

## **CHAPTER-III**

### **An Overview of the Functioning, Accountability Mechanism and Financial Reporting Issues Urban Local Body**



## CHAPTER-III

### AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES URBAN LOCAL BODY

#### AN OVERVIEW OF THE FUNCTIONING OF THE URBAN LOCAL BODY IN THE STATE

##### 3.1 Introduction

The Seventy Fourth Constitutional Amendment Act, 1992 paved the way for decentralisation of power, transfer of functions and to establish a system of uniform structure, holding of regular elections and regular flow of funds through Finance Commission to the Urban Local Bodies (ULBs). As a follow up, the States were required to entrust these bodies with such powers, functions and responsibility in respect of 18 functions as listed in the 12<sup>th</sup> Schedule of the Constitution of India so as to enable them to function as self-governing institutions. The Mizoram Municipalities (MM) Act, 2007 (as amended in 2015) which came into force in 2008 was enacted to incorporate the provisions of the Constitutional Amendment Act, 1992. At present, the lone Urban Local Body in the State *i.e.*, Aizawl Municipal Corporation (AMC) covers a total area of 129 sq. km. and population of 2,93,416 as per 2011 census. Under the AMC, there are 19 Wards comprising of 83 Local Councils<sup>1</sup>. The last general election to constitute the AMC was held in November 2015.

Statistical information as per Census 2011 on population under AMC is as given in Table-3.1:

**Table-3.1:- Statistical data on population under AMC as per Census 2011**

Particulars	Urban		Overall Total
	Male	Female	
Total Population	1,44,913	1,48,503	2,93,416
Population percentage	49.26	50.74	100
Sex Ratio (Male : Female)	1000 : 1025		
Literacy Rate	98.52	98.21	98.36

Source: Census 2011

##### 3.2 Organisational setup of Aizawl Municipal Corporation (AMC)

The Secretary, Urban Development and Poverty Alleviation Department (UD&PA) is the administrative head of the Aizawl Municipal Corporation (AMC) and is assisted by the Director, UD&PA in allocation of funds and in exercising overall control and supervision of functions and schemes at the State level.

The Mayor elected by the majority of Councillors is the executive head of the AMC. He presides over the meetings of the Municipal Corporation (MC) and is responsible for the

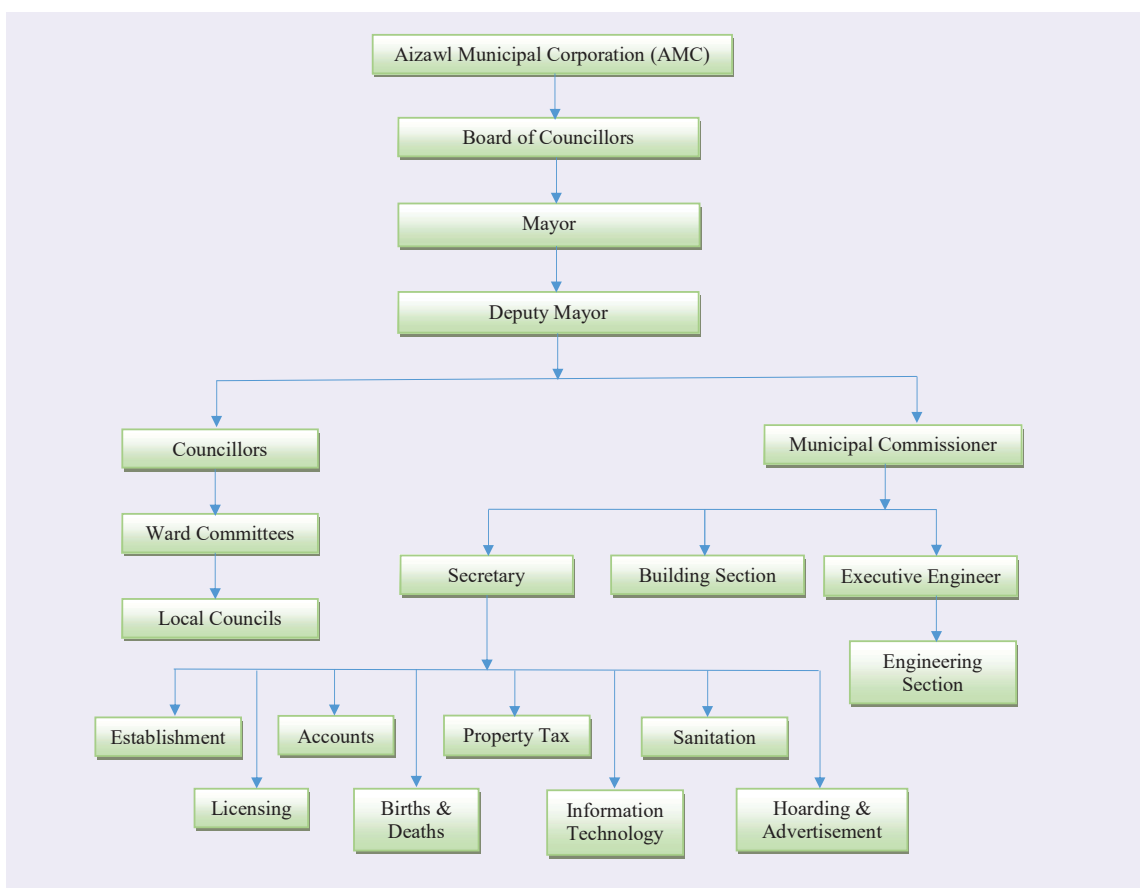
<sup>1</sup> Local Council is a body of elected members of a particular locality within the jurisdiction of the AMC

