

CHAPTER-III

OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF URBAN LOCAL BODIES

3.1 Introduction

In pursuance of the 74th Amendment in 1992, Articles 243 P to 243 ZG were inserted in the Constitution of India where by the State legislature could endow Municipalities with certain powers and duties in order to enable them to function as institutions of Self-Government and to carry out the responsibilities conferred upon them including those listed in the Twelfth Schedule of the Constitution. The Rajasthan Municipalities Act (RMA), 2009 was accordingly enacted by repealing all the prevailing municipal laws and enactments to enable the Urban Local Bodies (ULBs) to function as third tier of the Government.

There were 190 ULBs i.e. seven Municipal Corporations¹ (M Corps), 34 Municipal Councils² (MCs) and 149 Municipal Boards³ (MBs) as of March 2017. As per census 2011, the statistics of Rajasthan State are given in **Table 3.1** below:

Table 3.1

Indictor	Unit	State level
Population	crore	6.85
Population (Urban)	crore	1.70
Population Density	Persons per sq km	200
Decadal Growth Rate	Percentage	21.30
Sex Ratio (Urban)	Females per 1,000 males	914
Total Literacy Rate (Urban)	Percentage	Male 87.90 Female 70.70
Urban Per Capita Income	Rupees per annum	65,974
Municipal Corporation	Numbers	7
Municipal Council	Numbers	34
Municipal Board	(Class II)	13
	(Class III)	58
	(Class IV)	78

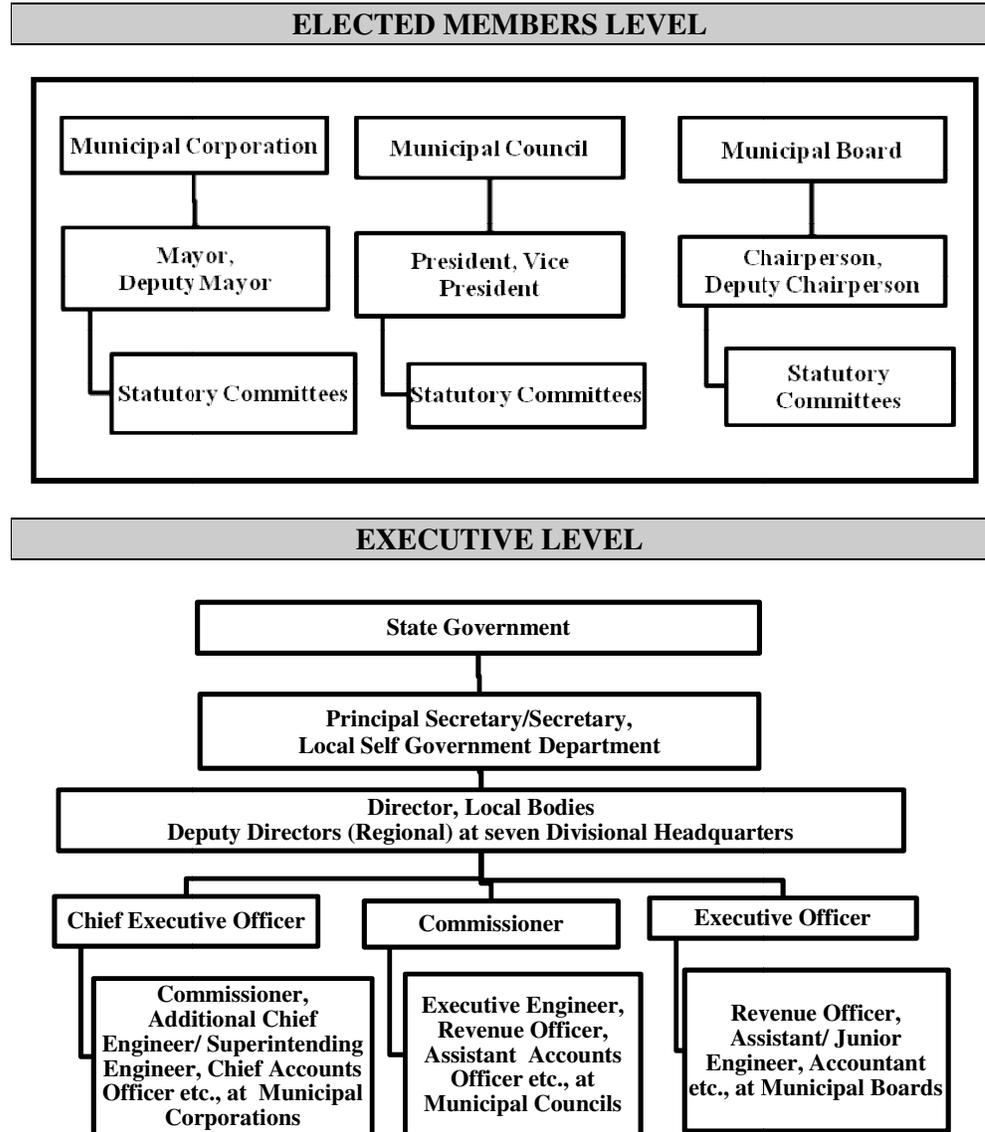
Source: Annual Progress Report 2016-17 of Local Self Government Department, Rajasthan.

