

## CHAPTER- I

### AN OVERVIEW OF THE URBAN LOCAL BODIES

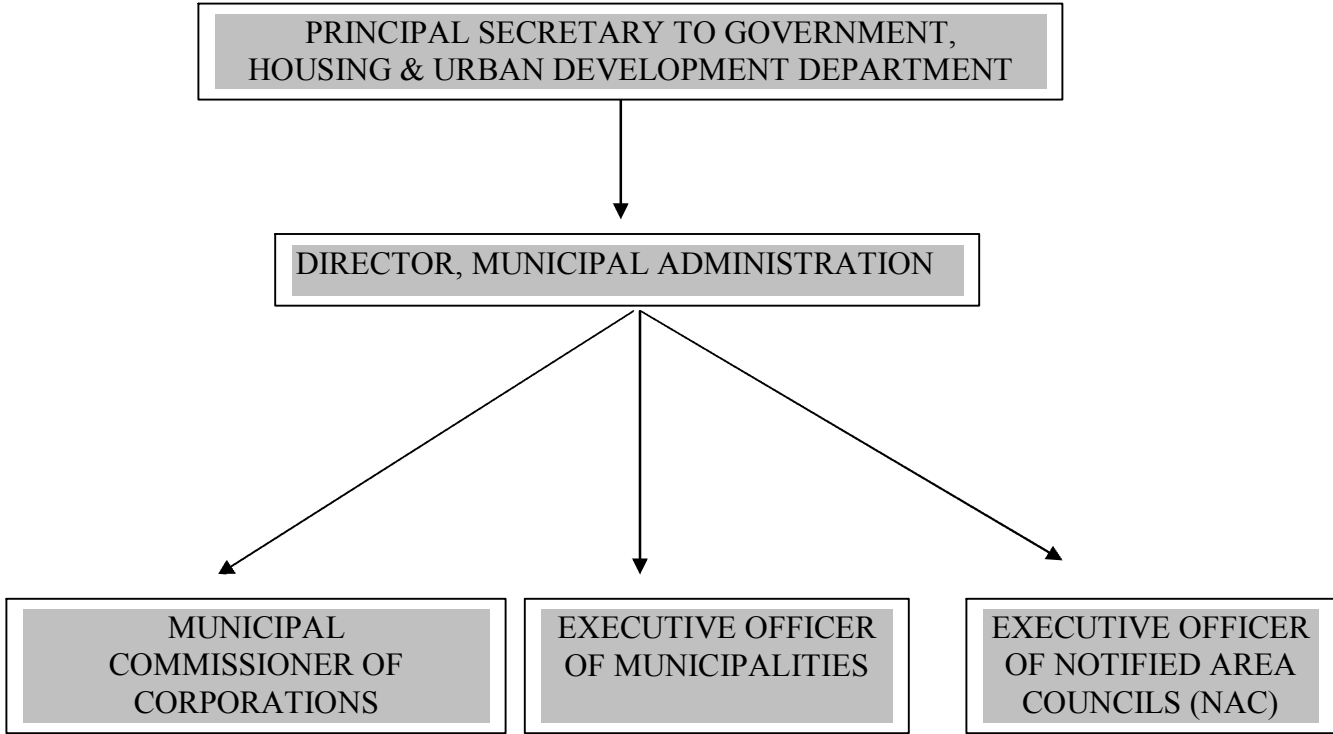
#### 1.1 Introduction

Consequent to the Seventy-fourth amendment of the Constitution, the State Government amended (2002) the Orissa Municipal Act, 1950 for transferring the powers and responsibilities to urban local bodies in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution. At present there are 103 ULBs (2 Municipal corporations, 35 Municipalities and 66 Notified Area Councils) in the state covering 13 *per cent* of its total population. The last election of the ULBs of the State was held in 2003.

