

PART-B
URBAN LOCAL BODIES

CHAPTER-III

**An Overview of the Functioning,
Accountability Mechanism and
Financial Reporting Issues of
Urban Local Bodies**

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An Overview of the functioning, accountability mechanism and financial reporting issues of Urban Local Bodies

3.1 Introduction

In pursuance of the 74th Amendment in 1992, Articles 243 P to 243 ZG were inserted in the Constitution of India whereby the State legislature could endow Municipalities with certain powers and duties in order to enable them to function as institutions of Self-Government and to carry out the responsibilities conferred upon them including those listed in the Twelfth Schedule of the Constitution. The Rajasthan Municipalities Act (RMA), 2009 was accordingly enacted by repealing all the prevailing municipal laws and enactments to enable the Urban Local Bodies (ULBs) to function as third tier of the Government.

There were 196 ULBs i.e. 10 Municipal Corporations¹ (M Corps), 34 Municipal Councils² (MCs) and 152 Municipal Boards³ (MBs) as of September 2020. As per census 2011, the statistics of Rajasthan State are given in **Table 3.1**.

Table 3.1: Statistics of Rajasthan State

S.No.	Indicator	Unit	State level	
1.	Population	Crore	6.85	
2.	Population (Urban)	Crore	1.70	
3.	Population Density	Persons per sq km	200	
4.	Decadal Growth Rate	Percentage	21.30	
5.	Sex Ratio	Females per 1,000 males	914	
6.	Total Literacy Rate (Urban)	Percentage	Total: 69.23 Male: 76.14 Female 61.68	
7.	Urban Per Capita Income	Rupees per annum	65,974	
Status of ULBs (as on 30 September 2020)				
8.	Municipal Corporation	Numbers	10	
9.	Municipal Council	Numbers	34	
10.	Municipal Board	(Class II)	Numbers	
11.		(Class III)		58
12.		(Class IV)		81
<i>Source: Information provided by Local Self Government Department, Rajasthan.</i>				

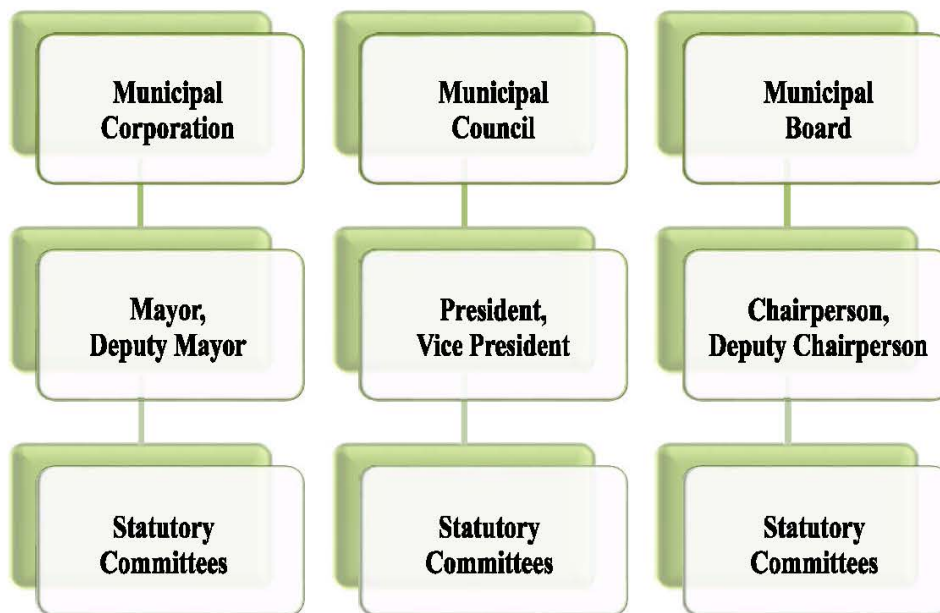
- 1 Municipal Corporations: Ajmer, Bharatpur, Bikaner, Jaipur Heritage, Jaipur Greater, Jodhpur North, Jodhpur South, Kota North, Kota South and Udaipur.
- 2 Municipal Councils: Alwar, Balotara, Banswara, Baran, Barmer, Beawar, Bhilwara, Bhiwadi, Bundi, Chittorgarh, Churu, Dausa, Dholpur, Dungarpur, Gangapurcity, Hanumangarh, Hindauncity, Jaisalmer, Jalore, Jhalawar, Jhunjhunu, Karauli, Kishangarh, Makarana, Nagaur, Pali, Pratapgarh, Rajsamand, Sawai Madhopur, Sikar, Sirohi, Sriganganagar, Sujangarh and Tonk.
- 3 Municipal Boards: Class-II (with population 50,000-99,999): 13, Class-III (with population 25,000-49,999): 58 and Class-IV (with population less than 25,000): 81.