1. Municipal Corporations: Ajmer, Bharatpur, Bikaner, Jaipur, Jodhpur, Kota and Udaipur.
2. Municipal Councils: Alwar, Balotara, Banswara, Baran, Barmer, Beawar, Bhilwara, Bhiwadi, Bundi, Chittorgarh, Churu, Dausa, Dholpur, Dungarpur, Gangapurcity, Hanumangarh, Hindaun city, Jaisalmer, Jalore, Jhalawar, Jhunjhunu, Karauli, Kishangarh, Makarana, Nagaur, Pali, Pratapgarh, Rajsamand, Sawai Madhopur, Sikar, Sirohi, Sriganganagar, Sujangarh and Tonk.
3. Municipal Boards: Class-II (with population 50,000-99,999): 13, Class-III (with population 25,000-49,999): 58 and Class-IV (with population less than 25,000): 78.

3.2 Organisational set up

Local Self Government Department (LSGD) is the administrative Department dealing with affairs of the ULBs. An organisational chart combining the State Government administrative machinery with ULBs is given in **Chart 3.1** below:

Chart 3.1



3.3 Functioning of ULBs

Sections 45 to 47 of RMA, 2009 have set out certain core functions⁴, other functions for protection of environment, public health and sanitation,

4. Public health, sanitation, conservation, solid waste management, drainage and sewerage, cleaning public streets, places, sewers and all spaces not being private property, lighting public streets, places and buildings, extinguishing fires and protecting life and property when fire occurs, constructing, altering and maintaining public streets, arranging for planned development, registering births and deaths etc.

education and culture, public welfare, community relations etc. and functions assigned by the Government⁵.

3.3.1 Devolution of Funds, Functions and Functionaries to Urban Local Bodies

Article 243W inserted through the 74th Constitutional Amendment envisaged devolution of powers and responsibilities to municipalities in respect of 18 subjects mentioned in XII Schedule of the Constitution. As per information provided by Directorate Local Bodies (DLB) Department (September 2017), functions relating to 16 subjects (*Appendix-XIII*) were already being performed by ULBs. The remaining two functions, 'Water Supply' is being carried out by eight ULBs whereas 'Urban Planning' function is yet to be devolved to ULBs as per notification dated 6 February 2013.

3.4 Formation of various Committees

3.4.1 District Planning Committee

In pursuance of Article 243 ZD of the Constitution of India and section 158 of RMA, 2009, the State Government constitutes District Planning Committee (DPC) in all the districts of the State. District Collector is a member of the DPC and he or his nominated officer attends the meeting of DPC. The required quorum for DPC meeting is 33 *per cent* of members elected from rural and urban areas.

The main objective of DPC is to consolidate the plans prepared by the panchayats and the municipalities in the district and to prepare a draft developmental plan for the district as a whole and forward it to the State Government. Details regarding the functioning of DPCs were not provided by the Department (January 2018).

3.4.2 Standing Committees

According to section 55 of RMA, 2009, every municipality shall constitute an executive committee. In addition to the executive committee, every municipality shall also constitute the following committees consisting of not more than ten members (i) finance committee (ii) health and sanitation committee (iii) buildings permission and works committee (iv) slum improvement committee (v) rules and bye-laws committee (vi) compounding and compromising of offences committee and (vii) Committee for looking into the functions of a municipality. It may also constitute such other committees, not exceeding eight in case of M Corp, not exceeding six in case of MC and not exceeding four in case of MB, as it may deem necessary⁶.

5. The State Government may, by general or special order, require a municipality to perform such other municipal functions as the State Government may think fit.

6. The State Government may, looking to the functions of a municipality, increase the maximum limit of committees specified in this clause.