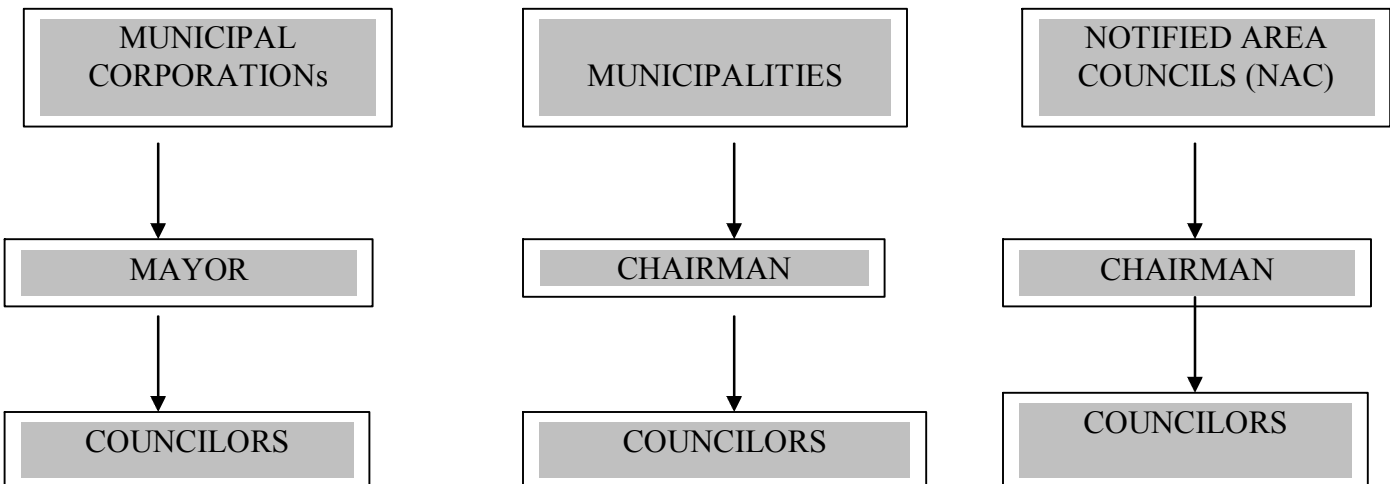
The Eleventh Finance Commission (EFC) recommended that the C&AG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the three levels of ULBs. Based on the recommendations of EFC, the State Government provided (May 2004) for control and supervision by C & AG over proper maintenance of accounts and audit of all levels of PRIs and ULBs under Technical Guidance and supervision (TGS) arrangements. The audit of 20 *per cent* of ULBs has also been entrusted to the C & AG under section 20(1) of the C&AG's (DPC) Act'1971.

## 1.2 Organizational Set up

The organizational set-up of the ULBs is as follows: -



The Elected Body set-up of the ULBs is as follows: -



The Municipal Corporation is headed by the Mayor and the Municipality/NAC is by the Chairman who is elected from among the elected ward representatives of the respective ULBs.

ULBs execute various functions entrusted to them through Standing Committees such as: Committee on Taxation, finance & accounts, PH water supply, Public works, Planning & development, Licenses & appeal, grievances and Social justice etc. While 10 standing committees function in Municipal Corporations, five of such committees function in Municipalities and NACs.

**1.3 Sources of Funds**

For execution of various developmental works, the ULBs mainly receive funds from the Government of India (GOI) and the State Government in the form of Grants. The GOI Grants include funds released under Centrally Sponsored Schemes and grants assigned under the recommendations of Eleventh Finance Commission (EFC) & Twelfth Finance Commission (TFC). The State Government also provided grants to the ULBs through the State Budget based on the recommendations of State Finance Commission (SFC). Besides, the source of funds include the revenue mobilised by the ULBs in form of taxes, rent, fees, issue of licenses, which are assessed and collected as per the provisions of the Municipal Act and Rules. The receipt and expenditure position of the ULBs for the last three years are as follows: -

**(Rupees in crore)**

<b>GRANTS</b>	<b>RECEIPTS</b>		
	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
Central grants	12.49	7.99	9.29
State grants	3.85	6.78	2.29
EFC Grants	11.99	-	-
TFC Grants	-	20.80	77.05
Own revenue	15.12	19.54	21.87
Loans	-	-	-
Others	247.96	239.16	246.32
<b>TOTAL</b>	<b>291.41</b>	<b>294.27</b>	<b>356.82</b>