3.2 Organisational Set up

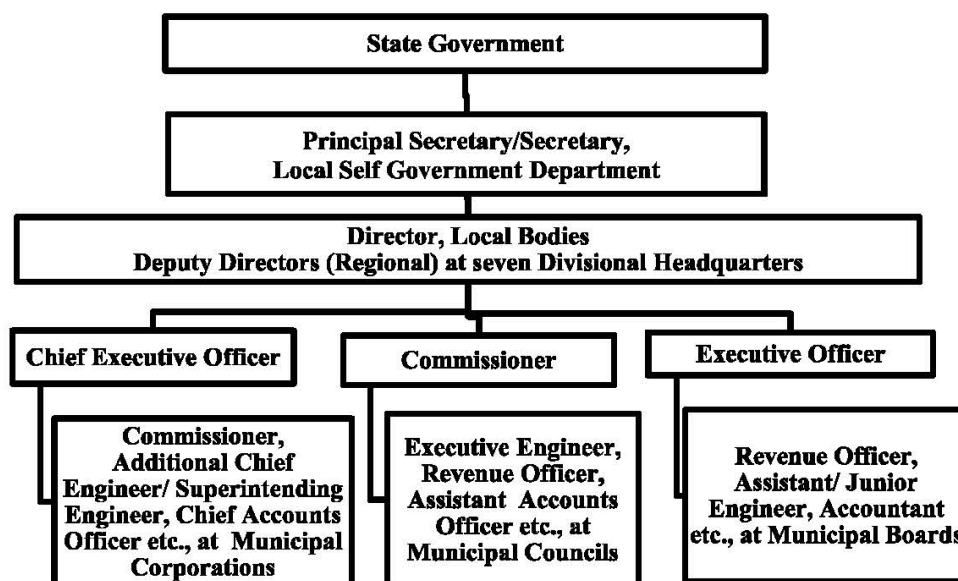
Local Self Government Department (LSGD) is the administrative Department dealing with affairs of the ULBs. An organisational chart combining the State Government administrative machinery with ULBs is given in **Chart 1**.

Chart 1

ELECTED MEMBERS LEVEL



EXECUTIVE LEVEL



3.3 Functioning of ULBs

Sections 45 to 47 of RMA, 2009 envisaged certain core functions⁴. State Government⁵ has powers to prescribe other functions such as protection of environment, education & culture, public welfare, community relations etc.

Sections 101 to 103 of RMA, 2009 provides for internal revenues of Municipalities, obligatory taxes and other taxes that may be imposed by the Municipalities.

3.3.1 Devolution of Funds, Functions and Functionaries to Urban Local Bodies

Article 243W inserted through the 74th Constitutional Amendment envisaged devolution of powers and responsibilities to municipalities in respect of 18 subjects mentioned in XII Schedule of the Constitution. The functions relating to 16 subjects were being performed by ULBs. Two functions i.e. Slum Improvement & Upgradation and Urban Poverty alleviation were not transferred to ULBs in the RMA, 2009. However, these two functions were carried out by ULBs under various schemes as an implementing agency. Two functions i.e. Urban forestry, protection of the environment & promotion of ecological aspects and Safeguarding the interest of weaker sections of society were not notified as core functions. However, the RMA 2009 provided that these functions may be performed by the ULBs subject to their managerial, technical and financial capacity.

3.4 Formation of Various Committees

3.4.1 District Planning Committee

In pursuance of Article 243 ZD of the Constitution of India and section 158 of RMA, 2009, the State Government constitutes District Planning Committee (DPC) in all the districts of the State. District Collector is a member of the DPC and he or his nominated officer attends the meeting of DPC. The required quorum for DPC meeting is 33 *per cent* of members elected from rural and urban areas.

The main objective of DPC is to consolidate the plans prepared by the panchayats and the municipalities in the district and to prepare a draft developmental plan with regard to matters of common interest between the panchayats and the municipalities; including spatial planning; sharing of water

4 Public health, sanitation, conservation, solid waste management, drainage and sewerage, cleaning public streets, places, sewers and all spaces not being private property, lighting public streets, places and buildings, extinguishing fires and protecting life and property when fire occurs, constructing, altering and maintaining public streets, arranging for planned development, registering births and deaths etc.

