

CHAPTER IV

Section-A An Overview of Urban Local Bodies in the State

4.1 Introduction

The 74th Amendment to the Constitution of India mandated all State Governments to operationalise Urban Local Bodies (ULBs), as units of self-government. The Orissa Municipal Act, 1950 was amended (2007) for this purpose. The Orissa Municipal Corporation Act was enacted in 2003 to ensure devolution of powers and responsibilities to ULBs, in relation to the subjects listed in the 12th Schedule of the Constitution.

Table 4.1: Statistics of urban population

Indicator	Urban	State
Population (in crore)	0.70	4.19
Male (in crore)	0.36	2.12
Female (in crore)	0.34	2.07
Sex Ratio per 1000 males	932	978
Literacy rate (<i>per cent</i>)	85.75	72.87
Male Literacy (<i>per cent</i>)	90.72	81.59
Female Literacy (<i>per cent</i>)	74.31	64.01

(Source: Census of India 2011)

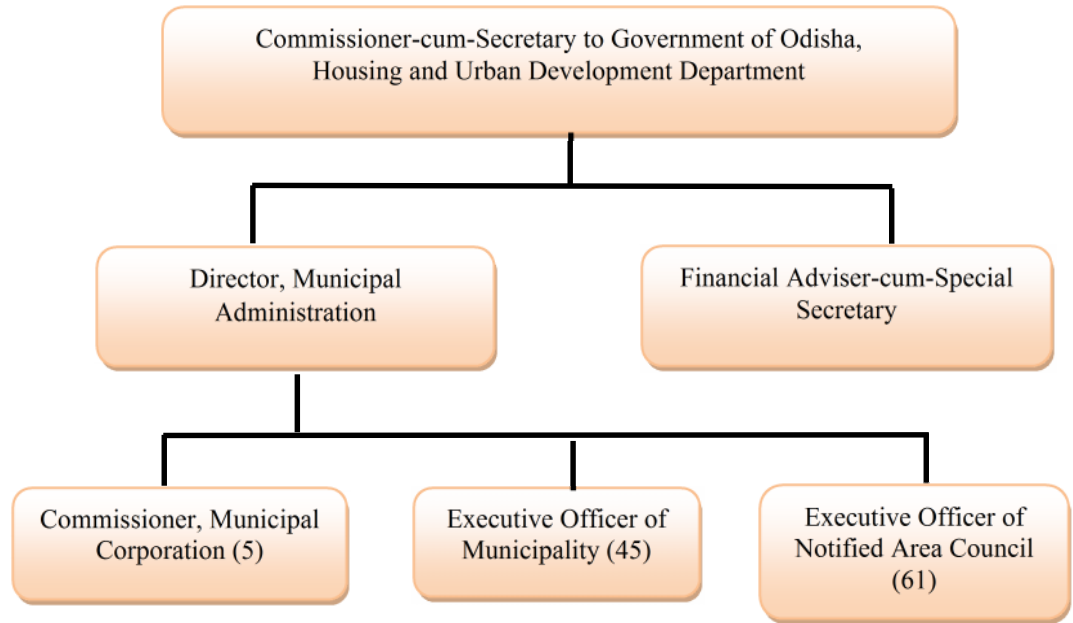
To provide better amenities to citizens residing in the cities of the State and to make the cities/towns beautiful, clean, living worthy and developed, 111 ULBs¹ were set up in the State under three categories as of March 2017. The Municipalities and Notified Area Councils (NACs) are functioning under the provisions of the Orissa Municipal Act, 1950. The Municipal Corporations are functioning under Orissa Municipal Corporation Act, 2003.