As regards the actual status of standing committees constituted under section 55 of RMA, 2009, the same has not been provided by the DLB Department (January 2018).

3.5 Audit Arrangement

3.5.1 Primary Auditor

The Director, Local Fund Audit Department (LFAD) is the Primary/ Statutory Auditor for Audit of accounts of the ULBs under Section 4 of the Rajasthan Local Fund Audit Act (RLF AA), 1954 and Rajasthan Local Fund Audit Rules, 1955. As per section 18 of RLF AA, 1954, Director, LFAD submits Annual Consolidated Report to the State Government and the Government lays this report before the State Legislature.

The Audit Report of LFAD, Rajasthan for the year 2015-16 was laid on the table of the State Legislature on 28 March 2017. Audit Report for the year 2016-17 was under preparation (June 2017).

The Director, LFAD covered only 51 units of ULBs (M Corps: four, MCs: 16 and MBs: 31) in Audit during 2016-17. The Director, LFAD intimated (July 2017) that the shortfall was due to vacant posts and engagement of staff in special inspection work and the work of updating voter lists.

3.5.2 Audit by Comptroller and Auditor General of India

The Comptroller and Auditor General of India (CAG) conducts Audit of bodies substantially financed by grants or loans from the Consolidated Fund of India or any State under Section 14 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Further, Section 99-A of RMA, 2009, as amended⁷ in 2011, provides for Audit of municipalities by the CAG.

A committee on Local Bodies and Panchayati Raj Institutions has been constituted since 1 April 2013 in Rajasthan Vidhan Sabha to examine and discuss the Audit Reports of Comptroller and Auditor General of India on local bodies. Audit Reports for the years 2005-06 (three Paragraphs), 2006-07 (five Paragraphs), 2007-08 (six Paragraphs), 2012-13 (one Paragraph) and 2013-14 (17 Paragraphs) have been discussed partially upto February 2018 and remaining paragraphs are in the process of being discussed by the committee.

3.5.3 Implementation of Technical Guidance and Support/Supervision

In pursuance of recommendations of Thirteenth Central Finance Commission, the Government of Rajasthan, Finance (Audit) Department has issued notification (2 February 2011) for adoption of 13 parameters under the Technical Guidance and Support/Supervision (TG&S) over the Audit of all the tiers of Panchayati Raj Institutions and ULBs.

7. The accounts of the Municipalities shall be audited by the CAG of India in accordance with the provisions of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

Comments/suggestions in respect of 71 Factual Statements and 55 Draft Paragraphs, proposed by Director, LFAD for inclusion in their Audit Report and comments on 10 Inspection Reports (IRs) of Director, LFAD were communicated to Director, LFAD up to March 2017 under the TG&S by the Principal Accountant General (General and Social Sector Audit), Rajasthan.

3.6 Response to Audit Observations

For early settlement of Audit observations, Departmental Administrative Officers were required to take prompt steps to remove defects and irregularities brought to their notice during the course of Audit and/or pointed out through IRs.

3.6.1 For the period from 2012-13 to 2016-17, 439 IRs containing 4,131 paragraphs in respect of ULBs and controlling offices, issued by the Office of the Principal Accountant General (General and Social Sector Audit), Rajasthan involving money value of ₹ 8,597.11 crore were pending for settlement (November 2017). Out of this, even first compliance report of 856 paragraphs of 77 IRs was not furnished as per details given in **Table 3.2** below:

Table 3.2

Year	IRs	Paragraphs	Money value (₹ in crore)	First compliance not furnished	
				IRs	Paragraphs
2012-13	81	651	401.76	2	21
2013-14	95	727	402.97	12	136
2014-15	96	791	988.76	13	119
2015-16	98	1,010	3,092.00	20	181
2016-17	69	952	3,711.62	30	399
Total	439	4,131	8,597.11	77	856

3.6.2 For the period from 2012-13 to March 2017, 2, 46,750 paragraphs of 20,093 IRs issued by Director, LFAD were pending for settlement. Audit observations including 34 embezzlement cases involving monetary value of ₹ 0.66 crore were pending for settlement. Further, first compliance to 32 IRs was still awaited as per details given in **Table 3.3** below:

Table 3.3

Year	IRs	Paragraphs	Number of units which first compliance not furnished	Embezzlement cases	
				Number	Money value (₹ in lakh)
2012-13	4,870	59,920	6	4	9.53
2013-14	4,923	60,650	8	3	0.26
2014-15	5,106	62,572	11	15	14.87
2015-16 (upto March 2017)	5,194	63,608	7	12	41.63
Total	20,093	2,46,750	32	34	66.29

Source: As per data provided by Director, LFAD, Rajasthan.

