

ANNUAL TECHNICAL INSPECTION REPORT ON URBAN LOCAL BODIES

GOVERNMENT OF ORISSA

In terms of the Technical Guidance and Supervision (TGS) by the Comptroller and Auditor General of India

FOR THE YEAR ENDED 31 MARCH 2007

Office of the Principal Accountant General (Civil Audit)
ORISSA, BHUBANESWAR



REPORT (PAC)

ANNUAL TECHNICAL INSPECTION

REPORT

ON

URBAN LOCAL BODIES

GOVERNMENT OF ORISSA

In terms of the Technical Guidance and Supervision (TGS) by the Comptroller and Auditor General of India

FOR THE YEAR ENDED 31 MARCH 2007

Office of the Principal Accountant General (Civil Audit)
ORISSA, BHUBANESWAR

TABLE OF CONTENTS

	Reference	
	Para	Page
PREFACE		v
OVERVIEW		vii
CHAPTER I **AN OVERVIEW OF URBAN LOCAL BODIES**		
Introduction	1.1	1
Organizational set-up	1.2	2
Sources of funds	1.3	3
Flow of funds	1.4	4
Accounts	1.5	4
Position of TFC grants	1.6	4
Non-utilisation of TFC grants Rs.5.42 crore	1.6.1	5
Irregular parking of TFC grants resulted loss of interest	1.6.2	5
Delay in utilization of TFC grants	1.6.3	5
Internal Audit	1.7	6
Audit	1.8	6
Result of audit	1.9	7
Response to Audit	1.10	7
Comments on accounts	1.11	9
Non-utilisation of grants	1.11.1	9
Non-preparation of Annual Accounts	1.11.2	9
Certification of Accounts	1.11.3	10
Non-maintenance of Database on finances	1.11.4	10

CHAPTER II

Result of Audit	2.0	12
Blocking of funds due to delay in acquisition of land.	2.1	12
Unwarranted payment of salaries due to delay in transfer of staff	2.2	12
Undue liability due to delay in implementation of EPF	2.3	13
Loss due to non recovery of EGB cost	2.4	14
Idle investment on purchase of land	2.5	15
Excess recovery on purchase of land by Government	2.6	15
Avoidable expenditure due to retendering	2.7	16
Infructuous expenditure on construction of Town Hall	2.8	16
Irregular expenditure under NSDP scheme	2.9	17
Irregular utilization of EFC grants	2.10	18
Unfruitful expenditure on incomplete works	2.11	19
Advances lying unadjusted	2.12	19
Non-remittance of royalty	2.13	20
Failure of Internal Control Mechanism	2.14	20
CHAPTER III		
DEVOLUTION OF FUNDS, FUNCTIONS, FUNCTIONARIES TO ULBs		
Introduction	3.1	22
Audit coverage	3.2	22
Constitution of ULBs	3.3	23
Audit findings	3.4	23
Amendment of the Act	3.4.1	23
State Finance Commission	3.4.2	24
Functioning of District Planning Committees	3.5	25
Devolution of functions	3.6	26
Devolution of functionaries	3.7	27
Under utilization of the staff of octroi establishment	3.7.1	27
Overlapping of functions done by line departments	3.7.2	28

Devolution of funds	3.8	28
Sources of Municipal Revenue	3.8.1	29
Non-imposition of property tax by the Corporations	3.8.2	30
Non-revision of annual value of holdings by the ULBs	3.8.3	30
Low rate of collection of taxes	3.8.4	31
Weak tax base and insufficient transfer of funds	3.8.5	31
Maintenance of Uneconomical and oversized establishments	3.8.6	32
Poor revenue expenditure link	3.8.7	33
Monitoring, Evaluation and Internal Control	3.9	33
Conclusion and recommendations	3.10	34

LIST OF APPENDICES

Sl.No.	Particulars	Reference	
		Para	Page
I	Statement on loss of interest due to delay in transfer of TFC fund.	1.6.2	38
II	List of ULBs audited during 2007-08	1.9	39
III	Statement on incomplete works	2.11	40
IV	Statement on outstanding advance	2.12	41
V	Statement on non-remittance of royalty	2.13	42
VI	Statement on transfer of functions to ULBs as per activity mapping	3.6	43
VII	Statement on revenue generated and expenditure incurred	3.8.1	44
VIII	Statement on poor rate of collection of revenue	3.8.4	46

PREFACE

This Report has been prepared for submission to the Government of Orissa in accordance with the terms and conditions of the Technical Guidance and Supervision (TGS) over the maintenance of accounts and audit of Urban Local Bodies (ULBs) by the Comptroller & Auditor General (C&AG) of India.

Based on the recommendations of the Eleventh Finance Commission, the State Government entrusted (May 2004) the audit of ULBs to the C&AG of India under section 20(1) of the C&AG's (Duties, Power and Conditions of Services) Act 1971 and TGS over the work of the Examiner, Local Fund Audit (LFA).

This is the second Report of the office of the Senior Deputy Accountant General, Local Bodies Audit and Accounts under the administrative control of the Principal Accountant General (Civil Audit) Orissa, Bhubaneswar which started functioning from October 2006.

This Report contains three chapters: Chapter I contains a brief introduction of the functioning of various levels of the ULBs in the State with the observations and comments on accounts, Chapter II deals with the observations on transaction audit arising out of inspection of ULB units and Chapter III contains on the Devolution of funds, functions and functionaries to the ULBs.

The cases mentioned in the Report are those, which came to notice during the course of test audit of accounts conducted in 2007-08 in respect of transaction pertaining to the year 2006-07.

OVERVIEW

OVERVIEW

This report includes three chapters. Chapter I deals with an overview of the Urban Local Bodies (ULBs) containing the organizational set-up, accounting and audit arrangements, sources and flow of funds to ULBs and audit coverage including comments on accounts maintained by the ULBs. Chapter II comprises 15 paragraphs on the financial transactions of the ULBs. Chapter III deals with the Devolution of funds, functions and functionaries to the ULBs followed by conclusions and recommendations. A summary of audit findings is given as under:

Non-utilisation of TFC grants of Rs.5.42 crore by BMC.

(Paragraph 1.6.1)

Delay in transfer of TFC grants to interest bearing bank account resulted in loss of interest Rs.26.72 lakh.

(Paragraph 1.6.2)

Delay in utilization of TFC grants of Rs.1.65 crore by Puri Municipality.

(Paragraph 1.6.3)

Blocking of funds of Rs.1.49 crore due to non-acquisition of land for drainage system in CMC

(Paragraph 2.1)

Loss due to non-recovery of cost of Empty Gunny Bags of cement from contractors-Rs.86.30 lakh.

(Paragraph 2.4)

Excess recovery of Rs.33 lakh by Government on purchase of land.

(Paragraph 2.6)

Avoidable expenditure of Rs.23.23 lakh due to retendering by BMC.

(Paragraph 2.7)

Infructuous expenditure of Rs.31.62 lakh on construction of Town Hall due to delay in transfer of land to the contractor. **(Paragraph 2.8)**

Irregular expenditure of Rs.35 lakh under NSDP scheme in violation of guidelines.

(Paragraph 2.9)

Irregular utilisaion of EFC grants of Rs.62.64 lakh.

(Paragraph 2.10)

Unfruitful expenditure on incomplete works Rs.1.49 crore.

(Paragraph 2.11)

Advances of Rs.10.31 crore lying unadjusted.