	<b>EXPENDITURE</b>		
Capital	190.67	207.38	241.43
Revenue	100.74	86.89	115.39
<b>TOTAL</b>	<b>291.41</b>	<b>294.27</b>	<b>356.82</b>

#### **1.4 Flow of Funds**

The State Government on receipt of funds under the Centrally Sponsored Plan (CSP) Schemes releases the funds to the ULBs including the matching share through the budget of the State. The State Government also releases funds for Plan and Non-Plan schemes through the State budget. However the EFC/TFC grants are released directly through sanction orders by the State to the ULBs immediately after receipt of the same from the Government of India.

#### **1.5 Accounts**

The Chief Finance Officer is responsible for maintenance of accounts in Municipal Corporations whereas the Executive officers are responsible for maintenance of accounts in Municipalities and NACs. Similarly the responsibility of preparation of Annual Accounts are also vested on these officers.

The Government of Orissa has decided (September 2007) to introduce double entry system of accounting (Accrual Based Accounting) in the ULBs across the state. They have already prepared a Municipal Accounting Manual in line with the provisions of the National Municipal Accounting Manual framed by the technical team constituted by the Ministry of Urban Development. The draft Municipal Accounting Manual has been finalized in consultation with the C & AG of India. The accrual system is yet to be adopted in ULBs.

#### **1.6 Position of TFC grants**

The Government of Orissa released Rs.20.80 crore towards Twelfth Finance Commission grants received from Government of India to the ULBs of the State

during 2006-07 for Solid Waste Management (SWM) and creation of database. Out of the grants released only Rs.1.04 crore could be utilized as of March 2007.

#### **1.6.1 Non-utilisation of TFC grant-Rs.5.42 crore**

The BMC received Rs.5.42 crore (Rs.2.71crore each in 2005-06 & 2006-07) for SWM programme. As per the conditions stipulated in the sanction order, the Corporation was required to prepare a comprehensive programme of SWM including composting and waste energy programme. The grants can only be expended to support the cost of collection, segregation and transportation of Solid Waste as recommended by the TFC.

Scrutiny of records revealed that no comprehensive programme has been drawn by the corporation for SWM even after lapse of more than two years and TFC grants of Rs.5.42 crore remained unutilised.

No reply was furnished by the BMC for the audit query in this matter.

#### **1.6.2 Irregular parking of TFC grants resulted in loss of interest of Rs.26.72 lakh**

Scrutiny of records revealed that BMC received Rs.654.42 lakh under TFC grants during 2005-07 for execution of various projects. As per the guidelines of TFC issued by the GOI the grants received should be kept in an interest bearing joint bank account. But it was noticed in audit that the grants received were lodged in Personal Ledger accounts (P L) instead of Bank account without any interest for a period ranging from three to 14 months. So the BMC suffered a loss of interest of Rs.26.72 lakh (**Appendix-I**) due to keeping the money in PL accounts.

No reply was furnished by BMC for the audit objection.

#### **1.6.3 Delay in utilization of TFC grants of Rs.1.65 crore**

Puri Municipality received total funds of Rs.168.43 lakh during 2005-07 (2005-06-Rs.63.92 lakh, 2006-07-Rs.104.51 lakh) for utilization towards SWM

(Rs.123.04 lakh), Creation of Database (Rs.4.80 lakh), maintenance of roads and bridges (Rs.39.93 lakh) and others (Rs.0.66 lakh).

Though the terms of sanction orders stipulated for utilization of the grants within the respective financial years and submission of utilization certificates by the end of June of the subsequent year, it was seen that against the total receipt of grants amounting to Rs.168.43 lakh, only an expenditure of Rs.3.60 lakh was incurred towards creation of database for Double Entry Accounting System and Property Tax. Thus an amount of Rs.164.83lakh of TFC grants could not be utilized by the Municipality (October 2008) despite Government instruction (November 2007) for its utilization towards purchase of Street Sweeping Equipments/Machineries for Solid Waste Management Programme.