This indicated lack of prompt response on the part of the Municipal/ Departmental authorities.

3.6.3 No meeting of Audit Committee was organized by the Department during the year 2016-17, whereas such meeting was required to be conducted every quarter.

3.6.4 Response to Paragraphs in Audit Reports

Nineteen paragraphs involving money value of ₹ 491.12 crore, which appeared in previous Audit Reports⁸ were pending for settlement for want of reply from the Government as on February 2018.

3.6.5 Impact of Audit

During the year 2016-17, recovery of ₹ 8.66 lakh was made in three cases at the instance of Audit.

Recommendation: 1

In view of the large number of pending paragraphs and Inspection Reports, efforts should be made by Local Self Government Department to ensure compliance and regularly conduct Audit Committee meetings to settle the pending paragraphs.

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

3.7 Lokayukta

In the State, the Rajasthan Lokayukta and Up-Lokayukt as Act, 1973 came into force on 3 February 1973 which covers the actions of Mayor and Deputy Mayor of a M Corp, President and Vice-President of a MC, Chairman and Vice-Chairman of a MB and Chairman of any Committee constituted or deemed to be constituted by or under the Rajasthan Municipalities Act, 1959.

Information regarding complaints registered against the personnel of LSGD under the Act was awaited (January 2018).

3.8 Property Tax Board

The Thirteenth Finance Commission (TFC) recommended (February 2011) setting up of a State level Property Tax Board to assist the ULBs to put in place an independent and transparent procedure for assessing property tax. The Commission also recommended that the Board should enumerate or cause to enumerate all properties in the ULBs in the State and develop a database, review the property tax system and suggest suitable basis for assessment and valuation of properties. The Fourteenth Finance Commission (FFC) also emphasized property tax as an important tool to enhance the income of ULBs.

8. Audit Report 2012-13 (two paragraphs: ₹ 3.72 crore), 2014-15 (Seven paragraphs: ₹ 111.88 crore) and 2015-16 (10 Paragraphs: ₹ 375.52 crore).

The State Government had constituted (February 2011) State Level Property Tax Board and appointed Director, Local Bodies as Secretary to the Board. However, the Board was non-functional after its first meeting held on 28 April 2011 and as such, the ULBs remained deprived of a potential source of income which could strengthen their financial position.

Information regarding current status of the Board was awaited (February 2018).

3.9 Fire Hazard Response

According to guidelines for release and utilisation of the TFC grants, all Municipal Corporations with population of more than 10 lakh (Census 2001) must put in place a fire hazard response and mitigation plan for their respective jurisdictions. Publication of these plans in the Gazette of respective State Government would demonstrate compliance with this condition.

As per Census 2011, three⁹ cities of Rajasthan had population more than one million, but only M Corp, Jaipur had prepared fire hazard response and mitigation plan which was notified (21 March 2011) by the State Government.

3.10 Submission of Utilisation Certificates

As per rules 284 and 286 of the General Financial & Accounts Rules (Part-I) of Government of Rajasthan, municipalities shall submit Utilisation Certificate (UCs) for the grants released to them for specific purpose. The UCs shall be prepared and signed by the Executive Officer/Municipal Commissioner and submitted to the Assistant Director/Deputy Director, Local Bodies (to be nominated by the Director of Local Bodies) for countersignature.

During the year 2016-17, GoR released the grant of ₹ 895.32 crore and ₹ 776.73 crore under the SFC-V and FFC respectively to the ULBs. The ULBs furnished UCs amounting to ₹ 331.07 crore and ₹ 263.33 crore respectively against the released amount.

In absence of pending UCs under SFC-V and FFC, the proper utilisation of funds could not be ascertained.

3.11 Internal Audit and Internal Control System of ULBs

As per Section 99 of RMA, 2009 the State Government or the Municipality may provide for Internal Audit of the day to day accounts of the Municipality in the manner prescribed.