(Paragraph 2.12)

Overlapping of functions done by line departments **(Paragraph 3.7.2)**

Non-revision of annual value of holdings by the ULBs **(Paragraph 3.8.3)**

Weak tax base and insufficient transfer of funds **(Paragraph 3.8.5)**

CHAPTER -I

AN OVERVIEW OF THE URBAN LOCAL BODIES

CHAPTER-I

AN OVERVIEW OF THE URBAN LOCAL BODIES

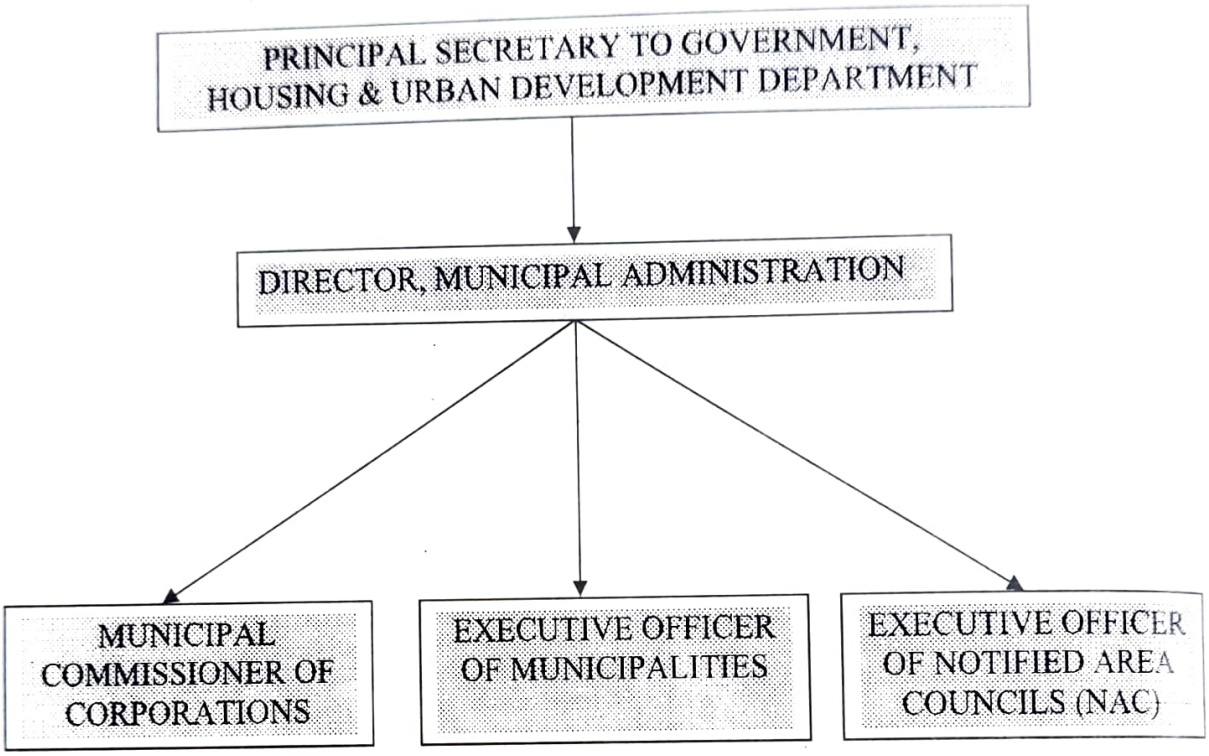
1.1 Introduction

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. Section 12 of the Orissa Municipal Act, 1950 envisages that a general election for re-constituting a Municipality will be conducted and completed before the expiry of period of five years from the date appointed for its first meeting. The last election of the ULBs of the State was held in 2003.

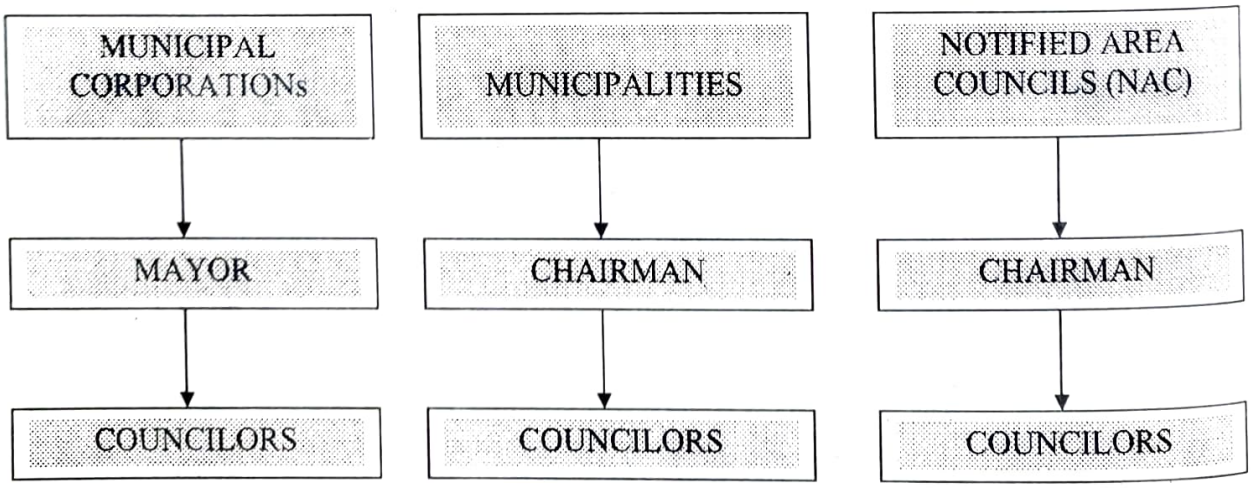
The Eleventh Finance Commission (EFC) recommended that the C&AG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the three levels of ULBs. Based on the recommendations of EFC, the State Government provided (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 the 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)

GRANTS	**RECEIPTS**		
	2004-05	**2005-06**	**2006-07**
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
TOTAL	**291.41**	**294.27**	**356.82**

		EXPENDITURE	
Capital	190.67	207.38	241.43
Revenue	100.74	86.89	115.39
TOTAL	**291.41**	**294.27**	**356.82**

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 made towards creation of database for Double Entry Accounting System and Property Tax. Thus an amount of Rs.1.65 crore the balance 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 were be constituted by the Housing and Urban Development Department for special audit of specific cases.

1.8 Audit

The Examiner, Local Fund Audit (LFA) the statutory Auditor, 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[†] 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 by virtue of receipt of grants in excess of the limit prescribed in the DPC Act.

[†] 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 of 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
Total	**19**	**73.18**	**154.25**	**227.43**	**121.06**	**106.37**

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 15th 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 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 supplied to 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 want of which the financial and physical progress of the ULBs could not be ascertained.

CHAPTER-II

RESULTS OF AUDIT

CHAPTER-II

2. RESULTS OF AUDIT

The summary of the findings on audit of Cuttack Municipal Corporation (CMC), Bhubaneswar Municipal Corporation (BMC), eleven Municipalities and six Notified Area Councils (NACs) are as under: -

2.1 Blocking up of funds of Rs.1.49 crore due to delay in acquisition of land

In order to improve the drainage system of Mahanadi Vihar area of Cuttack town, the CMC decided to acquire 1.085 acres of land based on a survey conducted and an amount of Rs.1.49 crore was deposited by CMC with the Land Acquisition Officer (LAO) of Cuttack Collectorate (June 2006). The amount comprised of value of land Rs.1.45 crore and establishment charges of Rs.3.44 lakh.