On being pointed out in audit no reply was furnished by the Municipality.

### **1.7 Internal Audit**

There is no system/arrangement for the regular internal audit of ULBs of the State. As and when circumstance warrant, special teams are constituted by the Housing and Urban Development Department for special audit of specific cases.

### **1.8 Audit**

The Examiner, Local Fund Audit (ELFA) is the statutory Auditor and conducts audit of all the ULBs through the District Audit officers, Audit Superintendents and Auditors as per the provisions of the LFA Act. As on 31.03.2008 audit of 263 accounts<sup>†</sup> by the Examiner in respect of 103 ULBs are in arrears. Audit of 20 *per cent* of ULBs is conducted by the C&AG of India under section 20 (1) of the C&AG's (DPC) Act, 1971. In addition some ULBs are also being audited under Section 14 (1) of CAG's (DPC) Act .

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<sup>†</sup> Audit of one year's accounts is treated as one account.

### **1.9 Result of audit**

During the year 2007-08, 19 ULBs (two Municipal Corporations, 11 Municipalities and six NACs (**Appendix-II**) were taken up for audit and the important audit observations are summarized in the succeeding Chapters.

### **1.10 Response to audit**

The response to audit objection by the ULBs is very poor. Inspection report paras are pending for settlement due to non-furnishing of reply of action taken. Even no action has been taken for discussion of paras in the ATIR.

**COMMENTS**  
**ON**  
**ACCOUNTS**



## 1.11 COMMENTS ON ACCOUNTS

### 1.11.1 Non-utilization of grants

The total funds received vis-a-vis the expenditure incurred by the ULBs audited during 2006-07 were as under: -

(Rs in crores)

Name of ULB	No of ULBs	Opening balance	Receipt	Total	Expenditure	Balance
Municipal Corporations	02	55.53	100.47	156.00	083.53	072.47
Municipalities	11	14.87	045.14	060.01	030.87	029.14
NACs	06	02.78	008.64	011.42	006.66	004.76
<b>Total</b>	<b>19</b>	<b>73.18</b>	<b>154.25</b>	<b>227.43</b>	<b>121.06</b>	<b>106.37</b>

The un-utilized balance of Rs.106.37 crore constituted 46.77 *per cent* of the total funds available with the ULBs for the year 2006-07.

Poor utilization of funds indicated lack of concerted efforts on the part of Municipal authorities to plan and undertake important schemes/projects for providing better civic services to the urban population and other functions entrusted to them.

### 1.11.2 Non preparation of Annual Accounts

As per Rule 145 of the Orissa Municipal Rules 1953, after the closure of the financial year and not later than the 15<sup>th</sup> April following, the annual accounts of ULBs shall be prepared showing totals of receipts and expenditure under different heads during the year. It was noticed in audit that none of the test checked Municipalities prepared the annual accounts as envisaged in the Rules.

Due to non-maintenance of accounts, the actual position of income and expenditure could not be verified and the true and fair view of the accounts could not be confirmed. Though Orissa Municipal Accounting Manual on accrual systems of accounting has been prepared for ULBs, the accounts are yet to be prepared in the formats.

### **1.11.3 Certification of Accounts**

The State Government has not made any provisions in the State Acts/Rules for certification of accounts for the ULBs by Statutory Auditors.

### **1.11.4 Non maintenance of Data Base on Finances and accounts in formats prescribed by C&AG**

On recommendations of the EFC, database on finances were required to be maintained at all ULBs for securing accountability and transparency in maintenance of accounts. Accordingly, the Data Base Formats on Finances prescribed by the C & AG were forwarded to the State Government in September 2006 but the same have not yet been adopted by the Government. The State Government prepared Orissa Municipal Accounting Manual in the line of National Municipal Accounting Manual to which CAG's approval was conveyed in May 2008 but the provisions are yet to be implemented. The Government is considering Accounting Manual and Municipal law on the basis of "Model Municipal Law." Apart from this no centralized accounting and financial information system is available with the Government for which the financial and physical progress of the ULBs could not be ascertained.