governance of the body. The Board of Councillors of the AMC (ULB) consists of 19 elected members and 12 nominated members.

A Commissioner is appointed by the State Government for administrative control of the AMC. Other officers are also appointed to discharge specific functions of the body.

The organisational structure of AMC is as follows:

**Chart-3.1:- Organisational structure of AMC**



### 3.3 Functioning of AMC

Section 57 of the Mizoram Municipalities Act provides that the State Government may assign 18 functions in progressive manner considering the managerial, technical and financial capacity of the municipality. The State Government had transferred 15 functions to the AMC as of January 2019. The details are given in **Appendix-3.1**. The State Government has not transferred three vital functions *viz.* (a) Roads and Bridges, (b) Water supply for domestic, industrial and commercial purposes and (c) Fire services listed in the 12<sup>th</sup> Schedule of the Constitution of India.

The Government has not yet transferred the funds in accordance with the transferred functions. As such audit could not ascertain the funds utilised *vis-a-vis* actual functions undertaken by the AMC.

The State Government stated (May 2018) that the functions were not fully transferred to the AMC in view of the nature and the expenditure involved as well as the technicalities involved in performing these functions. Further, the Government constituted city level authorities separately for the non-transferred functions.

**Recommendation:** *The State Government should take steps to transfer the funds in line with the function transferred.*

### 3.4 Formation of various Committees

Section 23 of the MM Act, 2007 (as amended in 2015) provides that every Municipality shall, at its first meeting after the election of Councillors thereto or as soon as, may be, thereafter form a Ward Committee for every ward. Further, the municipality shall form a Local Council in every locality within the ward to oversee the matters of local internal nature according to the Mizo traditions, customs and practices and such other matters necessary for effective functioning of the Local Councils.

It was noticed that 19 Ward Committees were formed on 14 March 2016 to oversee local matters for effective functioning of the Local Councils.

Further, Section 24 of the MM Act, 2007 provides for the formation of special committees. Accordingly, the following committees were formed by the AMC during 2016-17 as shown in Table-3.2:

**Table-3.2:- Details of committees formed by the AMC during 2016-17**

Sl. No.	Name of committees	Month & Year	Responsibilities of the Committees
1.	Naming of Street and Numbering Committee	October 2016	To conduct in depth study on the allotted subjects and their recommendation, if any, and submit it to the Municipal Authorities for approval and further disposal.
2.	Committee on Control of Parking and Collection of Parking Fees within AMC Area		
3.	Committee on AMC Market, CCBT <sup>2</sup> & CSTT <sup>3</sup> under AMC		
4.	Committee on Central Mission for Aizawl (AMRUT <sup>4</sup> , Swachh Bharat, Smart Cities, Housing for All)		
5.	Committee on Sanitation, Solid Waste and Dumping Ground under AMC		
6.	Committee on Street Light and Display of Advertisement and Hoarding under AMC		