Scrutiny of records revealed that there was an allegation by a landholder (April 2007) regarding wrong survey and demarcation of land, which affected his building and LAO proposed (May 2007) to conduct a joint enquiry/redemarcation to assess the existence of the structure prior to the date of notification under section 4(1) of Land Acquisition Act. But the CMC conducted the joint enquiry (March 2008) along with the field staff of LAO on the basis of which CMC decided to take over possession of the balance portion of the land in April 2008. The same has not been done till October 2008.

Delay in acquisition of the land due to faulty survey initially conducted by the CMC resulted in blocking of funds of Rs.1.49 crore .

To an audit query no reply was furnished by the CMC.

2.2 Unwarranted payment of salaries due to delay in transfer of staff Rs.90.61 lakh

The Housing and Urban Development Department of Government of Orissa decided (February 2004) to transfer the services of the employees of Secondary Schools of ULBs to the administrative control of School and Mass Education

Department since the teaching and non-teaching staffs were declared as Government employees from February 2004.

Scrutiny of records of CMC revealed that the transfer of services of the staff of secondary schools was delayed due to administrative reasons for about two years and salary to the tune of Rs.90.61 lakh for the period from 03/2004 to 03/2005 was paid out of CMC's own funds. CMC could transfer the services of the staff of secondary schools to the concerned Inspectors of Schools only in August 2006. However payment of salary to the staff from 04/2005 to 11/2005 was made out of funds provided by Government. Thus delay on the part of the Municipal authorities in transferring the staff in accordance with the Government decision resulted in unnecessary payment of salary to the staff for the period from 03/2004 to 03/2005 from the Municipal funds which would otherwise be available for undertaking developmental activities of the Corporation.

To an audit query the CMC did not furnish any reply.

2.3 Undue liability of Rs. 30.14 lakh due to delay in implementation of EPF

As per the provisions of the Employees Provident Fund and Miscellaneous provision Act-1952, Contribution @12 *per cent* of the basic wages including Dearness Allowance was to be deducted from the wages of the sweeping and cleaning staff and the employer was also to contribute its share of 13.61 *per cent* and the amount was to be credited to the EPF account every month. CMC became liable for payment of Employees Provident Fund (EPF) in respect of Nominal Muster Roll (NMR) employees with effect from April 2001.

Scrutiny of records revealed that the CMC decided (April 2005) to implement the Act from January 2006 in respect of NMR employees engaged in Cleaning and Sweeping activities and effected the recovery of EPF contribution only from January 2006 and made the payments along with employer share but did not pay the amounts relating to previous period due to non recovery from the employees. Due to non-payment of the dues, the EPF Commissioner seized the Bank accounts of CMC maintained with Urban Co-operative Bank, Cuttack

(January 2007) and raised a demand of Rs.2.74 crore for the period from April 2001 to July 2006. The CMC was able to get back its Bank accounts released on payment of Rs.75.36 lakh (Rs.41.08 lakh as Employers share, Rs.26.06 as Employees share and Rs.8.22 lakh as interest for delayed payment) for the period from March 2005 to March 2006 and provided a Bank Guarantee worth Rs.50.00 lakh. Out of the Employees share of Rs.26.06 lakh, the CMC could recover Rs.04.14 lakh and the balance of Rs.21.92 lakh has not yet been recovered from its employees which resulted in payment of Rs.30.14 lakh from CMCs resources towards employees share and interest of Rs.8.22 lakh for delay in payment. Of the remaining, Rs 14.35 lakh were paid between April and July 2006 leaving liability of Rs 89.71 lakh unsettled.

No reply was furnished by the CMC.

2.4 Loss due to non-recovery of EGB cost- Rs.86.30 lakh

As per the conditions of contract for execution of Public works, either the contractor had to return the Empty Gunny Bag (EGB) of cement or the cost of EGB @ Rs.3/- per bag be recovered from the work bills.

Scrutiny of records of BMC revealed that during 2003-07, 135634 metres of Cement Concrete (CC) roads with the width of 3.5 metres measuring to 474719 square metres was constructed and payment was made through work bills, but the cost of EGB was not recovered from the work bills. As per the analysis of rates 6.06 bags of cement is required for execution of one square meters of CC road. Basing on this the total consumption/utilization of cement in constructing 474719 square metres of CC road comes to 28,76,797 bags. Due to no-recovery of the cost of 28,76,797 EGBs, the BMC sustained a loss of Rs.86.30 lakh worked out at the rate of Rs 3 per bag.

On this being pointed out it was replied that the cost of cement bags is not being recovered since last many years. The reply was not acceptable as the cost of EGB was always included in the estimates of the works.

2.5 Idle investment on purchase of land - Rs.73.80 lakh

The Government of Orissa allotted to BMC an area of 0.626 acre at a premium of Rs.46.95 lakh at Goutam Nagar for construction of Lingaraj Market Complex and another 0.358 acre at premium of Rs.26.85 lakh for construction of Kalyan Mandap at Ganga Nagar. The BMC took over possession of the said land in August 2004 after payment of the premium of Rs.73.80 lakh.

On test check of records, it was noticed that BMC has not taken any action for construction of the said complexes till February 2008. A consultant was appointed for preparation of project reports in March 2008. The construction of the projects were abnormally delayed after purchase of land and Rs.73.80 lakh paid as consideration money is idling without any return for the last 3 years.

To an audit query the BMC stated that action would be taken to construct the projects early.

2.6 Excess recovery of Rs.33.00 lakh by Government on purchase of land

The BMC has purchased 16.504 acres of land from Government of Orissa at a premium of Rs.7.95 crore in seven different locations within the Municipal Corporation area during 1996 to 2002 for construction of Market complexes and Kalyan mandaps. Out of the total premium payable, BMC paid Rs.3.28 crore to the Government leaving a balance amount of Rs.4.67 crore (August 2004).

Scrutiny of records revealed that due to non-payment of balance due to Government towards land premium by the BMC, Government deducted Rs.5.00 crore out of Octrai compensation grants due to BMC (Rs.3.00 crore in August 2004 and Rs.2.00 crore in October 2004), which resulted in excess recovery of Rs.33.00 lakh by the Government. Though there was no specific reason for excess recovery BMC has not taken any initiative/steps to get back the money recovered in excess of its dues to the Government.

To an audit query no reply was furnished by the BMC.

2.7 Avoidable expenditure of Rs.23.23 lakh due to retendering

BMC invited tender for transportation of garbages in ward no 25 (November 2004) in response to which only one tender from M/s Trishakti Agency was received. The rate quoted by the firm was Rs.45,484/-per month and Rs.56412/- per month for transportation of garbages upto 10 Kms and 25 Kms respectively. Since only one tender had been received, BMC decided (January 2005) to retender the work and two agencies submitted their tenders. Of the two, one tender was rejected (January 2005) due to non-furnishing of EPF registration documents and the second one was M/s Trishakti Agency who submitted their tender against the first tender call notice. However in the second tender the agency has quoted Rs.1,10,000/- and Rs.1,41,850/-per month for transportation of garbages for distances of 10 Kms and 25 Kms respectively which was Rs.64516/- and Rs.85438/- more than the rates offered in the first tender. BMC has accepted the tender without any negotiations and incurred an extra expenditure of Rs.23.23 lakh for transportation of garbages upto a distance of 10 Kms during 2005-08.

The decision for not inviting fresh tender by giving wide publicity in absence of sufficient numbers of tenders led to an avoidable expenditure of Rs.23.23 lakh.

To an audit query no reply was furnished by the BMC.

