

CHAPTER-3
PROFILE OF URBAN LOCAL
BODIES

PART-B

URBAN LOCAL BODIES (ULBs)

CHAPTER-3

PROFILE OF URBAN LOCAL BODIES

3.1 Background

The Constitution (74th Amendment) Act, 1992 paved the way for decentralisation of power and transfer of 18 functions (**Appendix-1**) listed in the Twelfth Schedule of the Constitution along with funds and functionaries to the Urban Local Bodies (ULBs). The Act came into force in June 1993. To implement the provisions of the said Act, the Government of Himachal Pradesh enacted the Himachal Pradesh Municipal Corporation Act, 1994 and the Himachal Pradesh Municipal Act, 1994. In Himachal Pradesh, 17 functions stand transferred (August 1994) to ULBs (except fire services); however, the corresponding funds and functionaries were yet to be made available to the ULBs.

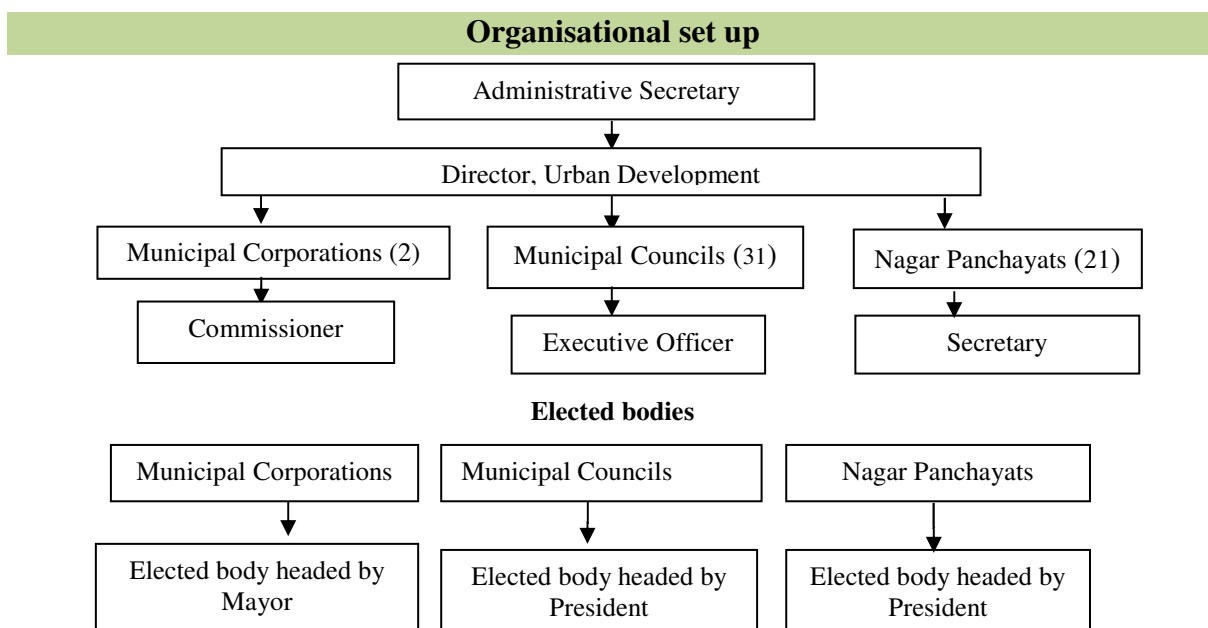
3.2 Audit mandate

In Himachal Pradesh, primary audit of ULBs is being conducted by the Director, HP State Audit Department. The State Government entrusted (March 2011) audit of ULBs to CAG with the responsibility of providing Technical Guidance and Support (TGS) under Section 20(1) of the CAG's DPC Act, 1971. The results of audit are included in Chapter-4.

3.3 Organisational structure of Urban Local Bodies

There are two Municipal Corporations, 31 Municipal Councils (MCs) and 21 Nagar Panchayats (NPs) in the State as on 31st March 2019.