2 Ch. Chhunga Bus Terminal

3 Ch. Saprawnga Truck Terminal

4 Atal Mission for Rejuvenation and Urban Transformation

### **3.5 Audit Arrangement**

#### **3.5.1 Primary Auditor**

As per provision under Section 90 (1) of the MM Act, 2007 (as amended in 2015), the municipal accounts as contained in the Annual Financial Statement shall be examined and audited by an auditor appointed by the State Government.

Further, Paragraph 6.4.4 of Thirteenth Finance Commission's (ThFC's) guidelines stipulated that the State Government must put in place an audit system for ULB and the Annual Report of the DLFA must be placed before the State Legislature.

Accordingly, the State Government appointed (June 2011), Examiner of Local Funds Accounts (ELFA), renamed (August 2012) as Director of Local Fund Audit (DLFA) Mizoram as auditor of the AMC with the responsibility of certification of accounts and statutory audit of the local bodies under the administrative control of the Finance Department.

It was, noticed that the Audit Report of the DLFA on AMC and Local Councils for the period ending 31 March 2016 was laid in the State Legislative Assembly on 16 November 2017. However, the status on preparation of DLFA Audit Report for the year ended 31 March 2017 and its placement in the State Legislative Assembly was awaited (May 2019).

#### **3.5.2 Audit by the Comptroller and Auditor General of India**

The State Government entrusted (June 2011) audit of accounts of AMC under the Technical Guidance and Support (TGS) arrangement to the Comptroller and Auditor General of India under Section 20(1) of the C&AG's (DPC) Act, 1971. Accordingly, the audit of accounts of AMC for the year 2013-14 under TGS arrangement was conducted during August – November 2014.

The audit findings are featured in the Annual Technical Inspection Report (ATIR) for submission to the State Government for necessary action. The ATIR on Rural Local Bodies and Urban Local Body for the year 2015-16 was submitted to the State Government and the State Government had placed the ATIR in the State Legislative Assembly on 16 November 2017.

As per Paragraph 3.8.6 (b) of the Recommendations of the Second Administrative Reforms Commission, the State Government is required to form a separate Standing Committee of the State Legislature for the Local Bodies on the line of Public Accounts Committee (PAC) for discussion of Audit Report on Local Bodies.

The Secretary of Mizoram Legislative Assembly intimated (April 2015) that a separate Standing Committee namely Committee on Local Fund Accounts (CoLFA) has been formed by the State Government on the line of PAC for discussion of Audit Report on Local Bodies.

Audit of ULB (AMC) in terms of TGS entrustment is being conducted from 2011-12 onwards. Details of paragraphs which featured in the ATIRs from 2014-15 were yet to be taken up for discussion in the State Legislative Assembly by the Committee on Local Fund Accounts (CoLFA) (February 2018). Out of 75 paragraphs which appeared in the ATIR for the period from 2011-16, 45<sup>5</sup> paragraphs were pending for discussion as of December 2018. Further, out of 30 paragraphs discussed, 29 paragraphs were dropped by the committee on the basis of the action taken by the ULB as on 07 February 2019.

## **Accountability Mechanism and Financial Reporting Issues**

### **Accountability Mechanism**

#### **3.6 Ombudsman**

The Thirteenth Finance Commission (ThFC) recommended for constitution of a Local Body Ombudsman to look into the complaints of corruption and mal-administration against the functioning of Local Body and to recommend suitable action. Accordingly, Government of Mizoram established<sup>6</sup> the institution of the Independent Local Body Ombudsman with the power to receive complaints from citizens on any matters like grievances against administration, grievances against corruption, complaints alleging deficiency in the services of local bodies (Aizawl Municipal Corporation, Local Councils and Village Councils, etc.).

An office of Ombudsman for Local Bodies was established (December 2013) at Aizawl, Mizoram. No complaint was received during 2016-17 in respect of the ULB.