2.8 In fructuous expenditure of Rs.31.62 lakh on construction of Town Hall

Kendrapara Municipal Council resolved during 2003-04 to take up the construction of a Town Hall for conducting various social functions of the area. Funds for the construction was appropriated from Special Problem Fund (Rs.20 lakh), MPLAD (Rs.5.00 lakh) and own resources (Rs.5.00 lakh). Accordingly estimate for Rs.30.00 lakh was prepared and approved by the Municipality. Tender was invited for the work against which only one tender for Rs.35.26 lakh at 17.53 *per cent* above estimated cost was received from a contractor and the same was accepted (January 2004). The contractor was asked to complete the work by

November 2004, but the site could not be handed over to the contractor as there was delay in site clearance. The site for execution of work was cleared up by September 2004 and the Municipality intimated the contractor to take the layout on 29.09.2004. So the contractor was granted extension of time for completion of the work upto June 2005 without cost escalation. Midway of construction he applied for hike in rate of Steel and other materials and the Municipality prepared the revised estimate to Rs.43.05 lakh for its completion but the Municipality did not proceed for further execution of work due to paucity of funds. The Municipality closed the contract after execution of work upto roof level for which payment of Rs.31.62 lakh (March 2006) was made to the contractor. Thereafter the work remained abandoned for want of funds which resulted in unfruitful expenditure of Rs.31.62 lakh on construction of Town Hall.

On this being pointed out in audit, the Municipality stated (November 2007) that regular correspondence was made with the Government for providing additional funds under Special Problem Fund but no funds have been sanctioned by the Government.

2.9 Irregular expenditure of Rs.35.00 lakh under NSDP scheme

The objective of the National Slum Development Programme (NSDP) a Centrally Sponsored Scheme (CSS) is to provide water supply, sanitation, primary education facilities, health care, pre-primary adult literacy, non-formal education facilities, housing, community empowerment, garbage and solid waste management etc. of slum areas. The implementation of the programme was to ensure provision of the basic minimum services in the slum habitations through identification of the missing links for development of the slum area.

Scrutiny of Nayagarh NAC records revealed that the Nayagarh NAC availed Central assistance of Rs.35.00 lakh out of which Rs.24.50 lakh as loan @ 13 *per cent* per annum with 2.75 *per cent* extra for default in payment and balance of Rs.10.50 lakh as grant during 1998-2007. Instead of utilizing the funds for the provisions of Civic services in the slum area, the NAC used the funds for

construction of roads, drain and electrification etc in places other than slum areas in clear violation of NSDP guidelines.

On this being pointed out in audit, it was stated that as per the decision of the council the funds were diverted for other works. The reply was not tenable, as the utilization of funds did not address the problems of the slum areas for which the amount was sanctioned.

2.10 Irregular utilization of EFC grants - Rs.62.64 lakh

As per Government of Orissa, Housing and Urban Development Department order (January 2003) 50 *per cent* of Eleventh Finance Commission (EFC) grant shall be used for Sanitation including streetlight, roads and drains; 35 *per cent* for Solid Waste Management and the balance 15 *per cent* for development of database.

Puri Municipality received EFC grants of Rs.113.99 lakh during 2001-05 and with additional provisions of its own fund of Rs.57.00 lakh the total provision of funds of Rs.170.99 lakh was made. However, the utilization was not done in prescribed ratio as could be seen from details below: -

		Provision	Expenditure
1)	Development of database	Rs.25.65 lakh	- NIL -
2)	Solid waste management	Rs.59.85 lakh	Rs 22.85 lakh
3)	Sanitation, street lighting, Roads & drain	Rs.85.49 lakh	Rs.148.14 lakh
	Total	**Rs.170.99 lakh**	**Rs.170.99 lakh**

The irregular utilization of funds of Rs.62.64 lakh required specific regularization from Government.

On this being pointed out in audit the Municipality stated that the works were taken up as per requirement of the people and decision of the council. The reply was not justifiable since the expenditure incurred by the Municipality was not in conformity with the guidelines for release of EFC grants which were specific in nature.

2.11 Unfruitful expenditure on Incomplete works- Rs 1.49 crore

Test check of records of six ULBs (Four Municipality and Two NAC's) revealed that the works started under different schemes/ programmes/ projects involving expenditures of Rs 1.49 crore **(Appendix-III)** remained incomplete with delays ranging from three to twelve years from the date of commencement of the work. Non-completion of works defeated the purpose of allotment and resulted in unfruitful expenditure of Rs 1.49 crore.

On this being pointed out in audit no specific replies were furnished by the ULBs. However, it was replied that action would be taken to complete the works.

2.12 Advances lying unadjusted - Rs 10.31 crore

As per Rule 138 of the Orissa Municipal Rules 1953, advances made to individuals/ contractors/suppliers for departmental purposes should be promptly adjusted and the unspent balances refunded/recovered immediately. Test check of records of 15 ULBs **(Appendix-IV)** revealed that advances of Rs 10.31 crore had not been adjusted since long. In CMC the advances of Rs.4.86 crore remained outstanding prior to 1986-87. In BMC unadjusted advance of Rs.2.26 crore relates to the period 1992-2007 and in Berhampur Municipality advance of Rs.1.04 crore relates to the period 1947-2006. The age of the advances outstanding could not be known in majority of ULBs due to non-preparation of list of outstanding advances and improper maintenance of Advance Ledgers. Due to inaction on the part of the ULBs to adjust the advances, the possibility of recovery of old advances is remote and ultimately it may end up in loss to the ULBs.

On this being pointed out in audit the ULBs agreed (2007-08) to recover the advances early. But the replies were not tenable in audit since the possibility of recovery of old advances is remote.

2.13 Non remittance of royalty of Rs 8.43 lakh

As per Orissa Minor Mineral Concession Rules 2004, royalty shall be collected from each works bills of the executing agencies for procurement and use of materials, moorums, sand, stones etc and the same shall be remitted to Government account forthwith.

Test check of records of four ULBs **(Appendix-V)** revealed that Rs8.43 lakh recovered from the work-bills during 2004-07 has not been remitted to the Government account in violation of rules, instead the same has been kept in Bank Accounts of the ULBs.

On this being pointed out in audit the ULBs stated that action would be taken to deposit the royalty early.

2.14 Failure of Internal control Mechanism

"Internal audit" functions as an important part of Internal Control Mechanism (ICM) to enforce financial discipline in an organization. As per provisions of the Orissa Municipal Corporation Act, the Chief Auditor (CA) of the Corporation should conduct monthly examination and audit of the Corporation's accounts, and report thereon to the Standing Committee on Taxation, Finance and Accounts.

Records of the CMC revealed that the provision of the Act was not followed by the Corporation and the Audit wing under the supervision of an Audit Superintendent and control of the Financial Officer did not have the independent status and remained practically non-functional as no major irregularity could be traced by the wing during 2006-07. The audit of the accounts by LFA was completed upto 2005-06 but the reports were received upto 2001-02 only. In BMC the audit wing was found non-functional, as the relevant records were not produced to them for examination. The reports of the LFA and A G (Audit) for the earlier years remained uncomplied.