4.2 Organisational setup of ULBs

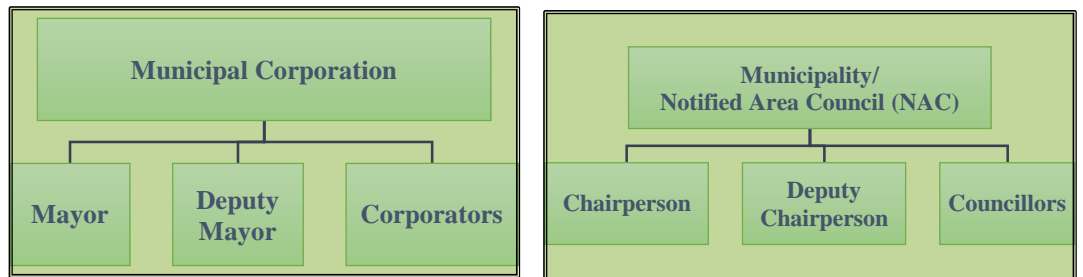
Each ULB is divided into a number of wards, each represented by a Ward Councillor. Municipal Commissioner is the executive head of a Municipal Corporation. An Executive Officer is the executive head of a Municipality or NAC. The Municipal Commissioners and Executive Officers report to the Director of Municipal Administration in Housing and Urban Development (H&UD) Department. The Director, Municipal Administration coordinates the various activities of all ULBs, viz., i) municipal tax administration, ii) financial management, iii) infrastructure development, iv) town planning, v) urban health and sanitation, vi) environment management and vii) programmes for urban poor etc. The Directorate has the responsibility to supervise the functioning of the ULBs. It was also required to i) work out suitable human resource policies, ii) monitor the tax collection activities, iii) lay down policies for transparency in expenditure, iv) hear appeals against the decisions of ULBs, v) release Government funds to ULBs and vi) monitor implementation of schemes and programmes.

¹ Municipal Corporations:5, Municipalities: 45 and Notified Area Councils: 61

The organisational hierarchy of the ULBs is indicated below.



The structure of the elected bodies of the ULBs is as under:-



Each Municipal Corporation is headed by a Mayor and each Municipality/ Notified Area Council by a Chairperson. They are elected from among the Corporators/ Councillors of the respective ULBs.

4.3 Functioning of ULBs

The Twelfth Schedule (Article 243 W) of the Constitution of India envisages that the State Government may by law, empower the municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government. It listed 18 functions to be devolved upon the ULBs by the State Government. The State Government devolved 17 out of 18 functions to the ULBs as of March 2014. It has been making efforts to devolve the remaining function i.e. Roads and Bridges to the ULBs.

4.4 Staffing Pattern of ULBs

Every Corporation shall have the officers, namely i) Commissioner, ii) City Engineer, iii) City Health Officer, iv) Chief Finance Officer, v) Chief Auditor, vi) Law Officer, vii) Secretary, viii) Deputy Secretary, ix) Recovery Officer, x) Environment Officer and such other officers as may be prescribed. However, every Corporation may, with the previous sanction of the

Government and as per provisions of the Act, determine its establishment. Similarly, Municipality/ NAC is to have an Executive Officer, an Engineer and a Health Officer who are State Government employees. They are appointed to the Municipality and their work is subject to the general powers of supervision of the Chairperson.

4.5 Functioning of various Committees

As per Orissa Municipal Corporation Act, 2003 standing committees are to be set up. These are meant for dealing with (i) Taxation, (ii) Finance and Accounts, (iii) Public Health, (iv) Electricity Supply, (v) Water Supply, (vi) Drainage and Environment, (vii) Public Works, (viii) Planning and Development, (ix) Education, (x) Recreation and Culture, (xi) Licenses and appeals, (xii) Contracts, (xiii) Corporation Establishment, (xiv) Grievances and Social Justices and (xv) Settlement of mutual disputes between two adjoining corporations.

A District Planning Committee (DPC) is to be constituted at each district to consolidate the plans prepared by the Municipalities in the district. It is also to prepare a draft development plan for the district as a whole. The DPC is to consist of 20 members. Out of these, 16 members are to be from amongst the elected members of the Zilla Parishad and elected Councillors of the Municipalities in the district. Four members are to be nominated by the State Government from the following list:

- i) A Minister in the Council of Ministers of the State, who shall be the Chairperson;
- ii) The Collector of the district, who shall be the Vice-Chairperson;
- iii) The Chairperson of the Zilla Parishad of the district; and
- iv) The Chairperson of a Municipality in the district.