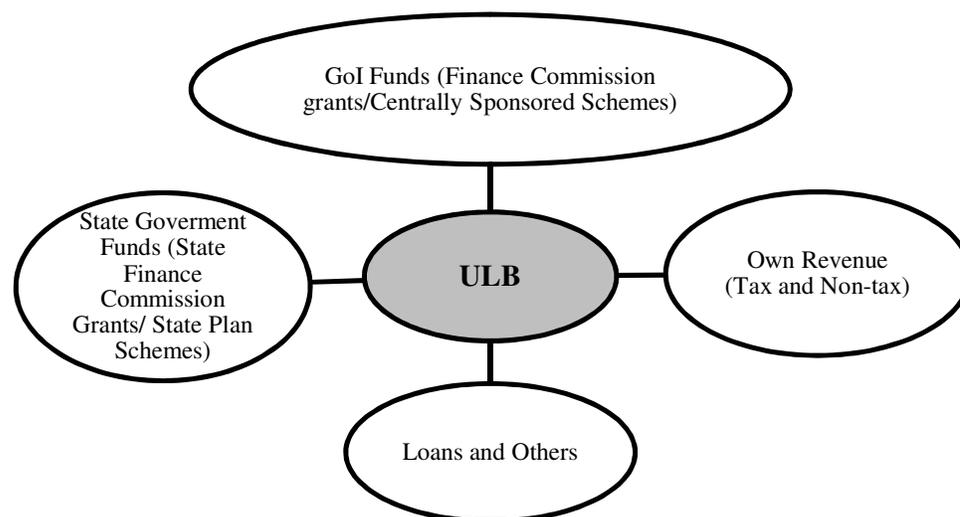
The DLB intimated (July 2017) that there was no arrangement of internal Audit at Department level and income-expenditure & budget of ULBs were not being monitored at Directorate level.

9. Jaipur (30,46,163), Jodhpur (10, 33,756) and Kota (10,01,694).

3.12 Financial Reporting Issues

3.12.1 Source of Funds

The resource base of ULBs consists of own revenues, assigned revenues, grants received from GoI and the State Government and loans as depicted in the diagram below:



3.12.1.1 Receipts

The position of receipts under various heads of the ULBs during 2012-13 to 2016-17 is given in **Table 3.4** below:

Table 3.4

Sources of receipts	2012-13	2013-14	2014-15	2015-16*	2016-17**
(₹ in crore)					
(A) Own Revenue					
(a) Tax Revenue					
(i) House tax	Nil	Nil	Nil	Nil	Nil
(ii) Urban development tax ¹⁰ / property tax	46.88	45.31	32.61	73.73	59.08
(iii) Octroi/ <i>Margasth</i> fee	Nil	Nil	Nil	Nil	Nil
(iv) Tax on vehicles	Nil	Nil	Nil	Nil	Nil
(v) Passenger tax	Nil	Nil	Nil	Nil	Nil
(vi) Terminal tax	Nil	Nil	Nil	Nil	Nil
(vii) Other taxes ¹¹	205.41	169.94	178.39	234.17	74.80
(viii) Outsourcing	Nil	Nil	Nil	Nil	Nil
Total of Tax Revenue (a)	252.29	215.25	211.00	307.90	133.88
(% of total revenue)	(7.04)	(5.55)	(6.02)	(8.70)	(4.06)

10. Subsequent to abolition of House tax from 24 February 2007, Urban Development tax was introduced with effect from 29 August 2007.

11. Income from land revenue, tax on advertisement, pilgrim tax, other income etc.

Sources of receipts	2012-13	2013-14	2014-15	2015-16*	2016-17**
(b) Non-tax Revenue					
(i) Revenue from bye-laws ¹²	416.83	474.33	263.88	222.98	152.62
(ii) Revenue from assets	36.08	31.74	22.65	33.51	21.78
(iii) Revenue from Acts	Nil	Nil	Nil	Nil	Nil
(iv) Revenue from penalties	Nil	Nil	Nil	Nil	Nil
(v) Revenue from waterworks	Nil	Nil	Nil	Nil	Nil
(vi) Interest on investments	26.30	42.42	49.07	52.94	46.15
(vii) Misc. non-tax revenue ¹³	477.90	606.72	462.73	372.04	269.01
(viii) Sale of land ¹⁴	199.30	139.54	121.04	99.33	60.77
Total of Non-tax Revenue (b)	1,156.41 (32.27)	1,294.75 (33.37)	919.37 (26.24)	780.80 (22.05)	550.33 (16.69)
Total of Own Revenue (A)	1,408.70 (39.31)	1,510.00 (38.91)	1,130.37 (32.26)	1,088.70 (30.75)	684.21 (20.75)
(B) Assigned Revenue/ Entertainment tax	0.01 (0.00)	Nil	Nil	5.82 (0.16)	0.04 (0.00)
(C) Grants and Loans					
(i) General and special grant	1,162.55	1,308.41	1,205.06	1471.73	1785.17
(ii) Grant in lieu of octroi	965.60	1,062.15	1,168.36	974.30	828.41
(iii) Special assistance and loans	47.07	Nil	Nil	Nil	Nil
Total of Grants and Loans (C)	2,175.22 (60.69)	2,370.56 (61.09)	2,373.42 (67.74)	2,446.03 (69.09)	2,613.58 (79.25)
(D) Miscellaneous Non-recurring Income¹⁵	Nil	Nil	Nil	Nil	Nil
Grand Total (A to D)	3,583.93	3,880.56	3,503.79	3,540.55	3,297.83
<i>Note: Figures in brackets denote percentage to the total receipts.</i>					
<i>*The figures for the year 2015-16 were of 166 ULBs only. Whereas in the previous Audit Report (2015-16), information was provided for only 136 ULBs. Information of remaining ULBs was not provided by DLB.</i>					
<i>**The figures for the year 2016-17 are of 120 ULBs only. Information of remaining 70 ULBs was not provided by DLB.</i>					
<i>Source: As per data provided (November 2017) by DLB.</i>					