CHAPTER-III

DEVOLUTION OF FUNDS, FUNCTIONS, FUNCTIONARIES

TO ULBs

CHAPTER-III

3. DEVOLUTION OF FUNDS, FUNCTIONS AND FUNCTIONARIES TO ULBs

3.1 Introduction

Recent Government policies allow for greater community participation in planning and development of rural and urban areas adopting the policy of decentralization. Institutions of local governance are being encouraged to experiment and introduce new practices. An important initiative in this regard is the enactment of 74th constitutional amendment, which defined the formal process of decentralized governance in ULBs. Provisions relating to ULBs which constitute the third layer of governance of the federal structure were added as a new part to the constitution to build up these institutions as democratic and participatory with broad based activity. Articles 243 W of the constitution authorised the State legislatures to enact laws to endow the local bodies with powers and authority as may be necessary to enable them to function as institutions of self government and make provisions for devolutions of powers and responsibilities with respect to: -

(i) Preparation of plans for economic development and social justice.

(ii) Performance of functions and implementation of schemes as may be entrusted to them including those in relation to matters listed in the 12th schedule.

3.2 Audit coverage

The review covering a period of 5 years from 2003-04 to 2007-08 was conducted during the period from March 2008 to September 2008 with reference to records of selected 13 (Municipal Corporation-One, Municipality-Six and Notified Area Councils-Six) of eight districts. Evidences were gathered through questionnaires and study of files.

3.3 Constitution of ULBs

Urban Local Body is defined as an institution of self-government constituted under Article 243 Q of the constitution. In Orissa, the constitution of ULBs are of the following three types: -

1. Notified Area Council (NAC) constituted for the transitional areas i.e. the area in transition from rural to urban.
2. Municipal Council for smaller urban areas,
3. Municipal Corporation for larger urban areas.

There were 2 Municipal Corporations, 35 Municipalities and 66 NACs in the State. While the NACs and Municipalities were governed under Orissa Municipal Act 1950, the Municipal Corporations were governed by Orissa Municipal Corporation Act 2003.

3.4 Audit Findings

The audit findings are discussed in the succeeding paragraphs.

3.4.1 Amendment of the Act

Consequent on the 74th constitution Amendment Act 1992, the State Government, through legislation had amended the provisions of the Orissa Municipal Act incorporating all the 18 functions of 12th schedule of Article 243W. Section 117 of the existing Orissa Municipality Act 1950, contains the list of functions where municipal funds could be applied and it was supplemented by an additional list of the left out functions under section 374A in 1994 through legislation (Orissa Act of 11of 1994). The list of functions and duties assigned to the Municipal Corporations are incorporated in Section 24 & 25 of Orissa Municipal Corporation Act 2003.

3.4.2 State Finance Commission

Article 243 Y of the constitution had made it mandatory for the State Government to constitute a Finance Commission within one year from the commencement of the constitutional amendment act and there after on expiry of every 5 years to review the financial condition of the ULBs and to make recommendations to the Governor for devolution of funds to the ULBs on the following aspects: -

(i) The distribution of net proceeds of taxes, duties, and fees between the State and the ULBs.

(ii) Taxes, duties fees, and tolls to be assigned and appropriated by the ULBs.

(iii) Relcase of grant-in-aid to the ULBs from consolidated fund of the State.

(iv) Measures needed to improve the financial conditions of the ULBs.

As the constitutional Amendment Act 1992 came into effect on 20.04.1993, the constitution of the first State Finance commission (SFC) was due by 19.4.94. But the State Government constituted the first Finance Commission (FC) on 21.09.1996 i.e. after a delay of more than two years and as of date, the State Government has so far constituted two (SFCs) on the following dates. The prescribed periodicity for constituting SFC was not maintained by the State.

Sl No. of the Finance Commission	Date of constitution	Date of submission of reports	Date of discussion in assembly
1st FC	21.09.1996	Not submitted	Does not arise
1st FC (Reconstituted)	24.08.1998	30.12.1998	09.07.1999
2nd FC	05.06.2003	29.09.2004	11.08.2006

The SFC in their report submitted to the government in September 2004 had made the following recommendations: -

1. Resource mobilization of ULBs
2. Transfer of revenue earning sources to the ULBs
3. Devolution of funds to the extent of 10% of the average gross tax revenue of the State
4. To undertake the activities as per the activity mapping devolved by it
5. Accountability of the developmental authorities like Water and Sewerage Board, Town Planning Organization, Public Health and Water Supply Department to be brought under the administrative umbrella of the ULBs.

The 2nd FC was of the view that the ULBs were functioning as mere deliberative bodies bereft of the powers and authority to function as institutions of self-government. To make the devolution of powers and functions more meaningful, they had formulated an activity mapping depicting the various activities to the different levels of ULBs concerning to 18 subjects of the 12th schedule. Most of the recommendations of the 2nd SFC were accepted in principle by the State Government. But, there was no centralized system of maintaining a data base at State level to track the actual transfer of funds and actions taken against the SFC's recommendations. To an audit query raised in that connection, no information could be furnished.

3.5 Functioning of District Planning Committee

The State Government enacted Orissa District Planning Committee Act, 1998 for setting up of District Planning Committees to consolidate the plans prepared by the PRIs and ULBs in the district and also to prepare integrated draft development plan for the district as a whole. The Committee was also assigned the powers to review the implementation of the developmental programme by the LBs. Elected members of PRIs and ULBs in the district were to fill up 80 per cent

members of the committee and the rest 20 *per cent* were to be nominated by the Government. The Draft District Development Plan was required to be forwarded by the Chair Person of the DPCs to State Government for approval. Despite the first formation of the DPCs since 2001-02, they were not yet made functional due to absence of technical support teams and secretariat support staff for monitoring and implementation of plans even after a decade of enactment of the Act. No consolidation of ULB plan and preparation of district draft development plan was done. However, Government (Planning and Coordination department) stated (May 2008) that 23 technical support institutions (TSI) were selected and assigned to different districts for preparation of district plans 2008-09 as per the directives of the Planning Commission and they were to report to Planning and Co-ordination Department (PCD) and district plan for the year 2008-09 was to be placed before DPCs by August 2008. Test check of units revealed that the ULBs formulated action plans for some individual schemes as a stand-alone process without having any linkage to the holistic development of the area. It lacked objectivity and vision for empowerment of Local bodies as envisaged in the Constitutional Amendment Act. Information on consolidated LB wise details of availability of resources including activity wise planning of own funds, GIA, special grants, GOI and State plan funds and position of assets and liabilities were not available either in ULBs concerned or centrally at district /State level.

3.6 Devolution of functions

To avoid overlapping of functions and its balanced distribution amongst the ULBs, an activity mapping concerning to 18 items of 12th schedule as per details given (**Appendix-VI**) was evolved by the SFC along with the mechanism for inter tier co-ordination. The State Government had not so far acted on the recommendations of the SFC.

Test check of records of selected units revealed the position of actual activities done by them as follows in respect of the devolved functions.

Name of the ULBs	No of units test checked	No of functions done	No of functions partially done	No of functions not done at all
Corporation	01	13	-	05
Municipality	06	09 to 13	01	06 to 08
NAC	06	07 to 13	02	05 to 10

From the above it was evident that the major items of the devolved functions were yet to be performed by the ULBs.

3.7 Devolution of functionaries

Empowerment of the Local Bodies can not be considered as meaningful unless the functionaries of the devolved functions along with the institutions are brought under their administrative control. As recommended by the 2nd FC, the State Government was to ensure the required administrative restructuring to make the institutions and functionaries of the devolved functions accountable to the Local Bodies. In compliance, the State Government in its Circular dated July 2003 had made the functionaries of the devolved functions accountable to the respective levels of PRIs but the same was not yet done in respect of the ULBs.

As regards the ULBs, most of the functions were done with the existing manpower without any staff being deployed by the concerned departments, except the function of maintenance of vital statistics and registration of birth and death which was done by the staff of the Health Department deployed in the ULBs.