4.6 Fund flow arrangement

The ULBs mainly receive funds from the Government as State Plan, Non-Plan and Central Plan for execution of various developmental works. Besides, all collections such as i) taxes on holdings, ii) trades, iii) rent on shops and buildings and iv) other fees and charges etc., constitute the revenue receipts of the ULBs. The budget provision under each category for the last five years is indicated in **Table 4.2**:

Table 4.2: Budget provision of funds by H&UD Department

Grant type	2012-13	2013-14	2014-15	2015-16	2016-17
Non-Plan	914.97	1174.29	1253.05	1546.48	1787.38
State Plan	450.00	1318.81	1528.42	1366.02	1730.89
Central plan	41.880	0.09	12.79	12.79	110.26
Total	1406.85	2493.19	2794.26	2925.29	3628.53

(Source: Activity Report of H&UD Department.)

4.7 Recommendations of State Finance Commission (SFC)

The Fourth SFC had requested the Fourteenth Finance Commission to augment the State's Consolidated Fund to supplement the resources of the local bodies over and above the fund recommended for transfer from the

State's resources. Total resource transfer (from State resources) to ULBs recommended by the 4th SFC for the period 2015-20 was as under:

Table 4.3: Resource transfer recommended by the SFC

(₹ in crore)

Distribution mechanism	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
Devolution	164.60	164.60	164.60	164.60	164.60	823.00
Assignment of Taxes	540.00	644.00	708.40	779.24	857.16	3,528.80
Grants-in-aid	59.61	80.48	178.10	180.94	184.08	683.21
Total	764.21	889.08	1,051.10	1,124.78	1,205.84	5,035.01

(Source: Report of the 4th SFC)

However, budget provision was made for ₹ 949.08 crore by the State Government for the year 2016-17.

4.8 Recommendations of the Central Finance Commission (CFC)

Recommendations of 14th Finance Commission are given in **Table 4.4**.

Table 4.4: Recommendations by 14th Finance Commission

(₹ in crore)

Grant type	2015-16	2016-17	2017-18	2018-19	2019-20
Basic Grant	170.10	235.54	272.14	314.82	425.39
Performance Grant	00	69.52	78.67	89.34	116.98
Total	170.10	305.06	350.81	404.16	542.37

(Source: Information as furnished by Finance Department)

GoI released ₹ 305.06 crore towards Basic Grant and Performance Grant during the year 2016-17.

Further, the following recommendations were also made by the Commission.

- Basic and Performance Grants to the ULBs to be distributed in the ratio 80:20;
- State Government to apply the distribution formula of the SFC for distributing the grants among the three categories of the ULBs;
- The existing rules to be reviewed to facilitate levy of property tax;
- Local bodies to be empowered to impose advertisement tax and improve collection of own revenues from its source;
- The structure of entertainment tax to be reviewed and action to be taken to increase its scope to cover more and newer forms of entertainment; and
- Rationalisation of service charges to be made by the ULBs to recover operation and maintenance cost.

4.9 Audit mandate

4.9.1 Primary Auditor

Director, Local Fund Audit (DLFA) is the primary Auditor of ULBs in the State. The DLFA conducts audit of ULBs of all 30 districts of the State through 26 District Audit Offices. The position of audit of ULBs by DLFA as of March 2017 is given in **Table 4.5**.

Table 4.5: The position of audit of PRIs by DLFA as of March 2017

Year	Total number of ULBs planned for audit	Total number of ULBs audited	Shortfall
2014-15	103	103	Nil
2015-16	102	102	Nil
2016-17	107	107	Nil

(Source: Information furnished by Director, Local Fund Audit, Odisha)

4.9.2 Audit by Comptroller and Auditor General of India

On the recommendation of the 13th Finance Commission, the State Government had entrusted (April 2011) the Comptroller and Auditor General of India (CAG) with audit of accounts of all categories of the ULBs of the State under Section 20(1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Accordingly, accounts of five Municipal Corporations, 21 Municipalities and 17 NACs were covered under Performance Audit and Compliance Audit during 2016-17. CAG was also requested to provide Technical Guidance and Support (TGS) to the State Audit Agency viz., Local Fund Audit (LFA) for audit of Local Bodies. The Government had notified (July 2011) the parameters of the TGS agreed to in the Official Gazette.