#### **3.7 Service Level Benchmark**

As recommended by the Fourteenth Finance Commission (FFC), the State Governments should gradually put in place standards for delivery of all essential services provided by the local bodies. For a start, State Governments must notify or cause all the Municipal Councils and Municipalities to notify by the end of a fiscal year (31 March) the service standards for four service sectors: Water supply, Sewerage, Storm water drainage and solid waste management proposed to be achieved by them by the end of the succeeding fiscal year. All Municipalities and Municipal Councils in the State will provide a specified minimum level of service for each of the indicators for the four service sectors.

Service Level Benchmark is prepared annually by the State Level Benchmark Cell comprising of Director, UD&PA Department, as Convener and three members viz. Deputy Director, State

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5 Under Secretary, Mizoram Legislative Assembly Secretariat vide letter no. LA/CoLFA-1/5/C&AG/2015-16/2015/294 dated 07 February 2019 intimated that as the CoLFA was constituted during 2013-14 and the committee started examining the paragraphs of ATIR after 2013-14 only. Thus, out of 45 paragraphs, 12 paragraphs prior to constitution of CoLFA was pending for discussion as of 07 February 2019

6 Vide notification No.B.13017/47/2012-UD&PA/113 dated 16 December 2013

Investment Programme Management and Implementation Unit (SIPMIU); Executive Engineer, Water Distribution Division (WDD), Public Health Engineering Department (PHED); and Executive Officer (EO), AMC. The Service Level Benchmark for the year 2017-18 was notified on 28 March 2017.

As per Service Level Benchmark notification, the status of achievement of benchmark targeted for the year 2016-17 is shown in Table-3.3 below:

**Table-3.3:- Status of achievement of benchmark targeted for the year 2016-17**

Sl. No.	Indicator	Benchmark <sup>7</sup>	Baseline <sup>8</sup>	Target <sup>9</sup>	Achievement <sup>10</sup>
		(in per cent)			
1.	<b>Water supply</b>				
	Coverage of water supply connection	100	54	75	60
2.	<b>Sewerage</b>				
	Coverage of toilets	100	98.95	100	100
	Coverage of sewage network services	100	0	5	5
3.	<b>Storm water drainage</b>				
	Coverage of storm water drainage network	100	40	85	67
4.	<b>Solid waste management</b>				
	Household level of coverage of solid waste management services	100	70	86	86
	Efficiency of collection of municipal solid waste	100	60	81	85

Source: ULB's records

It was observed that –

- The target relating to coverage of toilets, coverage of sewage network services and solid waste management was achieved. However, the target relating to coverage of storm water drainage network and coverage of water supply connection were not achieved though the same had improved over the baseline. The State Government attributed non-achievement of targets to lack of funds which were to come from Atal Mission for Rejuvenation and Urban Transformation (AMRUT).
- Water supply functions were being carried out by the PHED, Government of Mizoram (GoM). These functions had not been transferred to the AMC as per their mandate.

### 3.8 Financial Reporting Issues

#### 3.8.1 Source of Funds

The resource base of the AMC comprises of Own Source of Revenues (OSR), Central Finance Commission grants and State Government grants for maintenance and development purposes.

<sup>7</sup> Benchmark indicates the service levels to be ultimately achieved by the ULB/ State Government

<sup>8</sup> Baseline indicates the Level of services provided as at the end of 2010-11

<sup>9</sup> Target indicates the level of services expected of services to be achieved by the end of 2016-17

<sup>10</sup> Achievement indicates level of services provided as at end of the year 2016-17



As per Section 210 of the MM Act, 2007 (as amended in November 2015), the AMC may levy taxes such as property tax, market fees and rents, profession tax, tax on carriages and animals, tax on carts and advertisement tax other than advertisements published in newspapers. Market fees and Rents, Building regulation, Ch. Chhunga Bus Terminal fees, Ch. Saprawnga Truck Terminal fees, Parking fees, *etc.*, constituted the main sources of revenue of the AMC. The collection of Property Tax was assigned temporarily to the AMC as per the Government Notification dated 08 October 2012. Mizoram Municipalities (Property Tax Management) Rules, 2014 came into force with effect from 01 April 2015. This Rule has empowered the AMC with the sole authority to collect Property Tax.