3.7.1 Under utilization of the staff of octroi establishment

The collection of octroi tax by the ULBs was taken over by the Government in 1999 for which the ULBs became entitled for payment of compensation grant by the Government. The staff engaged by the ULBs were rendered surplus which were deployed in other identical activities related to collection of taxes. As, there was no increase in tax base of ULBs, the services of the surplus staff of the octroi

establishment remained grossly underutilized. As of 2005 the ULBs received compensation grant of Rs.118.05 crore per annum. The encroachment of Government on the activities of ULBs resulted in idle payment to the deployed staff while their services remained grossly under utilized.

3.7.2 Overlapping of functions done by line departments

As observed by the SFC, there was overlapping of functions of ULBs with other organizations like City Development Authority, Water and sewerage Boards & Town Planning organizations etc. There were also other areas of activities where the departments of government had also concurrent jurisdictions like Health, Education, Fire Services and maintenance of roads and bridges etc. There was every possibility of their working at cross purposes and existence of multiple organizations for rendering various civil services under different administrative controls was bound to be counter productive. They were not yet made accountable to the ULBs. No Government instructions were issued to make the other line departments accountable to the ULBs in respect of the functions devolved with them as per the provisions of the acts.

3.8 Devolution of funds

Any local government exercising the powers of governance over a local area cannot administer, manage and develop the area without raising funds from its people. It is expedient on the part of any legislature giving birth to institutions of local government to provide it with matching provision conferring powers of generating funds to meet the expenses of governance. Consistent with the devolution of functions and responsibilities, the ULBs were to be provided with matching funds, broader tax and non tax revenue base for revenue generation, increased share of State revenue and higher flow of grant-in-aid from Government.

Scrutiny in audit revealed that in test checked ULBs, the transfer of functions was not accompanied by placement of matching funds by the State for efficient discharge of the functions thereby rendering transfer of functions meaningless.

3.8.1 Sources of Municipal Revenue

The ULBs depended upon the following internal and external sources for their revenue.

(a) Internal sources: - (i) Tax

(ii) Non-tax revenue

(b) External sources: - (i) Grant-in-aid from the Government

(ii) Transfer from Government towards share of taxes.

ULBs derived their taxation powers from Section 131 of Orissa Municipal Act 1950 and Section 192 of Orissa Municipal Corporation Act 2003.

Test check of selected ULBs revealed the position of revenue generated by them from internal sources against the total expenditure incurred as per details given in (**Appendix-VII)** from which it was evident that the ULBs were not able to mobilize their available potential resources to meet the expenses. The sources of revenue assigned to them were not enough to enable them to carry out the wide range of basic and obligatory functions and there was a complete mismatch between the increase in functions and resource generation causing fiscal imbalance. As recommended by the SFC, separate budget allocation was to be made for the Local bodies in respect of the devolved functions. But, it was noticed that the respective line departments had their independent budgets and funds were utilized by them without involvement of the ULBs.

3.8.2 Non-imposition of property tax by the Corporations

None of the two Municipal Corporations viz Cuttack and Bhubaneswar was able to levy property tax as per section 192 of Orissa Municipal Corporation Act 2003. Even after more than 5 years of implementation of the Municipal Corporation Act, they were not able to levy the property tax and continued to collect holding tax as per the existing Orissa Municipal Act 1950.

3.8.3 Non-revision of annual value of holdings by the ULBs

Section 131 of Orissa Municipal Act 1950 empowers the ULBs to impose holding tax, light tax, drainage tax and water tax etc. based on annual value of holdings. As per Section 146 of Orissa Municipal Act 1950, the ULBs are required to revise the annual value of the holdings at an interval of every 5 years. As revision of rate of taxes takes effect prospectively i.e. from the next quarter as per Section 147 of the act, the delay in revision leads to loss of revenue to the ULBs.

In test checked ULBs the annual value of holdings was not revised at the prescribed intervals as per the following details, which had entailed loss of revenue to them.

Name of the ULBs	Year in which last revision was made
NAC Chhatrapur	1989
Bhadrak Municipality	1996
NAC Sunabeda	1995
NAC Koraput	1996
NAC Bhawanipatna	1996

From above, it was evident that the annual value of the holdings basing on which the taxes are levied remained unchanged for periods ranging between 12 and 19 years. The reasons attributed by the ULBs for the delay was non-assessment of the annual value by the valuation wing of Housing & Urban Development (H & UD) department of Government of Orissa. In this connection, it was observed that dependence of ULBs on the government department for the revision of the annual value has led to the loss. No effective and appropriate steps were taken by the

ULBs to alter and amend the list wherever they considered necessary as per Section 147 of the Orissa Municipal Act, which authorised the Executive Officers of the ULBs to revise the rate of taxes during the interim periods. As observed by the Finance Commission, the performance of the ULBs for raising revenue was very dismal and the statutory avenues of raising revenue remained either unexplored or under explored because the elected Local bodies did not want to invite displeasure by increasing the rate of tax and levy of new tax during their tenure.

3.8.4 Low rate of collection of taxes

Besides the fact that the rate of tax remained unrevised for years together, the collection of tax was not made efficiently by the ULBs for which there was mounting of arrears which showed symptoms of irrecoverableness and loss. The collection of arrear tax through issue of distress warrant as per Section 162 of Orissa Municipal Act was not effectively pursued. A test check of records revealed that the rate of collection of revenue was below 50% out of which in two cases the same was below 10%. The arrear demand of the test checked ULBs ranged between 19.71 and 92.30 *percent* of the total demand as per details given in **(Appendix-VIII)**.

3.8.5 Weak tax base and insufficient transfer of funds

The major internal source of revenue of the ULBs was the property tax (holding tax), which was to be supplemented by other minor tax and non-tax revenue. The major elastic and buoyant taxes like VAT, Exercise duty and MV tax were collected by the State while the other sources which were stagnant and inelastic in nature were assigned to the local bodies. In 1999, the State Government had taken over the collection of entry tax from the domain of the ULBs, which was a major source of revenue.

The State Government however, released compensation grants to ULBs, as the collection of Entry tax was the exclusive domain of the ULBs. The release of compensation grant to ULBs was made on the basis of figures available on

collection of Entry tax for the year 1998-99 with 10 *per cent* increase every year. As per the figures available in the SFC report, there was a mismatch between the amount of entry tax collected by Government and release of funds made to the ULBs in shape of compensation grants as per following details.

(Rupees in crore)

Year	Amount collected by Government	Amount released to ULBs as compensation grant
2003-04	300.00	115.50
2004-05	327.00	118.05

In test checked ULBs, the quantum of compensation grants received by them did not reveal any definite trend as per the following details. The principle recommended by the 2nd SFC to enhance it to 20 *per cent* was not so far been adopted by the State.

Sl.No.	Name of ULBs	2005-2006	2006-2007	2007-2008
1.	Chhatrapur NAC	023.28	036.25	-
2.	Gopalpur NAC	007.66	017.53	019.51
3.	Bhadrak Municipality	118.92	183.29	181.39
4.	Sunabeda NAC	078.14	122.24	148.34
5.	Koraput NAC	051.00	076.79	099.33
6.	Bhawanipatna Municipality	076.73	077.45	124.64

3.8.6 Maintenance of Uneconomical and oversized establishments

As per section 174 of Orissa Municipal Act 1950, the ULBs are authorised to incur expenditure on general office establishment, which should not exceed 5 *percent* of their normal revenue income. In test checked ULBs, the expenditure incurred on general office establishment varied between 15.80 and 26.52 *per cent*, which was very much in the higher side and hence considered as uneconomical. The higher cost of establishment expenditure had reduced the availability of funds for developmental purposes.