5 The State Government may, by general or special order, require a municipality to perform such other municipal functions as the State Government may, having regard to the necessity and the resources of the municipality, think fit to be performed by the municipality.

and other physical and natural resources; integrated development of infrastructure and environment conservation and the extent and type of available resources financial or otherwise. The DPCs should prepare the draft development plan for onward submission to the State Government. The Committee would meet once in a quarter for review of allotted works and thus a minimum four times a year.

During performance audit on “Efficacy of implementation of 74th constitutional amendment” (*Report No. 5 of the year 2021, Government of Rajasthan*) audit observed that all the districts in Rajasthan constituted the DPC, but these committees did not meet regularly. Further DPCs in meetings did not take up matters of common interests between Panchayats and Municipalities and draft development plans were not prepared in accordance with the codal provisions.

3.4.2 Standing Committees

According to section 55 of RMA, 2009, every municipality shall constitute an executive committee. In addition to the executive committee, every municipality shall also constitute the following committees consisting of not more than 10 members (i) finance committee, (ii) health and sanitation committee (iii) buildings permission and works committee (iv) slum improvement committee (v) rules and bye-laws committee (vi) compounding and compromising of offences committee and (vii) committee for looking into the functions of a municipality. It may also constitute such other committees, not exceeding eight in case of M Corp, not exceeding six in case of MC and not exceeding four in case of MB, as it may deem necessary⁶.

As regards the actual status of standing committees constituted under section 55 of RMA, 2009, the same was not provided by the Director, Local Bodies (DLB) Department (January 2021).

3.5 Audit Arrangement

3.5.1 Primary Auditor

The Director, Local Fund Audit Department (DLFAD) is the Primary/ Statutory Auditor for Audit of accounts of the ULBs under Section 4 of the Rajasthan Local Fund Audit Act (RLFAA), 1954 and Rajasthan Local Fund Audit Rules, 1955. As per section 18 of RLFAA, 1954, Director, LFAD submits Annual Consolidated Report to the State Government and the Government lays this report before the State Legislature.

The Audit Report of LFAD, Rajasthan for the year 2018-19 was laid on the table of the State Legislature on 26th February 2020. Audit Report for the year 2019-20 was under preparation (August 2020).

6 The State Government may, looking to the functions of a municipality, increase the maximum limit of committees specified in this clause.

The Director, LFAD covered only 57 units out of 196 units of ULBs (M Corps: one, MCs: six and MBs: 50) in Audit during 2019-20. The Director, LFAD intimated (September 2020) that the shortfall was due to vacant posts and engagement of staff in the work of updating voter lists.

3.5.2 Audit by Comptroller and Auditor General of India

The Comptroller and Auditor General of India (CAG) conducts Audit of bodies substantially financed by grants or loans from the Consolidated Fund of India or any State under Section 14 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Further, Section 99-A of RMA, 2009, as amended⁷ in 2011, provides for Audit of municipalities by the CAG.

A committee on Local Bodies and Panchayati Raj Institutions has been constituted since 1 April 2013 in Rajasthan Vidhan Sabha to examine and discuss the Audit Report of Comptroller and Auditor General of India on Local Bodies. Audit Reports till the year 2012-13 has been discussed or left on the Accountant General for ensuring compliance on the Reports, by the Committee.

The Committee further decided to prepare its report on the basis of departmental replies on the paragraphs contained in the Audit Report for the years 2013-14 to 2015-16. Audit Report (Local Bodies) for the year 2016-17 is pending for discussion in the Committee.

3.5.3 Implementation of Technical Guidance and Support/Supervision

In pursuance of recommendations of XIIIth Central Finance Commission, the Government of Rajasthan, Finance (Audit) Department issued notification (2 February 2011) for adoption of 13 parameters under the Technical Guidance and Support/Supervision (TG&S) over the Audit of all the tiers of Panchayati Raj Institutions and ULBs.

During 2017-20, comments/suggestions on 157 Factual Statements and 141 Draft Paragraphs, proposed by Director, LFAD for inclusion in their Audit Report and comments on eight Inspection Reports (IRs) of Director, LFAD were communicated to Director, LFAD under the TG&S by the Principal Accountant General (General and Social Sector Audit), Rajasthan.

3.6 Response to Audit Observations

For early settlement of Audit observations, Departmental Administrative Officers are required to take prompt steps to remove defects and irregularities brought to their notice during the course of Audit and/or pointed out through IRs.

⁷ The accounts of the Municipalities shall be audited by the CAG of India in accordance with the provisions of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

3.6.1 For the period from 2015-16 to 2019-20, 328 IRs containing 3769 paragraphs in respect of ULBs and controlling offices, issued by the Office of the Principal Accountant General (General and Social Sector Audit), Rajasthan⁸ involving money value of ₹ 23,830.20 crore were pending for settlement (January 2021). Out of this, even first compliance report of 651 paragraphs of 49 IRs were not furnished as per details given in Table 3.2.