It could be seen from the table above that:

- Tax revenue comprised only 4.06 *per cent* of the total revenue during the year 2016-17. Tax revenue decreased by 4.64 *per cent*¹⁶ during 2016-17 over the previous year. The decrease was due to less recovery of land revenue and other income under the head of other taxes.
- Non-tax revenue comprised 16.69 *per cent*¹⁷ of the total revenue during 2016-17. Non-tax revenue decreased by 5.36 *per cent*¹⁸ during 2016-17 over the previous year. The decrease was due to less recovery of non-tax revenue under the head miscellaneous and sale of land.

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- Income from birth and death certificate, sign advertisement board fees, tender form fees, marriage registration fees, building permission fees, license fees of hotel bye-laws etc.
 - Income from sewerage tax, fair fees, application fees, income from contract of *Bakra Mandi*, income from cattle house, income from lease, etc.
 - Receipt from sale of land to public, Government and other commercial organisations.
 - Including deposits and recoveries of loans and advances.
 - Percentage of total tax revenue of 2015-16 (8.70 *per cent*) - Percentage of total tax revenue of 2016-17 (4.06 *per cent*) = 4.64 *per cent*.
 - Total non-tax revenue of 2016-17 (₹ 550.33 crore) / Total revenue of 2016-17 (₹ 3,297.83 crore) x 100 = 16.69 *per cent*.
 - Percentage of total non-tax revenue of 2015-16 (22.05 *per cent*) - Percentage of total non-tax revenue of 2016-17 (16.69 *per cent*) = 5.36 *per cent*.

- During 2016-17, own revenue (tax and non-tax) comprised 20.75 per cent¹⁹ of total receipts. In 2015-16 it comprised 30.75 per cent of total receipts. This indicated significant increase in dependency of ULBs on grants and loans.
- Under the head “Grants and Loans” ULBs received 10.16 per cent²⁰ more amount over the previous year 2015-16.

3.12.1.2 Expenditure

The position of expenditure in ULBs during 2012-13 to 2016-17 is given in **Table 3.5** below:

Table 3.5

(₹ in crore)					
Items of Expenditure	2012-13	2013-14	2014-15	2015-16*	2016-17**
(A) Recurring Expenditure					
General administration	1,090.10 (31.19)	1,129.71 (28.56)	1,157.04 (33.33)	1,020.77 (33.21)	848.73 (33.71)
Public health and sanitation	772.28 (22.10)	197.30 (4.99)	228.21 (6.57)	103.79 (3.38)	99.91 (3.97)
Maintenance of civic amenities	898.26 (25.70)	862.68 (21.81)	671.97 (19.36)	485.27 (15.79)	261.54 (10.39)
Total of Recurring Expenditure(A)	2,760.64 (78.99)	2,189.69 (55.36)	2,057.22 (59.27)	1,609.83 (52.38)	1,210.18 (48.07)
(B) Non-recurring Expenditure					
Expenditure on developmental works	518.72 (14.84)	1,401.32 (35.43)	1,150.42 (33.14)	1,280.47 (41.66)	1,303.83 (51.79)
Purchase of new assets	NA	Nil	Nil	Nil	Nil
Repayment of loans	NA	24.22 (0.61)	31.79 (0.92)	Nil	Nil
Miscellaneous non-recurring expenditure ²¹	215.66 (6.17)	339.95 (8.60)	231.79 (6.68)	183.29 (5.96)	3.71 (.15)
Total of Non-recurring Expenditure (B)	734.38 (21.01)	1,765.49 (44.64)	1,414.00 (40.73)	1,463.76 (47.62)	1,307.54 (51.93)
Grand Total (A+B)	3,495.02	3,955.18	3,471.22	3,073.59	2,517.72
<i>Note: Figures in brackets denote percentage to the total expenditure.</i>					
<i>*The figures for the year 2015-16 were of 166 ULBs only. Whereas in the previous Audit Report (2015-16), information was provided for only 136 ULBs. Information of remaining ULBs was not provided by DLB Department.</i>					
<i>**The figures for the year 2016-17 are of 120 ULBs only. Information of remaining 70 ULBs was not provided by DLB Department.</i>					
<i>Source: As per data provided (November 2017) by DLB Department, Rajasthan.</i>					