The overall control of the ULBs rests with the Additional Chief Secretary/ Secretary (Urban Development) to the Government of Himachal Pradesh through Director, Urban Development. The organisational set-up is as under:



3.3.1 Standing committees

Various standing committees involved in financial matters and implementation of schemes are detailed in **Table-9** below:

Table-9: Roles and responsibilities of the Standing Committees

Name of the standing committee	Standing committee headed by	Roles and responsibilities of the standing committee
General Standing Committee	Mayor in Municipal Corporation and President in Municipal Council and Nagar Panchayat	Performs functions relating to establishment matters, communications, buildings, urban housing and provision of relief against natural calamities, water supply and all residuary matters.
Finance, Audit and Planning Committee		Performs functions relating to the finances of municipality, framing of budget, scrutinising prospects of increase of revenue and examination of receipts and expenditure statements.
Social Justice Committee	Deputy Mayor in Municipal Corporation and President in Municipal Council and Nagar Panchayat	Performs functions relating to promotion of education and economic, social, cultural and other interests of SC, ST, other backward classes, women and other weaker sections of the society.

Source: The Himachal Pradesh Municipal Corporation Act, 1994 and the Himachal Pradesh Municipal Act, 1994.

3.3.2 Institutional arrangements for implementation of the schemes

In the Directorate of Urban Development, posts of one Project Officer and two Statistical Assistants have been sanctioned in the project section to oversee implementation of various schemes by the ULBs. During 2017-18, posts of Statistical Assistants were vacant.

Table: Details of Position of staffs of various categories in ULBs

Year	Sanctioned Posts	Vacant Posts	Percentage of vacancy
2017-18	3,754	1,194	(32 per cent)
2018-19	3,749	1,230	(33 per cent)

3.4 Financial profile

3.4.1 Fund flow to ULBs

For execution of various development works, ULBs receive funds in the form of grants mainly from (a) Central Finance Commission (CFC) grants, (b) State Finance Commission (SFC) grants, (c) Central Government grants and (d) State Government grants.

Besides, revenue is also mobilised by the ULBs in the form of taxes, rent, fees, etc. The resources of ULBs for the period from 2014-15 to 2018-19 are detailed in **Table-10**:

Table-10: Time series data on resources of ULBs

(₹ in crore)

Sr. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Own Revenue	118.04	128.60	173.20	161.18	288.68
2.	Loan	0.03	0.43	0	0	0.01
3.	Finance Commission (FC) grants from Central Government (CFC)	22.52	24.55	34.87	30.98	17.92
4.	Finance Commission (FC) grants from State Government (SFC)	72.40	85.51	99.45	111.36	120.74
5.	Grants for Centrally Sponsored Schemes					
	Centre share	91.43	130.47	336.28	48.05	125.08
	State share	0.05	29.16	36.70	5.33	20.54
6.	State Government grant for state schemes	34.55	67.15	75.08	76.62	221.94
Total		339.02	465.87	755.58	433.52	794.91

Source: Director, Urban Development Department (UDD) and Economics & Statistics Department.

Central Government grants: There are seven Centrally Sponsored Schemes: (i) Atal Mission for Rejuvenation and Urban Transformation (AMRUT) (ii) Pradhan Mantri Awas Yojana – Housing for All (Urban) (PMAY-HFA Urban) (iii) National Urban Livelihood Mission (NULM) (iv) Jawaharlal Nehru National Urban Renewal Mission (JNNURM) (v) Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) (vi) Smart City Mission (SCM) and (vii) Swachh Bharat Mission-U (SBM-U).

The position of funds allotted to the ULBs under these schemes for the period from 2014-15 to 2018-19 is detailed in **Table-11** below:

Table-11: Position of funds allotted to the ULBs for Major Centrally Sponsored Schemes

(₹ in crore)

Name of scheme	2014-15	2015-16	2016-17	2017-18	2018-19	Total
JNNURM	90.93	92.07	--	3.97	--	186.97
UIDSSMT	0.13	27.75	105.83	--	--	133.71
NULM	--	6.71	6.58	6.86	2.66	22.81
AMRUT	--	22.48	24.06	23.33	36.00	105.87
SCM	--	2.00	208.89	--	78.00	288.89
PMAY-HFA (U)	--	0.73	16.57	19.22	22.06	36.52
SBM-U	--	7.69	11.06	--	6.89	25.64
Total	91.06	159.43	372.99	53.38	145.61	822.47

Source: Director, Urban Development Department (UDD).