Table 3.2: Year-wise status of Inspection Reports

S.No.	Year	IRs	Paragraphs	Money value (₹ in crore)	First compliance not furnished	
					IRs	Paragraphs
1.	2015-16	98	909	2,016.32	6	62
2.	2016-17	70	785	3,409.05	3	38
3.	2017-18	57	648	4,070.51	5	64
4.	2018-19	42	556	8,056.96	9	137
5.	2019-20	61	871	6,277.36	26	350
	Total	328	3,769	23,830.20	49	651

3.6.2 As of 31.03.2020, 66717 paragraphs of 5866 IRs issued by Director, LFAD were pending for settlement and first compliance to five IRs was awaited. Audit observations including 42 embezzlement cases involving monetary value of ₹ 142.82 lakh were pending for settlement for the period 2015-16 to 2019-20, as per details given in Table 3.3.

Table 3.3: Embezzlement cases pending for settlement

S.No.	Year	Outstanding Embezzlement cases	
		Number	Money value (₹ in lakh)
1.	2015-16	7	73.47
2.	2016-17	11	14.81
3.	2017-18	11	47.47
4.	2018-19	6	4.35
5.	2019-20	7	2.72
	Total	42	142.82

Source: Information provided by LFAD

This indicated lack of prompt response on the part of the Municipalities/ Departmental authorities.

3.6.3 Two meetings of Audit Committee were organized by the Department during the year 2017-20 whereas such meetings were required to be organized every quarter.

3.6.4 Response to Paragraphs in Audit Reports

All replies on the paragraphs included in earlier reports (upto 2016-17) on Urban Local Bodies have been received.

8 Now known as Office of the Accountant General (Audit-II), Rajasthan w.e.f. 18th May 2020.

3.6.5 Impact of Audit

During the year 2017-20, recovery of ₹ 1.62 crore was made in 53 cases at the instance of Audit.

Recommendation: 1

Efforts should be made by LSGD to conduct the Audit Committee meetings regularly to settle the pending paragraphs. ULBs should also take prompt action to rectify the irregularities pointed out by the Audit.

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

3.7 Property Tax Board

The Thirteenth Finance Commission (TFC) recommended (February 2011) setting up of a State Level Property Tax Board to assist the ULBs to put in place an independent and transparent procedure for assessing property tax. The Commission also recommended that the Board should enumerate or cause to enumerate all properties in the ULBs, review the property tax system and suggest suitable basis for assessment and valuation of properties. The Fourteenth Finance Commission (FFC) also emphasized property tax as an important tool to enhance the income of ULBs.

The State Government had constituted (February 2011) State Level Property Tax Board and appointed Director, Local Bodies as Secretary to the Board. However, the Board was non-functional after its first meeting held on 28 April 2011 and thereafter no meeting was held till completion of its tenure in April 2017. Thereafter, the State Government did not reconstitute the Board. Thus, due to non-functioning of board during its tenure up to April 2017 and non-constituting new Board thereafter, ULBs, particularly small ULBs, were deprived of technical guidance for assessment and revision of property tax (UD Tax). Thus, the goal of establishing independent, transparent and strong system for assessment of property tax by ULBs remains unaccomplished.

3.8 Submission of Utilisation Certificates

As of December 2020 grants of ₹ 3696.53 crore and ₹ 3987.81 crore under Fifth State Finance Commission (SFC-V) and Fourteenth Finance Commission (FFC) respectively were released to ULBs by the Finance Department.

Details of utilisation of grants and pendency in submission of UCs for the period 2015-16 to 2019-20 are shown in Table 3.4.

Table 3.4: Pendency in submission of UCs

(₹ in crore)

S. No.	Particulars of grants	Actual grants released by the Finance Department to ULBs	UCs received from ULBs		UCs pending	
			Amount	Percentage	Amount	Percentage
1.	Grant of SFC-V	3696.53	2822.04	76.34	874.49	23.66
2.	Grant of FFC	3987.81	2673.83	67.05	1313.98	32.95

Source: Information provided by DLB.

In absence of pending UCs under SFC-V and FFC, the proper utilisation of funds could not be ascertained.