It could be seen from the table above that:

- Recurring expenditure in 2016-17 decreased by 4.31 per cent²² over the previous year 2015-16. This was mainly due to less expenditure under the head “Maintenance of civic amenities” by the Department.

19. Total own revenue of 2016-17 (₹ 684.21 crore) / Total revenue of 2016-17 (₹ 3,297.83 crore) x 100 = 20.75 per cent.
20. Percentage of total grants and loans of 2016-17 (79.25 per cent) – Percentage of total grants and loans of 2015-16 (69.09 per cent) = 10.16 per cent.
21. It includes refunds or deposits, investment made and disbursement of loans and advances.
22. Percentage of recurring expenditure of 2015-16 (52.38 per cent) – Percentage of recurring expenditure of 2016-17 (48.07 per cent) = 4.31 per cent.

- Non-recurring expenditure increased in 2016-17 by 4.31 per cent²³ over the previous year. This was due to increase in expenditure on development works (an increase of 10.13 per cent). Category wise breakup of receipt and expenditure of ULBs is given in **Table 3.6** below:

Table 3.6

Category of ULBs	2015-16*		Surplus (+)/ Shortfall (-)	2016-17**		Surplus (+)/ Shortfall (-)
	Receipts	Exp.		Receipts	Exp.	
(₹ in crore)						
(A) Municipal Corporations						
(i) Ajmer	124.40	94.49	(+) 29.91	188.34	137.03	(+) 51.31
(ii) Bikaner	106.00	73.41	(+) 32.59	NA	NA	NA
(iii) Jaipur	NA	NA	NA	NA	NA	NA
(iv) Jodhpur	275.93	212.14	(+) 63.79	252.02	219.81	(+) 32.21
(v) Kota	261.64	197.33	(+) 64.31	306.96	220.58	(+) 86.38
(vi) Udaipur	140.03	119.92	(+) 20.11	NA	NA	NA
(vii) Bharatpur	58.30	47.58	(+) 10.72	85.21	49.52	(+) 35.69
Total (A)	966.30	744.87	(+) 221.43	832.53	626.94	(+) 205.59
(B) Municipal Councils	1,146.92	1,086.02	(+) 60.90	1,111.21	945.62	(+) 165.59
(C) Municipal Boards	1,427.33	1,242.70	(+) 184.63	1,354.09	945.16	(+) 408.93
Grand Total (A+B+C)	3,540.55	3,073.59	(+) 466.96	3,297.83	2,517.72	(+) 780.11
* The figures for the year 2015-16 are of 166 ULBs only. Information of remaining ULBs was not provided by DLB Department.						
** The figures for the year 2016-17 are of 120 ULBs only. Information of remaining 70 ULBs was not provided by DLB Department.						
Source: As per data provided (November 2017) by DLB Department, Rajasthan.						

It could be seen from the table above that:

- During 2016-17, there was an overall surplus of ₹ 780.11 (23.66 per cent) crore of receipts over expenditure in the M Corps, MCs and MBs. This indicated that the available funds had not been utilised by the ULBs.
- During 2016-17, M Corp Ajmer, Bharatpur, Jodhpur and Kota had a surplus of receipts over expenditure.
- Status of receipts and expenditure of M Corp Bikaner, Jaipur and Udaipur for the year 2016-17 was not provided by DLB Department (January 2018).
- During 2016-17, MCs had a surplus of receipts over expenditure by ₹ 165.59 crore (14.90 per cent).
- During 2016-17, surplus of receipts in MBs was increased from 12.94 per cent to 30.20 per cent over the previous year.

Recommendation: 2

The Urban Local Bodies should take effective steps to strengthen their financial position by focusing on collection of own tax and non-tax revenue to decrease their dependency on grants provided by GoI and State Government.