4.10 Reporting arrangement

4.10.1 Audit Report of Primary Auditor

As per recommendation of the 13th Finance Commission and provisions of OLFA (Amendment) Rules, 2015, the DLFA is to prepare and submit to the State Government not later than 30th September of each year, a consolidated report for the previous year, to be laid before the State legislature. The Audit Report of Odisha Local Fund Audit was laid before the State legislature on 15 December 2016.

4.10.2 CAG's Report on Local Bodies

The Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2016 has been laid in Odisha Legislative Assembly on 16 September 2017.

4.11 Response to audit observations

During 2016-17, 21 paragraphs relating to Inspection Reports (IRs) issued by the Office of the Accountant General (G&SSA), Odisha were settled through Triangular Committee Meetings. As on 31 March 2017, 3869 paragraphs relating to 271 Inspection Reports (IRs) issued to different ULBs remained unsettled.

The Office of the Accountant General (G&SSA), Odisha issued ten Annual Technical Inspection Reports (ATIRs) on Urban Local Bodies relating to the years 2005-06 to 2014-15. Major audit findings on the transactions of ULBs of the State were reported. However, Government's reply was not received on any of these ATIRs. A number of meetings were convened with the Commissioner-cum-Secretary of the Department and demi-official correspondence were also made with the Chief Secretary to Government of Odisha. Government had not taken any remedial action on the issue as of November 2017.

Section B
Accountability Framework and Financial Reporting issues

4.12 Accounting framework

(i) Property Tax Board

Property Tax Board assists all Municipalities and Municipal Corporations in the State to put in place an independent and transparent procedure for assessing property tax. The State Government had decided to rationalise property tax through legislation by way of introducing the Unit Area based taxation system in all the ULBs. The 13th Finance Commission had also recommended (September 2010) levy of property tax and removal of any hindrance in this regard. Accordingly, the Odisha Municipal Corporation (Amendment) Rules, 2016 came into force in October 2016. A selection committee was constituted for appointment of Chairperson and other members of the State Municipal Corporation Valuation Committee.

(ii) Service Level Benchmarks (SLBs)

In compliance with the recommendation of the 13th Finance Commission, the State Government had notified (December 2013) standards of service deliveries in four essential services, namely; i) Water Supply, ii) Sewerage Management, iii) Storm Water Drainage and iv) Solid Waste Management provided by the local bodies. After due evaluation of the achievements of such targets for the year 2013-14, the Government of Odisha notified (September 2015) the service level targets for the year 2015-16. This was done in the four service sectors for 50 ULBs. It covered all Municipal Corporations and Municipalities of the State after due consultation with them.

4.13 Submission of Utilisation Certificates

In compliance audit, it was observed that 23 out of 43 ULBs audited during 2016-17 had not submitted UCs amounting to ₹ 304.17 crore.

4.14 Outstanding advance

Similarly, it was observed from the cash book and advance registers of 29 ULBs that advances of ₹ 23.84 crore had remained unadjusted against the employees of ULBs, suppliers and contractors.

4.15 Maintenance of Accounts by ULBs

- Accounts of ULBs are prepared by the respective ULBs and certified by the Director, Local Fund Audit, as per Rule 20(h) of the Orissa Local Fund Audit Rules, 1951.
- As against the Audit plan to certify 133 Accounts, 113 Accounts of ULBs were certified by the DLFA during 2016-17.
- Adoption of modern accrual based double entry system of accounting was mandatory for ULB level reform set by the GoI. However, migration to double entry accounting system has been accomplished

only in the mission cities² since financial year 2012-13. In other ULBs, cash based manual accounting system was prevailing (March 2017).

² Bhubaneswar Municipal Corporation, Cuttack Municipal Corporation, Berhampur Municipal Corporation, Rourkela Municipal Corporation, Sambalpur Municipal Corporation, Puri Municipality, Balasore Municipality, Bhadrak Municipality and Baripada Municipality