The position of release of FFC grants, funds from State Government to AMC and Own Source of Revenue (OSR) of AMC during 2016-17 is shown in Table-3.4:

**Table-3.4:- Details of funds of AMC during 2016-17**

(₹ in crore)

Source of fund		Amount released to AMC by UD&PA Department/ OSR
<b>(A) Grants from Government of India (GoI) and State Government</b>		
GoI	Grants under Fourteenth FC	13.76
State Government	State Tax Devolution	1.74
	Local Council Remuneration	0.82
	Street lighting	0.78
	Atal Mission for Rejuvenation and Urban Transformation (AMRUT)	0.73
	Penal interest	0.54
<b>Sub-Total (A)</b>		<b>18.37</b>
<b>(B) Own Source of Revenue (OSR)</b>		
Own Source of Revenue (OSR)	Rented income	0.05
	Fees and User charges	1.68
	Others including bank interest	1.16
	Property tax	2.20
<b>Sub-Total (B)</b>		<b>5.09</b>
<b>Grand Total (A) + (B)</b>		<b>23.46</b>

Source: Corporation's records

It could be seen from the above table that during 2016-17 about 78 per cent of funds of the AMC were from grants from Central Government and the State Government. The own source of fund was only 22 per cent.

**Recommendation:** AMC should make efforts to increase its Own Source of Revenue.

### 3.8.2 Utilisation Certificates

The position of release of Fourteenth Finance Commission (FFC) fund during 2016-17 and submission of Utilisation Certificates (UCs) thereof is shown in the following Table-3.5:

**Table-3.5:- Details of submission of UCs against the release of FFC grants during 2016-17**  
(₹ in crore)

Sl. No.	Particulars	GoI release date	GoM release date	Receipt by AMC		Utilisation Certificate		
				Date	Amount	No.	Date	Amount
1.	FFC General Basic Grant (2015-16 2 <sup>nd</sup> instalment)	31.03.16	12.04.16	30.05.16	5.77	No. G.11022/20/2016-FMC	18.08.16	5.77
2.	FFC General Basic Grant (2016-17 1 <sup>st</sup> instalment)	16.09.16	13.12.16	24.02.17	7.99	No. G.11022/20/2016-FMC	21.03.17	7.99
<b>Sub-Total</b>					<b>13.76</b>	<b>Sub-Total</b>		<b>13.76</b>
3.	FFC General Basic Grant (2016-17 2 <sup>nd</sup> instalment)	31.03.17	05.05.17	05.07.17	7.99	No. G.11022/20/2016-FMC	07.09.17	7.99
4.	FFC Performance Grant (2016-17)	31.03.17	05.05.17	05.07.17	4.71	No. G.11022/20/2016-FMC	07.09.17	4.71
<b>Sub-Total</b>					<b>12.70</b>	<b>Sub-Total</b>		<b>12.70</b>
<b>Grand Total</b>					<b>26.46</b>	<b>Total</b>	-	<b>26.46</b>

Source: Departmental records

It was observed that against the receipt of ₹ 26.46 crore under the FFC during 2016-17, only an amount of ₹ 13.76 crore was released by the State Government to AMC as of 31 March 2017 and the balance amount of ₹ 12.70 crore was released in July 2017. The State Government submitted UCs to GoI of ₹ 26.46 crore. However, audit noticed that the UCs so submitted were not as per the format of GFR 19-A.

### 3.8.3 Recommendations of the State Finance Commission (SFC)

In pursuance of Sub-Section (1) of Section 3 of the Mizoram Finance Commission Act, 2010 (Act No. 17 of 2010), the State Government constituted (30 September 2011) Mizoram Finance Commission under the Chairmanship of the former Chief Secretary of the State. The purpose of the constitution of the State Finance Commission is mentioned at **Paragraph-1.6.2**.