3.9 Internal Audit and Internal Control System of ULBs

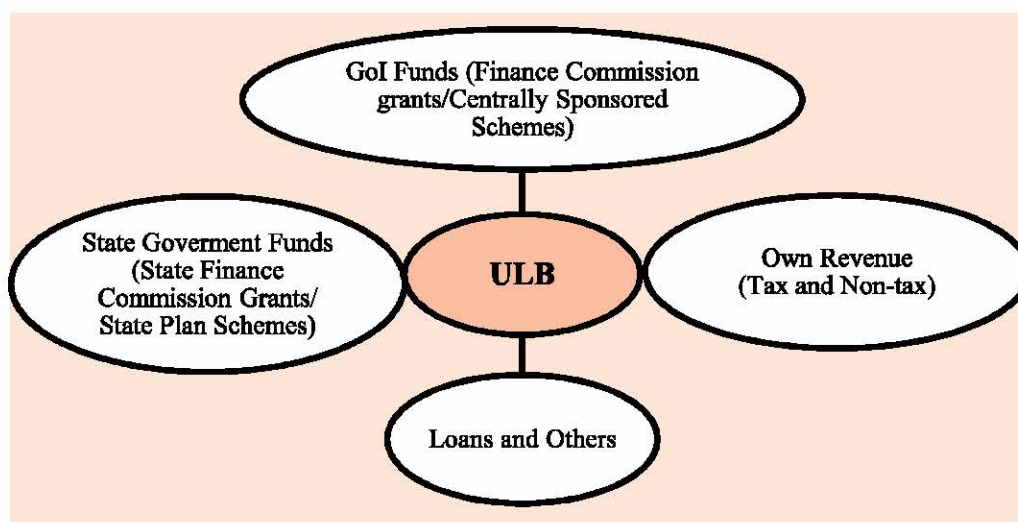
As per Section 99 of RMA, 2009 the State Government or the Municipality may provide for Internal Audit of the day to day accounts of the Municipality in the manner prescribed.

The DLB Department intimated (December 2020) that no such mechanism of internal audit was there in ULBs.

3.10 Financial Reporting Issues

3.10.1 Source of Funds

The resource base of ULBs consists of own revenues, assigned revenues, grants received from GoI and the State Government and loans as depicted in the diagram below:



Receipts

The position of receipts under various heads of the ULBs during 2015-16 to 2019-20 is given in Table 3.5.

Table 3.5: Position of receipts under various heads

(₹ in crore)

Sources of receipts	2015-16*	2016-17**	2017-18#	2018-19#	2019-20#
(A) Own Revenue					
(a) Tax Revenue					
(i) House tax	Nil	Nil	Nil	Nil	Nil
(ii) Urban development tax ⁹ / property tax	73.73	59.08	135.53	106.29	35.08
(iii) Tax on vehicles	Nil	Nil	5.88	4.75	0.26
(iv) Passenger tax	Nil	Nil	Nil	Nil	Nil
(v) Terminal tax	Nil	Nil	Nil	Nil	Nil
(vi) Other taxes ¹⁰	234.17	74.80	201.87	111.94	56.60
(vii) Outsourcing	Nil	Nil	Nil	Nil	Nil
Total of Tax Revenue (a) (% of total revenue)	307.90 (8.70)	133.88 (4.06)	343.28 (6.52)	222.98 (3.80)	91.94 (2.92)
(b) Non-tax Revenue					
(i) Revenue from bye-laws ¹¹	222.98	152.62	Nil	Nil	Nil
(ii) Revenue from assets	33.51	21.78	Nil	Nil	Nil
(iii) Fees/User charges	Nil	Nil	410.48	339.47	232.57
(iv) Other income	Nil	Nil	452.93	598.88	337.78
(v) Sale and Hire	Nil	Nil	186.85	185.31	147.02
(vi) Interest on investments	52.94	46.15	Nil	Nil	Nil
(vii) Misc. non-tax revenue ¹²	372.04	269.01	Nil	Nil	Nil
(viii) Sale of land ¹³	99.33	60.77	Nil	Nil	Nil
(ix) Interest receipts	Nil	Nil	76.22	86.54	55.49
(x) Rental income	Nil	Nil	44.41	52.05	48.37
Total of Non-tax Revenue (b)	780.80 (22.05)	550.33 (16.69)	1170.89 (22.24)	1262.25 (21.53)	821.23 (26.06)
Total of Own Revenue (A)	1,088.70 (30.75)	684.21 (20.75)	1514.17 (28.76)	1485.23 (25.34)	913.17 (28.98)
(B) Assigned Revenue/ Entertainment tax	5.82 (0.16)	0.04 (0.00)	Nil	Nil	Nil
(C) Grants and Loans					
(i) General and special grant	1471.73	1785.17	2197.67	2743.07	1354.72
(ii) Grant in lieu of octroi	974.30	828.41	1553.46	1633.63	883.42
(iii) Special assistance and loans	Nil	Nil	Nil	Nil	Nil
Total of Grants and Loans (C)	2,446.03 (69.09)	2613.58 (79.25)	3751.13 (71.24)	4376.70 (74.66)	2238.14 (71.02)
(D) Miscellaneous Non- recurring Income¹⁴	Nil	Nil	Nil	Nil	Nil
Grand Total (A to D)	3,540.55	3297.83	5265.30	5861.93	3151.31

Note: Figures in brackets denote percentage to the total receipts.