Sl.No	Name of ULBs	Year	Per centage of establishment expenditure to revenue collection
1.	NAC Koraput	2005-06	24.25
		2006-07	18.42
2.	NAC Chhatrapur	2005-06	22.44
		2006-07	26.52
3.	NAC Gopalpur	2005-06	19.10
		2006-07	15.10

3.8.7 Poor revenue expenditure link

Given with the fact that the local bodies were incapable of raising adequate revenue, they showed syndromes of fiscal dependency on Government grants to carry out their normal functions. The critical factor for empowerment of local bodies which is the linkage between revenue earnings and expenditure incurred by them was very poor. Linkage of decisions to provide public utility services with the power to levy and collect user charges to ensure efficiency and accountability was missing. The principle adopted by Government to provide poor revenue base to local bodies and release of scheme based and purpose specific grants had reduced the efficiency of the local bodies and forced them to play the subservient role of Government agencies with higher level of financial dependence and low level of fiscal autonomy. As per information gathered from test-checked units, the flow of Untied funds to the local bodies was " Nil".

3.9 Monitoring, Evaluation and Internal Control

Local self-government in the sense of representative organisation of the community is a new philosophy and culture, which requires sustained effort to nurture and mature. Sincere and continuous efforts are necessary to inculcate, sustain and develop this culture. In order to build up the ULBs as effective organisations of self-government, government in power has to provide consistent

and continuous guidance undertaking regular monitoring activities, providing eternal vigilance, making inbuilt arrangements for midcourse corrections and taking up of regular performance evaluation. The performance of the ULBs in relation to the devolved functions was not evaluated at any time. No initiative was also taken by State Government to evaluate the performance on the basis of Devolution Index devised by the Ministry of Rural Development Department of Government of India. The High Level Committee constituted for monitoring of utilization of TFC grants did not deal with the above matter and DPCs constituted for that purpose remained non functional.

Further, for any organisataion, internal audit as a part of internal control mechanism is an important mechanism for ensuring financial discipline. In this connection, Section 161 of the Orissa Municipal Corporation Act 2003 provided for creation of the post of Chief Auditor in the Municipal Corporations to conduct monthly examination and audit of the accounts of the Corporation and report the findings thereon to the Standing Committee on Taxation, Finance and Accounts. The Chief Auditor was required to perform his duty independently being only accountable to the above committee. It was noticed in audit that the creation of the post of Chief Auditor was not made in CMC while; the same became non-functional in BMC, as the relevant records were not produced to him for examination.

3.10 Conclusion and recommendations

Unutilized balances of Rs.106.37 crore constituted 46.37 *per cent* of total funds available with 19 test checked ULBs. Receipt & Payment accounts were not maintained in formats prescribed in National Municipal Accounts Manual for want of State Manual. Database on finances was not prepared. Cases of idle investments in purchase of land were noticed in major ULBs of Cuttack, Bhubaneswar and Puri. The loss of revenue for idling of funds, irregular/inadmissible expenditure in violation of rules, wasteful expenditure in procurement of stores and non-remittance of statutory deductions to Government

indicated that internal control mechanisms are not adequate to ensure proper financial management.

It was more than fifteen years since the 74th constitutional Amendment Act which came in to existence in the year 1993. Yet, there was considerable ambiguity about the role the ULBs had to play in the overall governance system of the State. The State Government lacked effectiveness in making the DPCs functional and it showed no sincerity in acting upon the recommendations of the SFC. The ULBs were not devolved with all the relevant functions and funds with functional autonomy to carry out the devolved functions, which was the implicit requirement of the act. As a result, they were forced to play the subservient role of government agencies for implementations of the different government sponsored developmental schemes. The autonomy given to them in the matter of taxation and use of natural resources were not prudently and efficiently managed by them. The generation of income from internal resources was abysmally low for which the ULBs in their style of functioning fostered a sense of dependence on government grants to carry out their basic functions. Maintenance of luxurious and oversized establishments coupled with low rate of collection of revenue with mounting of arrears had under scored their achievements as institutions of self-government. Laconically speaking, the ULBs were not able to live up to the expectations as envisioned in the act and they were yet to develop the capacity and attitude to discharge the functions independently with their internally generated income. The objectivity and vision behind the constitutional amendment act remained grossly un-achieved. In view of the findings as explained in previous chapters, the Government should ensure that: -

Recommendation: -

- Continuous monitoring and evaluation of performance of the ULBs are made;
- Accounts should be made upto date;
- Funds are utilized timely and unspent balances refunded promptly;
- Data base on finances are maintained in all levels of ULBs;
- Statutory deductions are remitted to Government accounts timely;

- Schemes are implemented as per Guidelines;
- Adequate control exists to prevent loss of fund, wasteful expenditure etc;
- Works are completed in time;
- Assignment of adequate resource generation powers to local bodies and enhancement of their collection efficiency;
- Ensure appropriate administrative restructuring of the Departments of devolved functions and bring them under administrative control of ULBs;
- Increase in share of State revenue and grant in aid to ULBs;
- Adequate flow of untied fund;
- Devolvement of financial and administrative powers.

Sankaran

(N.S.PILLAI)
Sr.Deputy Acconntant General
(Local Bodies Audit & Accounts),
O/o thePrincipalAccountantGeneral (CA)
Orissa, Bhubaneswar.

Bhubaneswar
The------ day of-------2008

11 DEC 2008

Countersigned

(B.R.KHAIRNAR)
Principal Accountant General (Civil Audit)
Orissa, Bhubaneswar.

Bhubaneswar
The------ day of-------2008

11 DEC 2008

APPENDICES

Appendix-I

Statement on loss of interest due to delay in transfer of TFC fund.

(Ref. Para 1.6.2 ; Page-5)

(Rupees in lakh)

Sl No	Purpose of receipt	Date of receipt	Date of transfer to Bank Account	Period of delay	Amount	Loss of interest
1	Solid Waste management	07.01.2006	12.01.2007	12 months	271.08	16.26
2	-do-	04.11.2006	15.05.2007	07 months	135.54	04.74
3	-do-	12.02.2007	15.05.2007	03 months	135.54	02.03
4	Maintenance of roads and bridges	13.10.2006	May 2007	06 months	104.28	03.13
5	Database	07.01.2006	May 2007	14 months	003.99	00.28
6	-do-	12.02.2007	May 2008	14 months	003.99	00.28
				Total	**654.42**	**26.72**

APPENDIX-II

List of ULBs audited during 2007-08

(Ref. Para 1.9 ; Page-7)

Sl. No	Name of the ULBs
	Municipal Corporations
1	Cuttack Municipal Corporation
2	Bhubaneswar Municipal Corporation
	Municipalities
3	Rayagada
4	Jharsuguda
5	Dhenkanal
6	Rourkela
7	Puri
8	Jeypore - Koraput
9	Jajpur
10	Berhampur
11	Jagatasingpur
12	Kendrapara
13	Rajgangpur - Sundargarh
	Notified Area Councils (NACs)
14	Malkangiri
15	Chhatrapur - Ganjam
16	Kamakshyanagar - Dhenkanal
17	Jaleswar
18	Nayagarh
19	Pottamundai - KdP

Appendix –III

Statement showing the list of Incomplete works

(Ref. Para No 2.11 ; Page-19)

