PART-II
Local Governments Audit

CHAPTER – II (PART-II)
SOCIAL SECTOR (LOCAL GOVERNMENTS AUDIT)

An overview of Local Bodies in Nagaland

2.6.1 Functioning of Rural Local Bodies in the State

Under Article 243M of the Constitution of India, the State of Nagaland is exempted from the provisions of the 73rd Constitutional Amendment Act, 1992. Nagaland, given its traditional local bodies in the form of Village Councils, falls under this exemption. As of March 2021, there are 1,280 recognised villages in Nagaland, each governed by the Nagaland Village and Tribal Council Act, 1978 (erstwhile Nagaland Village Council Act, 1978) which mandates the establishment of a Village Council in every recognised village. Under each Village Council, there exists a Village Development Board (VDB). The VDBs, *inter alia,* facilitate the State functionaries responsible for implementing Government schemes including Centrally Sponsored Schemes (CSSs) by identifying the developmental works to be taken up in their respective villages and aid in the identification of scheme beneficiaries. All permanent residents of the village, with a management committee chosen by the Village Council form the general body of the VDB. A secretary, selected for a period of three years, oversees the affairs of the VDB. The Deputy Commissioner of the district functions as the ex-officio chairman of all VDBs in the district.

2.6.2 Functioning of Urban Local Bodies in the State

Article 243Q of the Constitution of India envisioned creation of Local Self Government for the urban population, granting constitutional status to Urban Local Bodies (ULBs) to carry out governance functions. The amendment empowered ULBs to function efficiently and effectively as autonomous entities, to deliver civic services and ensuring economic development and social justice, with regard to 18 subjects listed in the 12th Schedule of the Constitution of India (***Appendix 2.6.1***). In Nagaland, the ULBs consist of Municipal Councils and Town Councils. The legislative framework for the conduct of business of the ULBs is governed by the Nagaland Municipal (NM) Act, 2023[1], which was enacted to replace the earlier Municipal Act of 2001. There are 39 ULBs in the State: 03 Municipal Councils and 36 Town Councils as of March 2024.

Statistics relating to the urban population of the State, as per Census 2011, are shown in **Table 2.6.1**:

Table 2.6.1: Important statistics of the State (Urban areas)

Sl. No.	Indicator	Value
1.	Total Population of the State (in lakh)	19.78
2.	Population in urban areas (in lakh)	5.71
3.	Urban population (in *per cent*)	28.86
4.	Overall Population density (persons per Sq.km.)	119
5.	Urban Sex Ratio (per thousand)	908

[1] Notified by the Government on Nagaland on 09 November 2023

Sl. No.	Indicator	Value
6.	Urban Literacy Rate	89.62

Source: Census, 2011

2.6.3 Organisational setup in the State Government and ULBs

The administrative control of the ULBs in Nagaland lies with the Municipal Affairs Department, headed by the Commissioner and Secretary to the Government of Nagaland (GoN). The Directorate of Municipal Affairs is responsible for administering, facilitating, coordinating and monitoring the activities of ULBs. The first election for the ULBs was conducted in 2004. The GoN, however, dissolved the elected bodies in 2009 and since then ULBs have been administered by Government appointed administrators. After a lapse of 20 years, the ULB elections were held on 26 June 2024, in all the three Municipal Councils and 22 out of 36 Town Councils[2].

