the State and local bodies. As of March 2014, three State Finance Commissions were constituted in the State. The period of the Second SFC covered up to 31 March 2010. Pending recommendation of the Third SFC, the State Government agreed to continue adoption of the recommendation of the Second SFC until the recommendation of the Third SFC is accepted for implementation. Thus, Funds were released in line with the recommendations of Second SFC during 2010-13 under the head "Compensation and Assignment." The Third SFC was constituted in March 2013 and its report was due in June 2013. The Second SFC recommended a 10 *per cent* share of the State's own revenue including from the State's share in the central taxes for the Rural Local Bodies including District Councils and Urban Local Bodies. Out of 10 *per cent*, 20.62 *per cent* was to be transferred to ULBs.

The position of funds released and shortfall in release of funds during 2009-14 are as shown in table as follows:-

Table 3.3: Funds transferable vis-à-vis actual funds transferred

(₹ in crore)

Year	State's revenue including State's Share of net Proceeds of Union Taxes	Amount transferable to Local Bodies including ADCs (10 %)	Amount transferable to ULBs (20.62 %)	Amount released	Short released (Percent)
2009-10	1033	103.30	21.30	19	2 (9)
2010-11	1517	151.70	31.28	11	20 (64)
2011-12	1834	183.40	37.81	Nil	37.81 (100)
2012-13	1882	188.20	38.80	11	28 (71)
2013-14	2172	217.20	44.78	11	34(76)

Source: MAHUD Department

As it is evident from the table above that the release of funds to the ULBs was much lower than that of the recommendation of Second SFC during the period from 2009-10 to 2013-14. As such, without devolving due share to ULBs, decentralization of power and function at grass root level was frustrated.

3.8 Audit Mandate

3.8.1 Primary Auditor

The DLFA is the primary auditor for ULBs and conducts audit of accounts of MCs, NPs and STC under Section 72(1) of the MMA, 1994. As per TG&S arrangement the DLFA needs to prepare an annual audit plan for audit of ULBs and to forward the same to the Principal Accountant General (Audit) (PAG) of the State. The PAG would pick up some of the Inspection Reports (IRs) of the DLFA on the audit of the ULBs for review and make suggestion for improvement of existing system being followed by DLFA. The PAG is also required to monitor quality of the DLFA's IRs through such scrutiny.

In June 2014 DLFA stated that they are yet to start preparation of Annual Audit Plan. In September 2014, the DLFA intimated that the audit of accounts of 17 units out of 28 auditable ULBs units was conducted during the year

2013-14 but none of their IRs related to ULBs were forwarded to the office of the PAG. Therefore, neither examination of the Annual Audit Plan nor selection and review of the IRs of the DLFA with a view to make suggestions for improvement under TG&S could not be ensured.

In view of the above, the synergy between DLFA and PAG could not be achieved.

3.8.2 Audit by the CAG of India

The Principal Accountant General (Audit), Manipur conducts the audit of the accounts of ULBs under Section 20(1) of the CAG's (DPC) Act, 1971. The State Government had entrusted audit of ULBs to the CAG under TG&S arrangements in pursuance of the recommendations of the XIII-FC. The State Government has entrusted audit of accounts of all ULBs to CAG of India under TG&S arrangement as per recommendation of the Thirteenth Finance

Commission in March 2012. However, necessary amendment in the relevant State Acts/Rules to facilitate implementation of terms and conditions of TG&S is yet to be carried out.

3.9 Audit Coverage

Test audit of the accounts of 10 ULBs were conducted during the year 2013-14 (**Appendix-IVB**). Results of the audit such as irregularities in financial reporting, failure to creation of useful public assets, doubtful expenditure, suspected misappropriation, unauthorised expenditure, diversion of funds etc are given in the succeeding chapters.

3.10 Conclusion

Neither Standing Committees (except Imphal MC, Bishnupur MC, Lilong (Thoubal) NP and Sikhong Sekmai NP) were constituted nor were AAPs prepared in all the test-audited ULBs. Non-preparation of AAPs indicated lack of seriousness of concerned authority to incorporate local needs in the development process. The ULBs in the State performed eight functions out of 18 functions listed in the XIIth Schedule of the Constitution of India. There was no mechanism to watch over collection of taxes and fees in all the test-audited ULBs. Release of funds to ULBs by the State Government was lower than that of the recommendation of Second SFC.