*The figures for the year 2015-16 were of 166 ULBs only. Information of remaining ULBs was not provided by DLB.

**The figures for the year 2016-17 are of 120 ULBs only. Information of remaining ULBs was not provided by DLB.

#Number of ULBs for which the figures pertain for the year 2017-18, 2018-19 and 2019-20 not provided by DLB.

Source: Information provided by DLB.

It could be seen from the table above that:

- 9 Subsequent to abolition of House tax from 24 February 2007, Urban Development tax was introduced with effect from 29 August 2007.
- 10 Income from land revenue, tax on advertisement, pilgrim tax, other income etc.
- 11 Income from birth and death certificate, sign advertisement board fees, tender form fees, marriage registration fees, building permission fees, license fees of hotel bye-laws etc.
- 12 Income from sewerage tax, fair fees, application fees, income from contract of *Bakra Mandi*, income from cattle house, income from lease, etc.
- 13 Receipt from sale of land to public, Government and other commercial organisations.
- 14 Including deposits and recoveries of loans and advances.

- Tax revenue comprised only 2.92 per cent of the total revenue during the year 2019-20 as compared to 8.70 per cent in 2015-16.
- Non-tax revenue comprised 26.06 per cent of the total revenue during 2019-20 as compared to 22.05 per cent in 2015-16.
- During 2019-20, own revenue (tax and non-tax) comprised 28.98 per cent of total receipts. In 2018-19 it comprised 25.34 per cent of total receipts. This indicated significant increase in dependency of ULBs on grants and loans.

Grants and Loans constituted 71.02 per cent of the total revenue in the year 2019-20.

Expenditure

The position of expenditure in ULBs during 2015-16 to 2019-20 is given in Table 3.6.

Table 3.6: Position of expenditure in ULBs

	(₹ in crore)				
Items of Expenditure	2015-16*	2016-17**	2017-18#	2018-19#	2019-20
(A) Recurring Expenditure					
(i) General administration	1,020.77 (33.21)	848.73 (33.71)	1597.36 (32.33)	2052.40 (31.16)	1112.76 (32.26)
(ii) Public health and sanitation	103.79 (3.38)	99.91 (3.97)	361.21 (7.31)	456.74 (6.93)	197.88 (5.74)
(iii) Maintenance of civic amenities	485.27 (15.79)	261.54 (10.39)	427.82 (8.66)	497.91 (7.56)	179.87 (5.21)
Total of Recurring Expenditure (A)	1,609.83 (52.38)	1,210.18 (48.07)	2386.39 (48.29)	3007.05 (45.65)	1490.51 (43.21)
(B) Non-recurring Expenditure					
(i) Expenditure on developmental works	1,280.47 (41.66)	1,303.83 (51.79)	2224.53 (45.02)	3217.04 (48.84)	1733.04 (50.24)
(ii) Purchase of new assets	Nil	Nil	Nil	Nil	Nil
(iii) Repayment of loans	Nil	Nil	Nil	Nil	Nil
(iv) Miscellaneous non-recurring expenditure ¹⁵	183.29 (5.96)	3.71 (0.15)	330.38 (6.69)	363.39 (5.52)	225.69 (6.54)
Total of Non-recurring Expenditure (B)	1,463.76 (47.62)	1,307.54 (51.93)	2554.91 (51.71)	3580.43 (54.35)	1958.73 (56.79)
Grand Total (A+B)	3,073.59	2,517.72	4941.30	6587.48	3449.24

Note: Figures in brackets denote percentage to the total expenditure.
**The figures for the year 2015-16 were of 166 ULBs only. Information of remaining ULBs was not provided by DLB Department.*
***The figures for the year 2016-17 are of 120 ULBs only. Information of remaining ULBs was not provided by DLB Department.*
#Number of ULBs for which the figures pertain for the year 2017-18, 2018-19 and 2019-20, not provided by DLB.

Source: Information provided by DLB.