State Government grants: The position of funds allotted to the ULBs under Major State Schemes for the period from 2014-15 to 2018-19 is detailed in **Table-12**:

Table-12: Position of funds allotted to the ULBs for Major State Schemes

(₹ in crore)

Name of scheme	2014-15	2015-16	2016-17	2017-18	2018-19	Total
World Bank Aided Greater Projects	--	--	--	--	143.53	143.53
Sewerage Schemes	23.00	24.00	32.50	23.42	25.00	127.92
Sewerage Maintenance	5.00	8.40	9.05	20.00	18.21	60.66
Merged area grant	--	3.00	3.00	3.00	3.00	12.00
Parking	--	15.00	9.38	10.00	10.00	44.38
Development of Parks	--	--	9.30	10.00	10.00	29.30
Lakshay Schemes	--	--	1.20	1.20	1.20	3.60
Total	28.00	50.40	64.43	67.62	210.94	421.39

Source: Director, Urban Development Department (UDD).

The funds allotted to the ULBs through various sources are kept in the banks. Central and State grants are utilised by the ULBs for execution of Central and State sponsored schemes as per guidelines issued by GOI and the State Government while the own receipts of ULBs are utilised for administrative expenses and execution of schemes/ works formulated by the ULBs.

3.4.2 Application of Resources: Trends and Composition

The application of resources of ULBs for the period from 2014-15 to 2018-19 is detailed in **Table-13** below:

Table-13: Application of resources sector-wise

(₹ in crore)

Sr. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Own Revenue	150.78*	167.20*	229.78*	268.17*	370.24*
2.	Loan					
3.	Expenditure from Finance Commission (FC) grants from Central Government (CFC)	22.52	24.55	34.87	30.98	17.92
4.	Expenditure from Grants for Centrally Sponsored Schemes	91.43	130.47	336.28	48.05	125.08
5.	Expenditure from State share	0.05	29.16	36.70	5.33	20.54
6.	Expenditure from Finance Commission (FC) grants from State Government (SFC)	72.40	85.51	99.45	111.36	120.74
7.	Expenditure from State Government grant for State schemes	34.55	67.15	75.08	76.62	221.94
Total		371.73	504.04	812.16	540.51	876.46

Source: Director, Urban Development Department (UDD) and Economics & Statistics Department.

* Disaggregated figures are not available with the Department. These figures also include closing balance.

It may be noted that all the funds released by the Urban Development Department to the ULBs have been shown as expenditure, instead of actual expenditure at ground level. The

exact figures of expenditure by the ULBs were not available with the Urban Development Department. Further, it was also noticed that the Department had not prescribed any periodic returns to review/ control expenditure by ULBs, which resulted in weak control mechanism and irregularities in functioning of ULBs as mentioned in Chapter-4.

However, the figures of actual expenditure for 12 ULBs (for the period 2014-15 to 2016-17) and 14 ULBs (for the period 2015-16 to 2018-19) test-checked by Audit have been included in **Table-15(i)** and **(ii)** of Chapter-4.

3.5 Financial reporting and accounting framework of ULBs (Internal Control System)

A sound internal control system significantly contributes to efficient and effective governance. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is one of the attributes of good governance. The reports on compliance and controls, if effective and operational, assist the ULBs and the State Government in meeting their basic stewardship responsibilities including strategic planning, decision making and accountability towards stakeholders. The weaknesses and gaps noticed in the internal control system are mentioned in Chapter-4.

3.6 Primary audit and Internal audit of ULBs

Under Section 161(3) of Himachal Pradesh Municipal Corporation Act, 1994 and Section 255(1) of Himachal Pradesh Municipal Act, 1994, the accounts of the ULBs are to be audited by a separate and independent agency. Primary audit of ULBs is being conducted by the Director, HP State Audit Department (HP SAD). During the years 2017-18 and 2018-19, 25 and 26 ULBs were audited by the HP SAD respectively. The results of these audits are included in Annual Audit Report of the ULBs which is laid before the State Legislature by the State Government as per Section 255 (3) of Himachal Pradesh Municipal Act, 1994.

There is no provision for a separate and independent internal audit agency under the control of the Director, Urban Development to conduct internal audit of ULBs with a view to ensure internal control on income and expenditure.

3.7 Technical Guidance and Support

The audit of ULBs has been entrusted to the CAG under Section 20 (1) of the CAG's (DPC) Act, 1971 with the responsibility of providing suitable Technical Guidance and Support (TGS) to Primary Auditors as per sections 152-154 of Regulations on Audit and Accounts, 2007 regarding annual audit plans, audit methodology and procedures, training and capacity building, reporting and submission of returns.

