

CHAPTER - I

AN OVERVIEW OF THE URBAN LOCAL BODIES

&

Comments on Accounts

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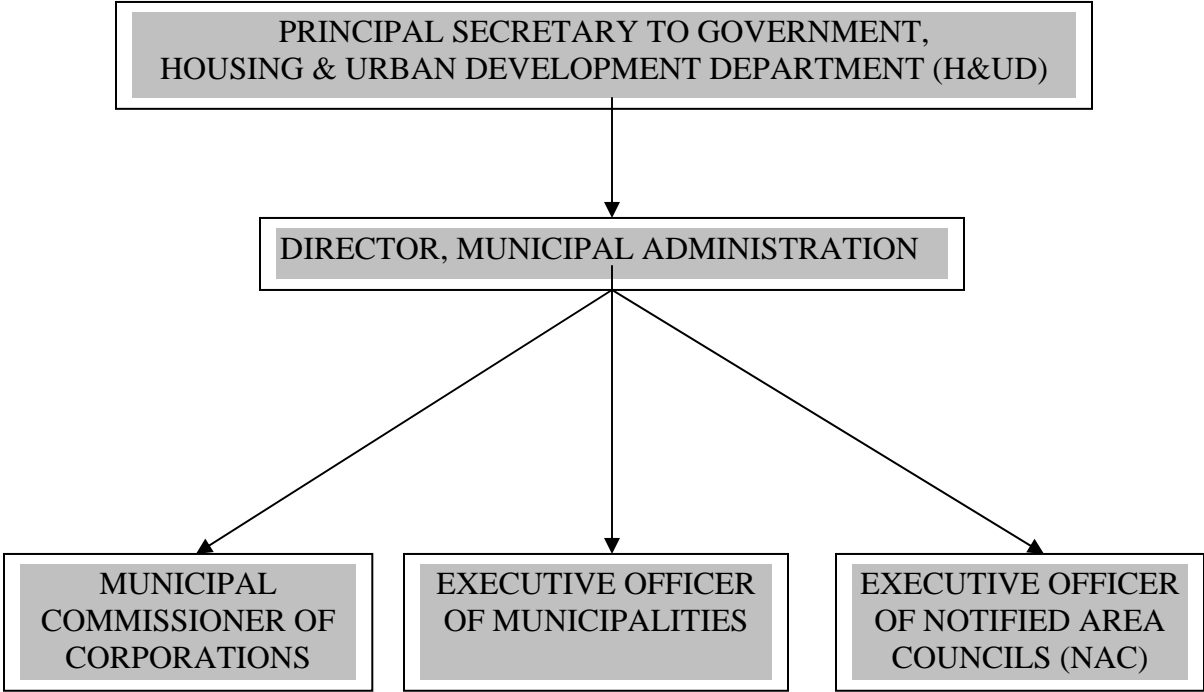
1.1 Introduction

Consequent to the 74th amendment of the Constitution, the State Government amended (2002) the Orissa Municipal Act, 1950 for transferring the powers and responsibilities to ULBs 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 the State has 103 ULBs (2 Municipal corporations, 35 Municipalities and 66 Notified Area Councils) covering 13 *per cent* of its total population. The State Government has also enacted the Orissa Municipal Corporation Act in the year 2003 (Orissa Act 11 of 2003).