(Rupees in lakh)

Sl No	Name of the ULB	Period	Scheme	No of projects	Expenditure incurred
MUNICIPALITY					
1	Kendrapara	2004-05	Special problem fund	01	031.62
2	Jeypore	2004-05	MP/MLA LAD	27	014.07
3	Jajpur	1998-99	C I A	01	032.39
4	Rourkela	2005-06	-	40	022.05
		1994-95	-	18	018.04
			Total (A)	**87**	**118.17**
N A C					
1	Jaleswar	2004-06	MLA/MPLAD	10	017.12
2	Nayagarh	1999-00	MPLAD	01	014.05
			Total (B)	**11**	**031.17**
			Total (A)+(B)	**98**	**149.34 or 1.49 crore**

APPENDIX-IV

Statement on outstanding Advance

(Ref. Para 2.12 ; Page-19)

(Rupees in lakh)

Sl No.	Name of the ULBs	Period	Amount
Municipal Corporation			
1	Cuttack	Prior to 1986-87	486.40
2	Bhubaneswar	1992-93 to 06-07	226.00
Municipality			
1	Rayagada	Prior to 1965-66	006.17
2	Dhenkanal	2004-06	073.64
3	Rourkela	2004-07	023.68
4	Puri	2003-07	001.45
5	Jharsuguda	-	019.88
6	Jeypore	-	028.57
7	Jajpur	-	020.35
8	Berhampur	1947-06	104.23
N A C			
1	Chhatrapur	Prior to 2001-02	004.79
		2001-2 to 06-07	001.62
2	Malkangiri	-	001.81
3	Kamakhyanagar	1981-82 to 05-06	007.89
4	Jaleswar	-	015.32
5	Nayagarh	2004-06	009.32
		Total	**1031.12 or 10.31 crore**

Appendix-V

Statement on non-remittance of royalty

(Ref. Para No- 2.13 ; page-20)

(Rupees in lakh)

Sl No	Name of the ULBS	Period	Amount
MUNICIPAL CORPORATION			
1	Bhubaneswar	2006-07	01.74
MUNICIPALITY			
1	Dhenkanal	2004-07	03.14
2	Rayagada	2004-07	02.49
NAC			
1	Kamakshyanagar	2003-07	01.06
		Total	**08.43**

Appendix-VI

Statement on transfer of functions to ULBs as per activity mapping

(Ref. Para No-3.6 ; page-26)

Sl No	Name of the functions transferred to ULBs
1	Urban planning including Town Planning
2	Regulation of land use and construction of buildings
3	Planning for economic and social development
4	Roads and Bridges
5	Water supply for domestic, industrial and commercial purposes
6	Public Health, Sanitation, Conservancy and Solid Waste Management
7	Fire Services
8	Urban Forestry, Protection of environment and promotion of ecological aspects
9	Safeguarding the interest of weaker sections of the society, including the handicapped and mentally retarded
10	Slum improvement and up gradation
11	Urban Poverty Alleviation
12	Provision of Urban amenities and facilities such as parks, gardens and play grounds
13	Promotion of Cultural, Educational and Aesthetic aspects
14	Burials and Burial grounds, Cremations, Cremation grounds and Electric Crematorium
15	Cattle ponds, Prevention of cruelty to the animals
16	Vital statistics including registration of births and deaths
17	Public amenities including street lighting, parking plots, bus stops and public conveyances
18	Regulation of slaughter houses and tanneries

Appendix-VII

Statement on revenue generated and expenditure incurred

(Ref. Para No 3.8.1 : page-29)

Sl No	Name of the ULBs	Year	Expenditure Incurred (Rs in Lakh)	Income from Internal Sources (Rs in Lakh)	Percentage of internal income to total expenditure
1	Sambalpur Municipality	2004-05	0849.83	205.76	24.21
3		2005-06	0733.59	205.76	28.05
		2006-07	0995.28	125.71	12.63
2	Gopalpur NAC	2004-05	0051.03	008.53	16.71
		2005-06	0050.12	005.10	10.17
		2006-07	0061.84	008.04	13.00
3	Bhawanipatna Municipality	2004-05	0222.78	032.65	14.65
		2005-06	0240.06	039.50	16.45
		2006-07	0267.53	039.74	14.85
4	Dhenkanal Municipality	2004-05	0229.36	019.88	08.66
		2005-06	0225.14	041.68	18.51
		2006-07	0225.77	047.36	20.97
5	Sunabeda NAC	2004-05	0231.70	027.01	11.65
		2005-06	0307.50	029.22	09.50
		2006-07	0369.50	034.92	09.45
6	Koraput NAC	2004-05	0188.00	019.70	10.47
		2005-06	0221.00	020.00	09.05
		2006-07	0215.00	040.00	18.60
7	Hirakud NAC	2004-05	0170.21	040.96	24.06
		2005-06	0180.22	062.07	34.44
		2006-07	0246.57	067.63	27.43
8	Cuttack Municipal Corporation	2006-07	3815.15	271.76	07.12

9	Baripada Municipality	2004-05	0336.09	065.28	19.42
		2005-06	0325.27	076.21	23.43
		2006-07	0460.87	082.42	17.88
10	Chhatarapur NAC	2004-05	0080.57	009.94	12.33
		2005-06	0103.34	011.27	10.90
		2006-07	0089.63	006.91	07.70
11	Rayagada Municipality	2004-05	0314.59	055.08	17.50
		2005-06	0327.30	061.20	18.69
		2006-07	0353.01	067.80	19.20
12	Bhadrak Municipality	2004-05	0265.28	050.01	18.85
		2005-06	0418.36	040.86	09.76
		2006-07	0505.78	045.74	09.04

Appendix-VIII

Statement on poor rate of collection of revenue

(Ref. Para No-3.8.4 ; page-31)

(Rupees in lakh)

Sl No	Name of the ULBs	Year	Demand	Collection	% of collection	Balance	% Of outstanding demand
			MUNICIPAL CORPORATIO N				
1	Cuttack	2006-07	303.09	185.72	61.27	117.36	39.73
			MUNICIPALITY				
2	Bhawanipatna	2004-05	063.42	007.33	11.56	056.09	88.44
		2005-06	068.15	006.63	09.72	061.56	90.28
3	Baripada	2004-05	156.84	061.64	39.30	095.20	60.70
		2005-06	161.57	064.96	40.20	096.61	59.80
4	Bhadrak	2004-05	084.92	056.18	66.15	028.74	33.85
		2005-06	153.51	123.26	80.29	030.25	19.71
5	Sambalpur	2004-05	187.80	059.30	31.58	128.50	69.42
		2005-06	214.51	081.33	37.91	133.18	62.09
			N A C				
6	Sunabeda	2004-05	101.18	022.33	22.06	078.85	77.94
		2005-06	115.27	025.79	22.37	089.48	77.63
7	Koraput	2004-05	073.23	029.78	40.66	043.45	59.34
		2005-06	043.63	003.36	07.70	040.27	92.30
		2006-07	046.81	013.09	27.96	033.72	72.04
		2007-08	047.45	012.74	26.84	034.71	73.16
8	Chhatrapur	2004-05	016.42	004.37	26.61	012.05	73.39
		2005-06	017.42	005.38	30.88	012.04	69.12
		2006-07	017.40	004.45	25.57	012.95	74.43

Printed at : GOPINATH OFFSET,
35, RASULGARH INDUSTRIAL ESTATE, BHUBANESWAR-10, TEL.: 0674-2587398, 9437