It could be seen from the table above that:

- The percentage of recurring expenditure to total expenditure in 2019-20 decreased significantly compared to 2015-16, mainly due to less expenditure under the head “Maintenance of civic amenities” by the Department.
- The percentage of non-recurring expenditure increased in 2019-20 by 2.44 over the previous year.

15. It includes refunds or deposits, investment made and disbursement of loans and advances.

Category wise breakup of receipt and expenditure of ULBs is given in Table 3.7.

Table 3.7: Category wise breakup of receipt and expenditure

(₹ in crore)

Category of ULBs	2018-19		Surplus (+)/ Shortfall (-)	2019-20		Surplus (+)/ Shortfall (-)
	Receipts	Exp.		Receipts	Exp.	
(A) Municipal Corporations						
(i) Jaipur	855.16	1020.81	-165.65	*	*	*
(ii) Ajmer	204.88	197.10	7.78	179.71	177.45	2.26
(iii) Jodhpur	263.02	275.05	-12.03	*	*	*
(iv) Bikaner	182.77	183.55	-0.78	154.35	195.18	-40.83
(v) Kota	307.98	239.00	68.98	*	*	*
(vi) Udaipur	233.18	254.57	-21.39	*	*	*
(vii) Bharatpur	*	*	*	*	*	*
Total (A)	2046.99	2170.08	-123.1	334.07	372.64	-38.57
(B) Municipal Councils	1663.26	1860.51	-197.25	1382.77	1535.34	-152.57
(C) Municipal Boards	2151.69	2556.88	-405.19	1434.48	1541.27	-106.79
Grand Total (A+B+C)			-725.54			-297.93

* Information was not provided.

Source: Information provided by DLB

Recommendation: 2

The Urban Local Bodies should take effective steps to strengthen their financial position by focusing on collection of own tax and non-tax revenue to decrease their dependency on grants provided by GoI and State Government.

3.10.2 Recommendations of the State Finance Commission (SFC)

The SFC-IV constituted on 11 April 2011 and the SFC-V constituted on 29 May 2015 are concurrent with the Thirteenth Finance Commission (TFC) and the Fourteenth Finance Commissioner (FFC) respectively. SFC-IV recommended devolution of five per cent of net State Own Tax Revenue (SOTR) to local bodies whereas SFC-V recommended devolution of 7.182 per cent of SOTR to local bodies in the ratio of 75.10: 24.90 to PRIs and ULBs respectively. This ratio was adopted on the basis of the rural and urban population ratio of Census 2011.

The position of grants released by the State Government under the SFCs and their utilisation is given in Table 3.8.

Table 3.8: Details of grants released by the State Government under the SFCs

S. No.	Year	Grants released to ULBs		UCs received			Pending UCs	
		During the year	Cumulative	For the year	Cumulative	Percentage	Amount	Percentage
The position of grants released by the State Government under the SFC-IV								
1.	2010-11	45.00	45.00	41.26	41.26	91.69	3.74	8.31
2.	2011-12	237.82	282.82	207.31	248.57	87.89	34.25	12.11
3.	2012-13	321.66	604.48	247.87	496.44	82.13	108.04	17.87
4.	2013-14	323.84	928.32	203.51	699.95	75.40	228.37	24.60
5.	2014-15	692.23	1620.55	374.86	1074.81	66.32	545.74	33.68
6.	2015-16	Nil	1620.55	248.02	1322.83	81.62	297.72	18.38
7.	2016-17	Nil	1620.55	28.24	1351.07	83.37	269.48	16.63
8.	2017-18	Nil	1620.55	8.76	1359.83	83.91	260.72	16.09

S. No.	Year	Grants released to ULBs		UCs received			Pending UCs	
		During the year	Cumulative	For the year	Cumulative	Percentage	Amount	Percentage
The position of grants released by the State Government under the SFC-V								
1.	2015-16	773.95	773.95	364.83	364.83	47.14	409.12	52.86
2.	2016-17	895.32	1669.27	586.15	950.98	56.97	718.29	43.03
3.	2017-18	812.03	2481.30	691.24	1642.22	66.18	839.08	33.82
4.	2018-19	784.53	3265.83	827.38	2469.60	75.62	796.23	24.38
5.	2019-20	430.70	3696.53	352.44	2822.04	76.34	874.49	23.66

Source: Information provided by DLB.

It could be seen that 23.66 per cent UCs were pending against the grants released under SFC-V and 16.09 per cent UCs were pending against the grants released under SFC-IV, even though it was closed.

This indicated poor utilisation of grants by the implementing agencies and ineffective monitoring by the DLB Department.