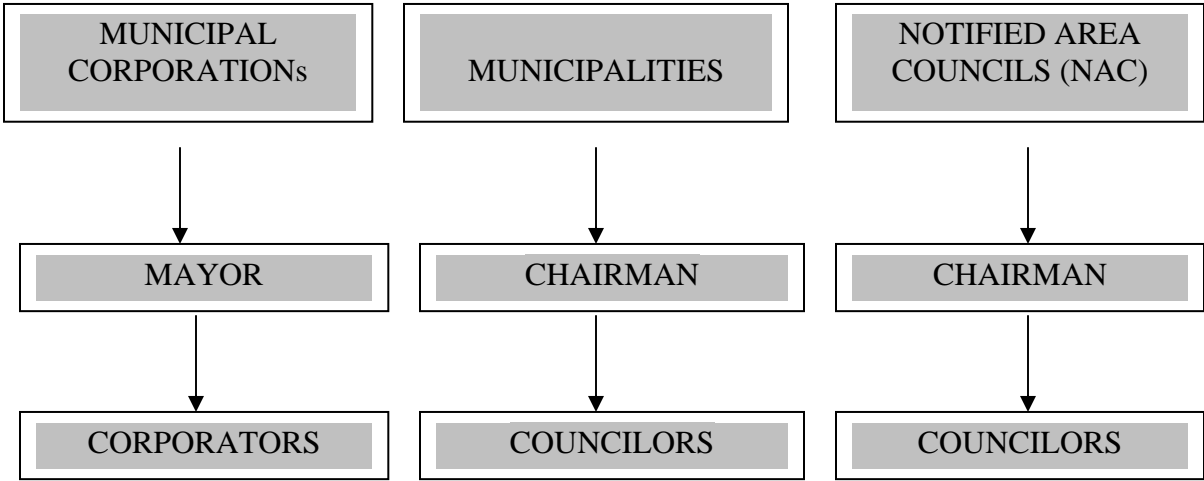
The Eleventh Finance Commission (EFC) recommended that the Comptroller & Auditor General of India (CAG) should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit of all ULBs. Based on the recommendations of EFC, the State Government entrusted (May 2004) the audit of 20 *per cent* of ULBs to the CAG under section 20(1) of the CAG's (DPC) Act, 1971. Some of the ULBs are also being audited under Section 14 of the CAG'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 (MC) is headed by the Mayor and Municipality/NAC by the Chairman who is elected from among the Corporators/Councilors 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. While 10 standing committees function in Municipal Corporations, five 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 Finance Commissions (FC). The State Government grants include grants under various State schemes like MLALAD, WODC, Octroi compensation grants etc. devolved upon the ULBs through the State Budget based on the recommendations of State Finance Commission (SFC). Besides, the sources of funds include the mobilised revenue of the ULBs in the form of taxes, rent, license fees, which are assessed and collected as per the provisions of the Corporation/ Municipal Act and Rules made there under. The receipt and expenditure position of the ULBs for the last three years are as follows:

RECEIPTS		<i>(Rupees in crore)</i>		
GRANTS	2005-06	2006-07	2007-08	
Central grants	7.99	9.29	167.73	
State grants	6.78	2.29	41.36	
EFC Grants	-	-	-	
TFC Grants	20.80	77.05	42.05	
Own revenue	19.54	21.87	24.58	
Loans	-	-	-	
Others	239.16	246.32	273.75	
TOTAL	294.27	356.82	549.47	
EXPENDITURE				
Capital	207.38	241.43	289.37	
Revenue	86.89	115.39	260.10	
TOTAL	294.27	356.82	549.47	

Source: Information furnished by H & U D Department.

Though the entire receipts during a year is shown as expenditure in the State account, some amounts remained unutilized at the ULBs levels as analysed in succeeding para

(Para No1.11.1). This is due to the fact that after release of grants to the ULBs, the same is shown as expenditure in the State account even though the amounts remain unutilized with the ULB parked in Civil Deposits/Personal ledger Accounts.

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 along with the matching share through the State budget. The State Government also releases funds for Plan and Non-Plan schemes through the State budget. except the EFC/TFC grants which are released directly to the ULBs through the State Government sanction orders immediately after receipt of the same from the Government of India.

1.5 Accounts

The Ministry of Urban Development in consultation with the CAG developed the National Municipal Accounting Manual (NMAM). The Government of Orissa decided (Sept 2007) to introduce double entry system of accounting (Accrual Based Accounting) in the ULBs across the state. Thus, a Municipal Accounting Manual was drafted in line with the provisions of the NMAM, and the draft Orissa Municipal Accounting Manual (OMAM) was finalized with formal approval of the CAG of India. However, the accrual system of accounting was not adopted in ULBs as of September 2009.

1.6 Internal Audit

There is no system/arrangement for regular internal audit of ULBs of the State. As and when circumstances warranted, the Housing and Urban Development Department (H & UD) constituted special audit teams.

1.7 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 of March 2009, audit of 248 accounts in respect of 42 ULBs were in arrears.