### 3.8.4 Resources of AMC during 2012-17

The total fund received from various sources (including Central Finance Commission allocation, Grants from State Government and OSR) during the last five years (2012-17) by the Aizawl Municipal Corporation (AMC) is shown in the following Table-3.6:

**Table-3.6:- Details of funds received by AMC during the period 2012-17**

(₹ in crore)

Year	Source	Particular	Amount released to AMC by UD&PA Department	Amount of OSR	Total fund received
2012-13	GoI	Thirteenth FC	12.20	-	12.20
	GoM	Salary, OE, OC, etc.	2.83	-	2.83
	OSR	Property Tax, Rented Income, Fees and User Charges, Bank Interest, etc.	-	2.60	2.60
	<b>Sub-total (A)</b>			<b>15.03</b>	<b>2.60</b>
2013-14	GoI	Thirteenth FC	21.23	-	21.23
	GoM	Salary, OE, OC, etc.	6.06	-	6.06
	OSR	As above	-	3.02	3.02
	<b>Sub-total (B)</b>			<b>27.29</b>	<b>3.02</b>
2014-15	GoI	Thirteenth FC	23.38	-	23.38
	GoM	Salary, OE, OC, Penal Interest, etc.	5.60	-	5.60
	OSR	As above	-	2.04	2.04
	<b>Sub-total (C)</b>			<b>28.98</b>	<b>2.04</b>
2015-16	GoI	Thirteenth FC	23.92	-	23.92
		Fourteen FC	5.77	-	5.77
	GoM	Salary, OE, OC, Penal Interest, etc.	6.18	-	6.18
	OSR	As above	-	3.48	3.48
	<b>Sub-total (D)</b>			<b>35.87</b>	<b>3.48</b>
2016-17	GoI	Fourteen FC	13.76	-	13.76
	GoM	State Tax Devolution, Local Council Remuneration, Street Light, AMRUT, Penal Interest	4.61	-	4.61
	OSR	As above	-	5.09	5.09
	<b>Sub-total (E)</b>			<b>18.37</b>	<b>5.09</b>
<b>Total (A to E)</b>			<b>125.54</b>	<b>16.23</b>	<b>141.77</b>

Source: Departmental records

### 3.8.5 Delay in release of the Fourteenth Finance Commission grants

As per sanction order of Ministry of Finance, GoI, the State Government was required to transfer the Fourteenth Finance Commission Grant (FFC) funds to ULB within fifteen days of receipt from the Central Government. In case of any delay, the State Government was to release the installment along with interest at the Bank rate of RBI. The dates of release of FFC grants *vis-à-vis* transfer of funds by the State Government to the AMC are shown in the following Table-3.7:

**Table-3.7:- Details of release of FFC grants to AMC during 2016-17**

(₹ in crore)

Sl. No.	Release of Grants-in-Aid by GoI			Release to AMC			Delay in days	
	Recommendations	Date of release/sanction	Amount released	Due date of release	GoM sanction order & date	Date of actual release		Amount released
1.	14 <sup>th</sup> FC General Basic Grant (2015-16 2 <sup>nd</sup> instalment)	31.03.16	5.77	15.04.16	B.13019/8/2013-UD&PA (FFC) date 12.04.16	30.05.16	5.77	45
2.	14 <sup>th</sup> FC General Basic Grant (2016-17 1 <sup>st</sup> instalment)	16.09.16	7.99	01.10.16	B.13017/23/2011-UD&PA date 13.12.16	24.02.17	7.99	147
3.	14 <sup>th</sup> FC General Basic Grant (2016-17 2 <sup>nd</sup> instalment)	31.03.17	7.99	15.04.17	B.13019/10/2016-UD&PA date 05.05.17	05.07.17	7.99	80
4.	14 <sup>th</sup> FC Performance Grant (2016-17)	31.03.17	4.71	15.04.17	B.13019/10/2016-UD&PA/loose date 05.05.17	05.07.17	4.71	80
<b>Total</b>		-	<b>26.46</b>	-	-	-	<b>26.46</b>	-

Source: Departmental records

Audit noticed that the State Government released FFC grants to the ULB after a delay ranging from 45 to 147 days from the date of receipt.