Chart 2.6.1 (i): Organogram of ULBs in Nagaland

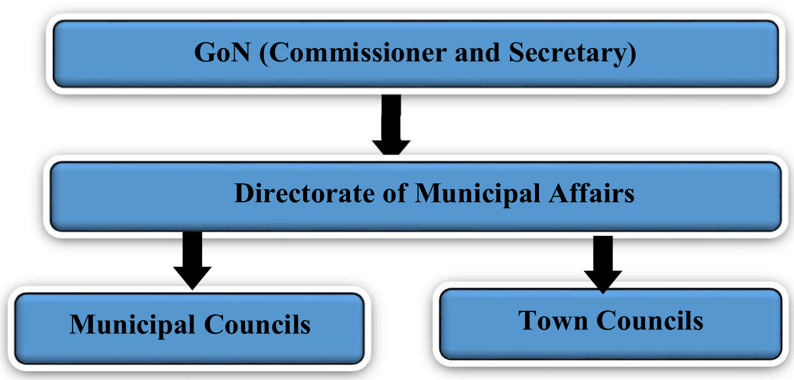
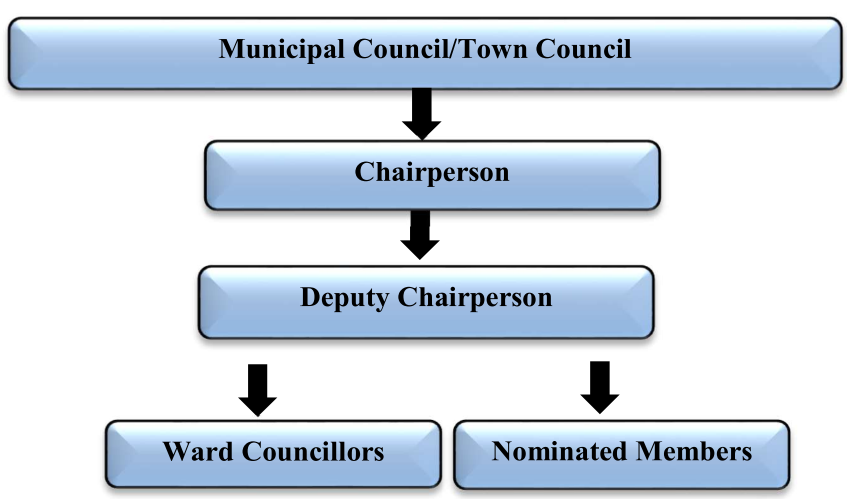


Chart 2.6.1 (ii): ULBs Elected Body Structure



[2] Election was not conducted in 14 Town Councils across six Districts as the Eastern Nagaland People's Organisation had demanded separate administrative set-up.

2.6.4 Functioning of ULBs

The NM Act, 2023 provides the statutory framework for the constitution, functioning, and dissolution of ULBs in the State. As per Sections 61 and 63 of the NM Act, 2023, ULBs are mandated to perform a range of obligatory functions, subject to availability of financial resources. These include urban planning, public health, sanitation, solid waste management, fire services and urban forestry. In addition, Section 62 of the NM Act, 2023 states that the Government may assign additional functions to a Municipal Council through notification, depending on the Council's financial resources and organisational capacity relating to any other matters in the 12th Schedule to the Constitution of India.

The ULBs in Nagaland are divided into two distinct categories *viz*. Municipal Councils and Town Councils. Of the 39[3] statutory towns in the State, 25[4] have conducted elections and are governed by elected Councillors. These elected bodies are supported in their functioning by Chief Executive Officers or Executive Officers drawn from the State Civil Services. To support effective functioning, the Government has issued general advisories and guidelines recommending the formation of committees within the newly constituted ULBs. However, the remaining 14 towns, primarily located in the eastern region of Nagaland, had not participated in the electoral process. These ULBs are administered by Government-appointed administrative officers in the absence of elected representatives.

2.6.5 Staffing pattern of ULBs

Section 76(2) of the NM Act, 2023 states that the GoN may, in consultation with ULBs, make rules for regulating the method of recruitment, qualifications required for recruitment, the conditions of service, discipline and control of employees, their duties and functions and their classification into different categories on the basis of their duties and responsibilities and scale of pay for such posts. Till date, no recruitment rules have been framed for appointment of employees to ULBs. Consequently, the ULBs engage staffs on a contractual basis, based on local requirements and with the prior approval of the Government. Thus, the absence of any approved staffing pattern resulted in variation of the staff strength in ULBs.

2.6.6 Status of devolution of Funds, Functions and Functionaries to ULBs

The 74th Constitutional (Amendment) Act, 1992, empowers the ULBs to perform functions related to 18 subjects listed in the 12th Schedule. Both the Central Finance Commission (CFC) and the State Finance Commission (SFC) have emphasised the need for complete transfer of the 3Fs (funds, functions and functionaries) related to these 18 subjects, to the ULBs for meaningful devolution.