Based on the recommendations of EFC, the CAG provided technical control and supervision to the State Government (May 2004) over proper maintenance of accounts and audit of all levels of PRIs and ULBs under the CAG's Technical Guidance and Supervision (TGS) parameters. It also stipulated that the State AG has to approve the Annual Audit Plan of ELFA and share mutual information and training of ELFA staff. The audit of 20 *per cent* of ULBs was also entrusted to the CAG under section 20(1) of the CAG's (DPC) Act, 1971. Some of the Urban Local Bodies are audited under Section 14 of CAG's (DPC) Act, 1971 by virtue of devolution of substantial grants to these Local Bodies.

1.8 Response to audit

The response to audit objections by the ULBs was very poor. During audit of two MCs (2007-08), even first reply was not furnished to the audit queries. As of March 2008, 696 paras raised through 37 Inspection Reports were pending for settlement due to non-furnishing of reply and no action had been taken for clearance of the pending paras.

1.9 Annual Technical Inspection Report

The Office of the Senior Deputy Accountant General (Local Bodies Audit and Accounts) under the administrative control of Principal Accountant General had issued two Annual Technical Inspection Reports on Local Bodies pertaining to the years 2005-06 and 2006-07 covering major audit findings in respect of transaction of ULBs to the State Government. But the State Government had not taken any further action for the discussion of the Audit Paras.

1.10 Result of audit

During the year 2008-09, 30 ULBs (2 MCs, 15 Municipalities and 13 NACs) were audited and the important audit observations are summarized in the succeeding chapters.

1.11 COMMENTS ON ACCOUNTS

1.11.1 Non-utilization of grants

The total funds received vis-a-vis the expenditure incurred in the test checked ULBs for the year 2007-08 were as under: -

(Rupees in crores)

Name of ULB	No of ULBs	Opening balance	Receipt	Total	Expenditure	Balance
Municipal Corporations	02	39.46	187.02	226.48	162.95	63.53
Municipalities	08	11.44	29.30	40.74	21.43	19.31
NACs	05	6.04	9.91	15.95	7.29	8.66
Total	15	56.94	226.23	283.17	191.67	91.50

These 15 test checked ULBs had not utilized Rs 91.50 crore representing 32.31 percent of total funds under their disposal. No specific reasons were attributed for the poor utilization of funds.

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 15th April of the following year, 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 OMAM provides for implementation of accrual systems of accounting for ULBs, the accrual system was yet to be implemented.

Though ELFA is the statutory auditor, the annual accounts of the ULBs are not certified by him for want of enabling provision in Local Fund Act.

1.11.3 Non maintenance of Data Base on Finances and accounts in formats prescribed by CAG

On recommendations of the EFC, all ULBs were required to maintain database on finances for securing accountability and transparency in maintenance of accounts. Accordingly, the database formats on finances prescribed by CAG were forwarded to the State Government in September 2006, but the same had not yet been adopted by the Government.

Accrual based accounting system for ULBs prescribed by the CAG and accepted by the State Government was not adopted by the ULBs as of March,2009. As a result, the ULBs were maintaining the accounts in old formats. The State Government (H & UD Department) instructed the ULBs (March 2006) to deposit entire funds allocated for creation of database and maintenance of accounts with OCAC entrusted with the work of computerization and maintenance of accounts in the ULBs. The State Government released Rs.4.16 crore to ULBs for creation of database and maintenance of accounts during 2005-06 to 2008-09. In 15 test checked ULBs, out of Rs.1.35 crore received for creation of database and maintenance of accounts, Rs.69 lakh was paid to OCAC and the balance Rs.66 lakh remained unspent with the concerned ULBs (March 2009). It was, however, seen that though OCAC supplied computers, accessories and necessary software, database was not created in any of the test checked ULBs (March 2009). The test checked ULBs assured (May-June 2009) to take step for creation of database at the earliest.

1.11.4 Recommendation

- Accounts need to be maintained as per Orissa Municipal Accounting Manual.
- Funds should be distributed promptly and utilized timely.
- Database on finances are to be maintained at all levels of ULBs.
- Internal Audit need to be introduced on regular basis to ensure Management Information System.
- Steps are to be taken to contribute a separate committee for discussion and settlement of Audit objections featured in ATIR.