Audit Plan for the years 2017-18 and 2018-19 was received from the Primary Auditor (Director, HP State Audit Department (HP SAD)) and noted for the process of audit planning in this office.

The Primary Auditor (Director, HP SAD) adhered to the audit methodology and procedures for audit as prescribed in Section 164 of the Himachal Pradesh Municipal Corporation Act, 1994.

During the years 2017-18 and 2018-19, five Inspection Reports (in each year) from the audit of ULBs conducted by the primary auditors were reviewed by the office of the Principal Accountant General (Audit), Himachal Pradesh. Inspection Reports were evaluated, and recommendations were made for improvement and subsequent follow-up. The following recommendations were made to the office of the Director, HP State Audit Department:

- (i) Reference to rules may be mentioned clearly in separate paragraphs while raising audit objections.
- (ii) Audit memos may be issued to the auditee unit.
- (iii) The reply of the Secretary and Executive Officer of the ULBs concerned may be incorporated in audit paras.
- (iv) The calculation may be shown clearly in table format.

It may be noticed that similar recommendations for improvement had been made during previous years, but the shortcomings persisted indicating that HP SAD had not taken adequate steps to address the same.

Every year, two days training is imparted to the audit staff of HP State Audit Department (HP SAD) as per their requirement and topics suggested by them. During 2017-18, 24 participants from HP SAD were imparted training on 8th and 9th February 2018 on the topics: (i) Statutory provisions regarding finance, taxation and recovery of claims (ii) PRIs funds, their operation, application and investment (iii) Budget, expenditure and stores (iv) Audit and inspection (v) Panchayati Raj Public Works Rules and (vi) Introduction to MNREGA and its operational guidelines. During 2018-19, 25 participants from HP SAD staff were imparted training on 11th - 12th March 2019 on the topics: (i) PRIASoft (Accounting system in PRIs) (ii) Works Audit of ULBs and PRIs; and (iii) Drafting of audit requisitions, Key document and Audit Reports of ULBs and PRIs.

3.8 Audit Coverage

During 2017-18, 12 out of 54 ULBs were test-checked by the office of the Principal Accountant General (Audit), Himachal Pradesh and reports were issued to the respective ULBs. Records of two Municipal Corporation, six Municipal Councils and four Nagar Panchayats were examined during 2017-18 (**Appendix-3(i)**). During 2018-19, records of 14 ULBs (two Municipal Corporations, seven Municipal Councils and five Nagar Panchayats) out of 54 ULBs were test-checked by the office of the Principal Accountant General (Audit), Himachal Pradesh and reports were issued to the respective ULBs (**Appendix-3(ii)**). Important audit findings of those reports have been incorporated in Chapter-4 of this report. The cases pointed out in this report are based on the test check conducted by Audit. The Department may initiate action to examine similar cases and take necessary corrective action.

3.9 Audit observations pending compliance

The ULBs are required to rectify the defects/ omissions highlighted in the observations contained in the Inspection Reports (IRs) issued by the Principal Accountant General (Audit), Himachal Pradesh, and report their compliance to settle the observations.

The details of IRs and paragraphs issued, settled/ deleted and outstanding as on 31st March 2019 are given in **Table-14**:

Table-14: Outstanding Inspection Reports and Audit Paras

Sl. No.	Year of issue of Inspection Reports	IRs/ Paras Outstanding as on 31 March 2018		Addition during 2018-19		Total		No. of IRs/ paras settled/ deleted during 2018-19		No. of IRs/ Paras outstanding as on 31 March 2019	
		IRs	Paras	IRs	Para	IRs	Paras	IRs	Paras	IRs	Paras
1.	Upto 2014-15	157	1,013	-	-	157	1,013	-	43	157	970
2.	2015-16	16	134	-	-	16	134	-	12	16	122
3.	2016-17	16	176	-	-	16	176	-	4	16	172
4.	2017-18	12	133	-	-	12	133	-	7	12	126
5.	2018-19	-	-	14	186	14	186	-	-	14	186
Total		201	1,456	14	186	215	1,642	-	66	215	1,576

Correspondence is being undertaken to settle IRs/ Paras, despite this the number of paras pending for settlement has increased which is indicative of lack of required attention and effective action which undermines accountability.