3.10.3 Recommendation of the Central Finance Commissions

The position of grants released by the Government of India to State Government and further by the State Government to ULBs under the Thirteenth Finance Commission and the Fourteenth Finance Commission and their utilisation is given in Table 3.9.

Table 3.9: position of grants released by the State Government and their utilisation

(₹ in crore)

S.No.	Year	Grants released to ULBs		UCs Received			Pending UCs	
		During the year	Cumulative	For the year	Cumulative	Percentage	Amount	Percentage
The position of grants released by the State Government under the TFC								
1.	2010-11	111.36	111.36	55.03	55.03	49.42	56.33	50.58
2.	2011-12	209.48	320.84	101.84	156.87	48.89	163.97	51.11
3.	2012-13	252.06	572.90	172.97	329.84	57.57	243.06	42.43
4.	2013-14	361.81	934.71	243.04	572.88	61.29	361.83	38.71
5.	2014-15	200.26	1134.97	236.77	809.65	71.34	325.32	28.66
6.	2015-16	132.89	1267.86	180.87	990.52	78.12	277.34	21.88
7.	2016-17	Nil	1267.86	88.51	1079.03	85.11	188.83	14.90
8.	2017-18	Nil	1267.86	56.75	1135.78	89.58	132.08	10.42
The position of grants released by the State Government under the FFC								
1.	2015-16	433.12	433.12	264.90	264.90	61.16	168.22	38.84
2.	2016-17	776.73	1209.85	443.20	708.10	58.53	501.75	41.47
3.	2017-18	692.93	1902.78	576.44	1284.54	67.51	618.24	32.49
4.	2018-19	801.60	2704.38	802.22	2086.76	77.16	617.62	22.84
5.	2019-20	1283.43	3987.81	587.09	2673.83	67.05	1313.98	32.95

Source: As per data provided (December 2020) by DLB Department, Rajasthan.

It could be seen that 10.42 per cent and 32.95 percent UCs were pending against the grants released under TFC and FFC respectively.

This indicated slow pace of utilisation of funds by ULBs and lack of monitoring at Directorate level.

3.10.4 Annual Financial Statement

As per Section 92(1) of RMA, 2009, the Chief Municipal Officer shall, within three months of the close of a financial year, cause to prepare a financial statement containing an income and expenditure account and a receipts and payments account for the preceding financial year in respect of the accounts of the municipality and a balance sheet of the assets and liabilities of the municipality for the preceding financial year.

No reply was given by DLB Department indicating number of ULBs preparing their annual accounts within the prescribed time (December 2020).

3.10.5 Maintenance of Accounts by Urban Local Bodies

As per Rule 25(xi) of Rajasthan Local Fund Audit Rules 1955, a certificate of correctness of annual accounts shall be included in Director's Report. As such, accounts of all 196 ULBs are required to be certified. Director, LFAD intimated (February 2021) that accounts of only 159 ULBs (81 *per cent*) had been certified during the year 2019-20. In the absence of certification of accounts in 37 ULBs (19 *per cent*), the correctness of accounts could not be verified by Audit.

National Municipal Accounts Manual (NMAM) for ULBs in India developed by the Ministry of Urban Development, GoI was introduced in February 2005. On the lines of NMAM, Rajasthan Municipal Accounting Manual (RMAM) was prepared. Following the Manual, the LSGD directed (December 2009) all ULBs to maintain the accounts on Accrual Based (Double Entry) Accounting System from 1 April 2010.

Director, LFAD intimated (February 2021) that only 62 ULBs were maintaining the accounts on the above system. Thus, 134 ULBs are still to adopt Accrual Based (Double Entry) Accounting System.

3.10.6 Maintenance of Database and the Formats therein on the Finances of Urban Local Bodies

As prescribed by the TFC, the Ministry of Urban Development, GoI issued (April 2010) seven database formats to be adopted by ULBs. The DLB Department intimated (December 2020) that all the ULBs were preparing the information in the prescribed database formats.

Recommendation: 3

ULBs should follow the prescribed accounting system and make sincere efforts for timely finalization/certification of accounts. ULBs should also ensure effective & timely utilisation of grants.

3.11 Conclusion

The own resources generated by ULBs were not adequate to take care of their expenditure and they were largely dependent on grants and loans from Central/State Government. The receipts of ULBs showed decreasing trend during the last five years.

Absence of timely finalization of accounts in the prescribed formats and their certification deprived the stakeholders of timely and correct accounting information.

There were also huge delays in attending to Audit observations and in their settlement. Failure to timely respond to Audit observations is fraught with the risk of continuance of irregularities/deficiencies.