Thus, due to delay in release of grants to the ULB by the Finance Department, the State Government was liable to pay penal interest of ₹ 44.81 lakh<sup>11</sup>. The State Government released ₹ 43.65 lakh out of total penal payable interest of ₹ 44.81 lakh. The balance amount of penal interest of ₹ 1.16 lakh had not been transferred (May 2019). Responsibility may be fixed for payment of penal interest due to delay in release of grants to ULB.

### 3.8.6 Internal Audit and Internal Control System of ULB

Section 95 of the MM Act, 2007 (as amended in 2015) provided for internal audit of the day to day accounts of the AMC. Further, the Reforms Calibrated Milestones under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) mandated for appointment of Audit Officer/Chartered Accountant for providing hand holding support and internal audit of Urban Local Bodies are to be conducted quarterly and annually.

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Amount (in ₹)	Period of delay in days:				Total No. of delay in Days	Amount of Penal Interest (in ₹)				Total Penal Interest (in ₹)
	15.04.16 to 30.05.16	01.10.16 to 06.10.16	07.10.16 to 24.02.17	15.04.17 to 04.07.17						
	RBI Bank Interest (Bank Rate) in per cent									
	7.00	7.00	6.75	6.50						
5,77,00,000	45	-	-	-	45	4,97,958.90	-	-	-	4,97,958.90
7,98,50,000	-	6	141	-	147	-	91,882.19	20,82,116.09	-	21,73,998.28
7,98,50,000	-	-	-	80	80	-	-	-	11,37,589.04	11,37,589.04
4,71,00,000	-	-	-	80	80	-	-	-	6,71,013.69	6,71,013.69
<b>26,45,00,000</b>	<b>Total</b>					-	-	-	-	<b>44,80,559.91</b>

It was noticed in audit that the AMC had appointed one Chartered Accountant firm namely M/s Akas & Associates as an internal auditor only in March 2017.

The State Government regretted (May 2018) for delayed action taken on appointment of the Chartered Accountant.

### **3.8.7 Maintenance of Records**

As per Aizawl Municipal Accounting Manual the AMC is required to maintain records/ registers such as Register of Immovable Property (Form GEN-30 of AMC Accounting Manual Vol.-II), Register of Land record (Form GEN-32, *ibid*), Asset Replacement Register (Form GEN-35, *ibid*), Register of employee loans/ advances (ES-2), Register of Interest on loans to employees (ES-3), *etc.*

It was, however, noticed that the AMC did not maintain the records/ registers as required under the provision of the Manual. In absence of these vital records as required under Aizawl Municipal Accounting Manual, the details of the immovable property, total land area under AMC and loans and advances disbursed and recovered could not be ascertained in audit. Non-maintenance of records is fraught with risk of misappropriation of funds.

On this being pointed out, the State Government stated (May 2018) that the order was issued (April 2016) for maintenance of records by the Assigned Section.

### **3.8.8 Maintenance of Accounts by ULB**

Proper financial reporting by ULB is an important instrument for financial reforms and to achieve the objective of accountability. Accordingly, the Ministry of Urban Development, Government of India (GoI) in consultation with the C&AG developed the National Municipal Accounts Manual (NMAM) (December 2004). The NMAM is based on accrual based double entry accounting system for greater transparency and control over finances. The AMC is required to prepare their budget and maintain their accounts in the formats as prescribed in NMAM with appropriate codifications and classifications.

In terms of Paragraph 10.116 of the ThFC guidelines the State Government should implement an accounting framework consistent with the accounting format and codification pattern suggested in the NMAM. Accordingly, the State Government had notified (March 2011) for adoption of accounting framework as prescribed in NMAM with appropriate codifications and classification.

As per the State Government's notification dated 24 June 2011, the responsibility of certification of accounts and the statutory audit of the local bodies shall rest with the Directorate of Local Funds Accounts.

It was noticed in audit that Annual Financial Statements of the AMC had been finalised upto the year ending March 2017 which was audited and certified by the Directorate of Local Funds Accounts (June 2017). The audited Annual Financial Statements for the AMC for the year ended March 2017 was approved by the Board of Councilors (July 2017).

The State Government confirmed (May 2018) the facts.