3.11 Recommendations

The State Government may consider to ensure:

- Staffing as provided in MMA for the effective discharge of their functions and duties;
- Preparation of Annual Action Plan by all ULBs;
- Transfer functions listed in the XIIth Schedule of the Constitution of India.
- Also about better coordination of DLF inter Audit.

Section 'B' **Financial Reporting**

3.12 Framework

Financial Reporting by ULBs is a key element of accountability. Section 72(1) of the MMA, 1994, stipulated that every ULB shall maintain such accounts for every financial year in such form as may be prescribed for submission of such statement to the Deputy Commissioner, the Director of MAHUD and the State Government. The ULBs were required to prepare their budget and maintain their accounts in the formats prescribed in the National Municipal Accounts Manual (NMAM) with appropriate codifications and classifications.

3.13 Financial Reporting Issues

3.13.1 Budget not prepared

Section 71 of the MMA, 1994, stipulates that local bodies shall prepare Budget in such form and in such manner as may be prescribed. Proposal of the Budget containing detailed estimates of receipts and disbursement for the ensuing year and submitted to the State Government for its approval. The Act further stated that no expenditure shall be incurred unless the Budget is approved by the prescribed authority.

Audit of records of 10 ULBs⁹ showed that none of the ULBs prepared their Budget. In the absence of the approved Budget proposal, the expenditure incurred by the ULBs was irregular.

3.13.2 Accounts not maintained in Prescribed Formats

The Ministry of Urban Development, GoI and CAG of India 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 the NMAM with appropriate codifications and classifications. The State Government also issued an order to all ULBs in March 2011 for adoption of NMAM in maintenance of their accounts with immediate effect. It was, however, observed in audit that none of the test-audited ULBs had adopted NMAM as of March 2014. All ULBs test-audited maintained only cash books, receipts and payments accounts. Thus, accounts of the ULBs do not depict their true and correct financial position.

⁹ Moirang Municipal Council, Mayang Imphal Municipal Council, Wangjing Nagar Panchayat, Andro Nagar Panchayat, Lilong (Th) Nagar Panchayat, Sikhong Sekmai Nagar Panchayat, Bishnupur Municipal Council, Imphal Municipal Council, Thoubal Municipal Council and Kakching Khunou Nagar Panchayat

3.13.3 Cash Balances not reconciled

Audit of records of 10 ULBs showed that none of the ULBs prepared monthly or quarterly Bank Reconciliation Statements (BRSs). As an illustrative example, as on 31 March 2013 there was a cash balance of ₹ 535.97 lakh as per Bank Pass Book¹⁰ whereas balance as per Cash Book of Imphal MC was only ₹ 531.70 lakh. Thus, there was un-reconciled balance of ₹ 4.27 lakh. The reason for the difference was not explained in the Cash Book through preparation of Bank Reconciliation Statement by the MC. In the absence of BRSs, the correctness of financial position of ULBs could not be ascertained.

3.13.4 Deficiencies in Maintenance of Cash Books

All moneys received by 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 and Mayang Imphal 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;
- Voucher numbers were not indicated against numerous transactions.

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

3.13.5 Records not maintained

For transparency, accountability of ULBs' functionaries and adequate disclosure of local funds, accounting records/registers had to be maintained. Audit however, observed that none of the ULBs test-audited maintained the following Registers:-

- Issue Registers of Receipt Books;
- Demand Register for collection of taxes and fees;
- Cheque Issue Register;
- Advance Register; and
- Work Register.

The status of tax collection against the total demand of tax for a particular year could not be ascertained in the absence of Demand Register. In the absence of Receipt Book issue register, the risk of using duplicate receipt books in high and hence the register needs to be maintained. Without the above vital accounting records, accountabilities of the ULBs could not be ensured.

¹⁰ Central Bank of India Account No.159677491

3.14 Conclusion

None of the test-audited ULBs maintained their accounts in the formats prescribed in NMAM. The expenditure incurred by the ULBs in the absence of Budgets was irregular. BRSs were not prepared by all the test-audited ULBs. In the absence of BRS, incidence of fraud, embezzlement, misappropriation, etc., could not be ruled out. Absence of basic records and deficiencies in maintenance of Cash Book indicates that internal control mechanism was not adequate to ensure proper accounting of substantial Public funds dealt with by ULBs.

3.15 Recommendations

The Government should ensure:

- Preparation of budget estimate and maintenance of accounts in the prescribed format;
- Proper maintenance of Cash Book and balance thereof reconciled regularly with the bank;
- Maintenance of all accounting records appropriately.