

CHAPTER I

AN OVERVIEW

TO THE FINANCE AND ACCOUNTS

OF URBAN LOCAL BODIES

PART B – URBAN LOCAL BODIES

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AN OVERVIEW TO THE FINANCE AND ACCOUNTS OF URBAN LOCAL BODIES

1.1 Background

Seventy-fourth amendment to the Constitution of India provides for creation of three-tier Urban Local Bodies (ULBs), viz. Nagar Panchayats for transitional area, Municipal Councils for small urban areas and Municipal Corporations for larger urban area. Each ULB is divided into number of wards, which is determined and notified by the State Government having regard to population, dwelling pattern, geographical condition and economic consideration of the area. Elected members/councilors/corporators represent each ward.

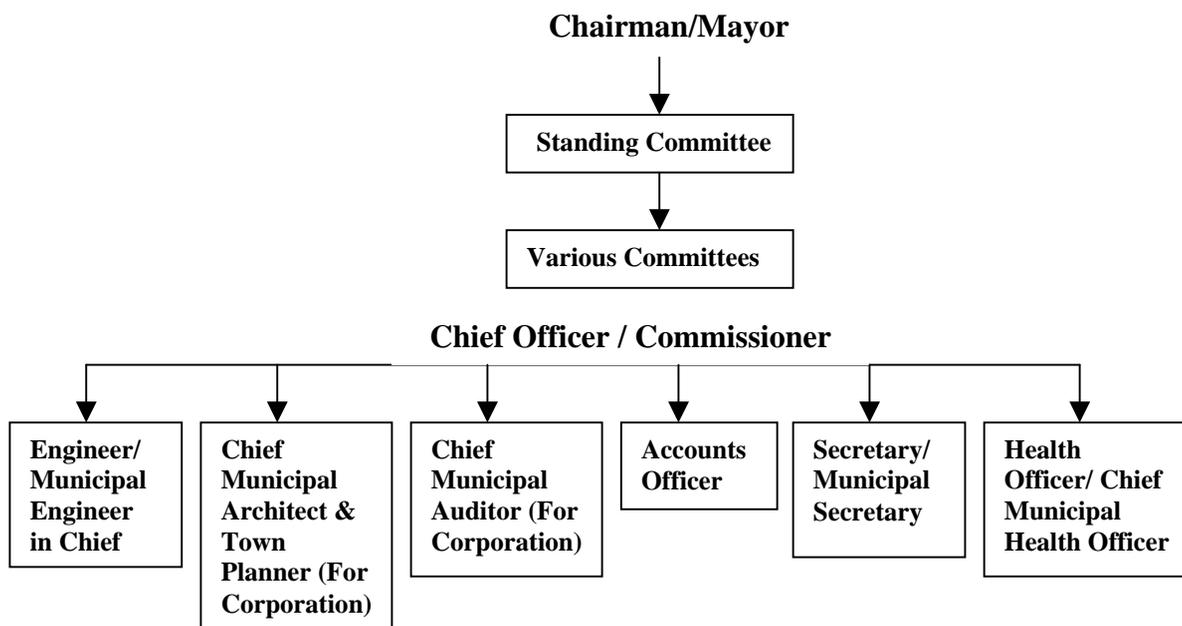
1.2 Organisational structure

There are seven Municipal Corporations, 130 Municipalities and 161 Nagar Panchayats in Gujarat. The Municipalities were constituted under the provisions of Gujarat Municipal Corporation Act, 1964 whereas the Municipal Corporations were constituted under Bombay Provisional Municipal Corporation Act, 1949.

Population of Gujarat is 5.07 crore (2001 census); of which 1.89 crore (37.36 per cent) resides in urban area

Urban Local Bodies (ULBs) consist of elected members from each ward; the Chairman/Mayor, elected by majority of Board of councilors/Corporators, is the executive head of the ULB and Chairman/Mayor-in-Council presides over the meeting. The executive powers of the ULB are exercised by the Council. The Chairman/Mayor enjoys such powers as is delegated by the Board.