In Nagaland, however, the extent of devolution remains limited. Out of the 18 functions, ULBs were solely responsible for one function, partially responsible for six and had no role in the remaining 11 functions as detailed in **Table 2.6.2.**

[3] Municipal Councils: 03and Town Councils: 36
[4] Municipal Councils: 03and Town Councils: 36

Table 2.6.2: Status of devolution of 18 subjects to the ULBs

Sl. No.	Subjects	Status of devolution to ULBs
1	Urban planning including town planning.	Not devolved
2	Regulation of land-use and construction of buildings.	Not devolved
3	Planning for economic and social development.	Not devolved
4	Roads and bridges.	Not devolved
5	Water supply for domestic, industrial and commercial purposes.	Not devolved
6	Public health, sanitation conservancy and solid waste management.	Fully devolved
7	Fire services.	Not devolved
8	Urban forestry, protection of the environment and promotion of ecological aspects.	Not devolved
9	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.	Not devolved
10	Slum improvement and upgradation.	Partially assigned
11	Urban poverty alleviation.	Partially assigned
12	Provision of urban amenities and facilities such as parks, gardens, playgrounds.	Partially assigned
13	Promotion of cultural, educational and aesthetic aspects.	Not devolved
14	Burials and burial grounds; cremations, cremation grounds; and electric crematoriums.	Partially assigned
15	Cattle pounds; prevention of cruelty to animals.	Not devolved
16	Vital statistics include registration of births and deaths.	Not devolved
17	Public amenities including street lighting, parking lots, bus stops and public conveniences.	Partially assigned
18	Regulation of slaughter houses and tanneries.	Partially assigned

Source: Departmental records

The remaining 11 subjects are discharged by various Government Departments, *viz.* Public Health Engineering Department (Water supply); Fire & Emergency Services Department (Fire services); Public Works Department (Roads and Bridges), among others. Further, effective implementation of devolved functions also requires adequate financial support. In Nagaland, ULBs generate revenue through sanitation fees, trade licences, permit fees, and rent from municipal properties. However, ULBs are not empowered to levy property tax, a key revenue source, due to its exclusion from the NM Act, 2023. Consequently, ULBs in the State have limited financial autonomy and remain reliant on the Government to meet their expenditure obligations. Also, effective devolution of functionaries is essential for efficient service delivery by ULBs. However, as discussed in **Paragraph 2.6.5**, the absence of a structured manpower policy has impeded the ability of the ULBs in discharging their mandated functions under the 12th Schedule of the Constitution of India. Thus, the 3Fs are yet to be completely devolved to the ULBs, limiting their ability to function as effective self-governing institutions.

2.6.7 Audit arrangement

The GoN has not constituted the Directorate of Local Fund Audit and thus has not entrusted the Technical Guidance & Support to the C&AG. The audit of ULBs is conducted by the C&AG under Section 14 of the C&AG's Duties, Powers and Conditions of Service (DPC) Act, 1971.

2.6.8 Internal Audit

Internal Audit is an important instrument for examining and evaluating the level of compliance with rules and procedures, as envisaged in the relevant Acts and Financial/Accounting Rules, so as to provide independent assurance to management on the adequacy of the risk management and internal control framework in the ULBs. The system of Internal Audit has not been introduced in the ULBs in Nagaland as there is no provision for Internal Audit in the relevant Municipal Act.

2.6.9 Internal control mechanism in ULBs

The internal control mechanism is an integral function of an organisation, which helps it to discharge its activities effectively to achieve its objectives. It is intended to provide reasonable assurance of proper enforcement of Acts, Rules and Bye-laws minimising the risk of errors and irregularities. In Nagaland, however, no mechanism was instituted till date.

2.6.10 No Property Tax in the State

Section 124 of the NM Act, 2023, states that ULBs may levy various taxes and fees to raise its revenue. In term of the same Section, however, this power can be exercised by the ULBs only with the previous sanction of the GoN. The GoN, however, excluded the authority of ULBs to levy taxes on land and buildings from the NM Act, 2023 which is one of the main source of municipal revenue. This decision may make ULB's entirely dependent on external grants from the Central and State Governments, thereby undermining the essence of the third tier of Government to function as an independent entity.

2.6.11 Maintenance of Accounts

Section 109 of the NM Act, 2023 states that the GoN shall prepare and maintain Municipal Accounts Code containing all the financing matters related to ULBs. Further, Section 116 of the NM Act, 2023 states that ULBs must submit their audited accounts to the GoN. However, the Municipal Account Code has not been prepared. Presently, ULBs in the State follow the cash-based accounting system and prepare Receipt and Payment Statements.