Organisational structure of the ULBs is as shown in the following organogram –



Every ULB having a population of three lakh or more, groups the wards as directed by the Government. Standing Committee is constituted with members not more than 12 and not less than six with tenure of one year. The Councilors/Corporators of the respective wards are members of such Committee and elect the Chairman (not being Chairman/Mayor-in-Council) from among themselves. The Standing Committee discharges such functions, as the ULB requires to discharge.

Under the administrative control of the Board of Councilors/Corporators, the ULB creates its establishment headed by a Chief Officer/Commissioner. Other officers are appointed to discharge specific functions

1.3 Powers and functions

To function as an institution of self-Government and to carry out the responsibilities conferred upon them, the ULBs exercise their powers and functions in accordance with provisions of Article 243W (Schedule 12) of the Constitution of India. They include urban planning (including town planning), regulation of land use and construction of buildings, planning for economic and social development, roads and bridges, water supply (for domestic, industrial and commercial purposes), public health, sanitation, conservancy and solid waste management, fire services, urban forestry, protection of the environment and promotion of ecological aspects, safeguarding the interests of weaker sections of society (including the handicapped and mentally retarded), slum improvement and upgradation, urban poverty alleviation, provision of urban amenities and facilities (such as parks, gardens, playgrounds), promotion of cultural, educational and aesthetic aspects, burials and burial grounds; cremations, cremation grounds; and electric crematoriums, cattle ponds, prevention of cruelty to animals, vital statistics (including registration of births and deaths, public amenities (including street lighting, parking lots, bus stops and public conveniences), regulation of slaughter houses and tanneries, etc.

1.4 Funding of Urban Local Bodies

To achieve the above objectives, ULBs raises funds from taxes includes property tax, octroi, etc., Government financial assistance and loans from financial institutions; financial assistance received from Government during 2003-06 is as under –

(Rupees in crore)

Sl. No.	Description	Amount of grants received		
		2003-04	2004-05	2005-06
1	General Education	59.72	90.00	70.16
2	Housing	0.39	0.05	0.05
3	Urban Development	400.11	724.71	491.00
4	Social Security and Welfare	0.40	0.37	0.42
5	Roads & Buildings	0.69	0.65	0.60
6	Compensation to Urban Local Bodies	2.31	4.55	2.50
	Total	463.62	820.33	564.73

Sharp increase in increase in grants in 2004-05 was due to release of funds under Jawharlal Nehru Urban Renewal Mission.

1.5 Annual Accounts

Eleventh Finance Commission (EFC) recommended that the Comptroller & Auditor General of India (C&AG) shall exercise control and supervision over the maintenance of the accounts and audit of the ULBs.

The annual accounts of the ULBs were being prepared on ‘receipts and payments’ basis without exhibiting the position of assets and liabilities. Further the Accrual Based Accounting System as suggested by C&AG is yet to be introduced. Data base on the finances of ULBs was yet to be developed in the format suggested by C&AG in August 2003, as recommended by EFC.

The new formats for Budget and Accounts for PRIs prescribed by the C&AG have been partially accepted by the Government (September 2004); however, these were not implemented (March 2007).

1.6 Irregularities in budgetary control and maintenance of accounts

Gondal Municipality did not exhibit accumulated liability of Rs.2.99 crore towards electricity charges in the current liabilities nor any provision made; there was an unreconciled difference of Rs.38.17 lakh in the Balance Sheet as on 31 March 2006. As against the closing cash balance of Rs.11,41,434.02 as on 31 March 2006, the physical balance certified was Rs.13,49,533.03; thus, there was shortage of Rs.2,08,099.01 as per books. Nature of shortage and action taken in the matter were not furnished.

Rajkot Municipal Corporation had not carried out reconciliation of bank balances with that of cash book in respect of any of their accounts. In absence of reconciliation, correctness of remittances and withdrawals as books of the Municipal Corporation could not be ensured. During 2003-06, Rs.12.06 crore were classified as ‘advances’ in the books of the Municipal Corporation; scrutiny revealed that of the above amount of Rs.7.77 crore pertains to purchases of stores of Public Works and Water Works. As per Budget/Estimate Books for 2004-05, the outstanding loan was Rs.49.13 crore, whereas the opening balance of 2005-06 was shown at Rs.50.46 crore; hence there was an unexplained difference of Rs.1.33 crore.

Vadodara Municipal Corporation had dishonored cheques amounting to Rs.59.79 lakh as on 31 March 2006, but the entries in the accounts were not written back; thus there was overstatement of the amount in the Revenue Account.

In order to ensure that credit/debit of the cheques deposited/drawn are given by the bank, periodical reconciliation of balance as shown in cash book vis-à-vis bank pass book is required to be carried out. However, in Bank Account No.5001, no reconciliation was done leading to an unreconciled difference of Rs.97.89 lakh between cash-book and pass-book.

A test check of vouchers (2004-05) of Gondal and Surendranagar Municipalities revealed that budget allotment and progressive expenditure there against were not recorded in the vouchers; in absence of which budget allotment *vis-à-vis* expenditure were not susceptible for verification. In Gondal Municipality, the procedure prescribed¹ for maintenance of Measurement Books was not followed.

In Rajkot Municipal Corporation, scrutiny of stock registers revealed that receipt and issue of material was not authenticated by the responsible officer. The Municipal Corporation had also not maintained any asset register of immovable properties nor was any physical verification ever found to be conducted.

Rajkot Municipal Corporation provided for Rs.22.73 crore as development expenditure on capital items in the budget for 2004-05, which was subsequently reduced to Rs.18.92 crore and actual expenditure was Rs.10.30 crore only. Thus 55 *per cent* of the budget expenditure was not actually incurred due to inflated and unrealistic budget and poor utilisation of funds.

Similarly, scrutiny of the budget on Capital for 2004-05 of Vadodara Municipal Corporation revealed that against the projected expenditure of Rs.197.51 crore, actual expenditure was Rs.57.72 crore (29 *per cent*) only.

Dhrangadhra Municipality received financial assistance of Rs.2.43 crore² (March 2004) from Government under Centrally sponsored National Slum Development Programme; but Rs.1.77 crore remained with the Saving Bank Account due to lack of interest in implementation.

Position of demand and collection of property tax during 2005-06 in some of the test checked Municipalities/Municipal Corporations were as under –

(Rupees in crore)

Urban Local Body	Arrear demands	Current demand	Total demand	Collections	Pending
Godhra	1.13	0.83	1.96	0.86	1.10
Gondal	0.73	0.79	1.52	0.89	0.63
Rajkot	1.60	0.90	2.50	1.13	1.37
Surendranagar	0.92	0.90	1.82	1.15	0.67
Vadodara	31.96	51.06	83.02	32.15	50.87
Total	36.34	54.48	90.82	36.18	54.64

1.7 Outstanding advances

Out of the advances paid to various officers by Rajkot Municipal Corporation to meet election expenditure during 2000-02 and November 2005, accounts for Rs.93.75 lakh were not submitted by the respective officers.

¹ Such as date of recording measurement, recording voucher number in the Measurement Book, checking of measurement by officer other than the officer recorded it, scoring out the entries in Measurement after payment, etc.

² Rs.1.70 crore loan and Rs.72.64 lakh grant

1.8 Audit arrangements

Director of Local Fund Audit is the primary Auditor of the Municipalities whereas in Municipal Corporations, this work is assigned to the Chief Auditor of the respective bodies.

In addition, Comptroller and Auditor General of India audits ULBs in the State as per the provisions of Section 14 of the C&AG's (DPCS) Act, 1971 as also the enactment of TGS under Section 20(1) of the Act.

1.9 Audit coverage

Accounts of 2005-06 of two Municipal Corporations (Rajkot and Vadodara) and seven Municipalities (Bhuj, Dhrangadhra, Godhra, Gondal, Mehsana, Morbi and Surendranagar) were test checked during August to October 2006.

1.10 Arrears of DLFA/Chief Auditor audit

Pre-audit is conducted in Rajkot and Vadodara Municipal Corporations by the respective Chief Auditors. DLFA completed audit upto 2003-04 at Bhuj, Godhra and upto 2004-05 at Dhrangadhra, Gondal and Mehsana Municipalities.