23. Percentage of non-recurring expenditure of 2016-17 (51.93 per cent) – Percentage of non-recurring expenditure of 2015-16 (47.62 per cent) = 4.31 per cent.

3.12.2 Recommendations of the State Finance Commission

The SFC-IV constituted on 11 April 2011 and the SFC-V constituted on 29 May 2015 are concurrent with the TFC and the FFC respectively. SFC-IV recommended devolution of five *per cent* of net State Own Tax Revenue (excluding land revenue and 25 *per cent* of entry tax) to local bodies whereas SFC-V recommended devolution of 7.182 *per cent* of State Own Tax Revenue to local bodies in the ratio of 75.10: 24.90 to PRIs and ULBs respectively. This ratio was adopted from the rural and urban population ratio of Census 2011.

The position of grants released by the State Government under the SFCs and their utilisation is given in **Table 3.7** below:

Table 3.7

(₹ in crore)

Year	Grants released to ULBs		UCs received			Pending UCs	
	During the year	Cumulative	For the year	Cumulative	Percentage	Amount	Percentage
The position of grants released by the State Government under the SFC-IV							
2010-11	45.00	45.00	41.26	41.26	91.69	3.74	8.31
2011-12	237.82	282.82	207.31	248.57	87.89	34.25	12.11
2012-13	321.66	604.48	247.87	496.44	82.13	108.04	17.87
2013-14	323.84	928.32	203.51	699.95	75.40	228.37	24.60
2014-15	692.23	1,620.55	374.86	1,074.81	66.32	545.74	33.68
2015-16	Nil	1,620.55	186.24	1,261.05	77.82	359.50	22.18
2016-17	Nil	1,620.55	13.16	1,274.21	78.63	346.34	21.37
The position of grants released by the State Government under the SFC-V							
2015-16	773.95	773.95	247.65	247.65	32.00	526.30	68.00
2016-17	895.32	1,669.27	331.07	578.72	34.67	1,090.55	65.33

Source: As per data provided (November 2017) by DLB Department, Rajasthan.

As the period of SFC-IV had already expired, 21.37 *per cent* UCs against the grants released under SFC-IV were still pending as of November 2017. Besides, 65.33 *per cent* UCs were pending against the grants released under SFC-V.

This indicated poor utilisation of grants by the implementing agencies and poor monitoring by the DLB Department.

3.12.3 Recommendation of the Central Finance Commissions

The position of grants released under the Thirteenth Finance Commission and the Fourteenth Finance Commission and their utilisation is given in **Table 3.8** below:

Table 3.8

(₹ in crore)

Year	Grants released to ULBs		UCs Received			Pending UCs	
	During the year	Cumulative	For the year	Cumulative	Percentage	Amount	Percentage
The position of grants released by the State Government under the TFC							
2010-11	111.36	111.36	55.03	55.03	49.42	56.33	50.58
2011-12	209.48	320.84	101.84	156.87	48.89	163.97	51.11
2012-13	252.06	572.90	172.97	329.84	57.57	243.06	42.43
2013-14	361.81	934.71	243.05	572.89	61.29	361.82	38.71

Year	Grants released to ULBs		UCs Received			Pending UCs	
	During the year	Cumulative	For the year	Cumulative	Percentage	Amount	Percentage
2014-15	200.26	1,134.97	236.77	809.66	71.34	325.31	28.66
2015-16	132.90	1,267.87	162.44	972.10	76.67	295.77	23.33
2016-17	Nil	1,267.87	38.23	1,010.33	79.69	257.54	20.31
The position of grants released by the State Government under the FFC							
2015-16	433.12	433.12	178.16	178.16	41.13	254.96	58.87
2016-17	776.73	1,209.85	263.33	441.49	36.49	768.36	63.51

Source: As per data provided (November 2017) by DLB Department, Rajasthan.

As on November 2017, UCs amounting to ₹ 257.54 crore and ₹ 768.36 crore were pending against the grants released under TFC and FFC respectively.

This indicated slow pace of utilisation of funds by ULBs and lack of monitoring at Directorate level.

3.12.4 Annual Financial Statement

As per Section 92(1) of RMA, 2009, the Chief Municipal Officer shall, within three months of the close of a financial year, cause to be prepared a financial statement containing an income and expenditure account and a receipts and payments account for the preceding financial year in respect of the accounts of the municipality and a balance sheet of the assets and liabilities of the municipality for the preceding financial year.

It was observed that there was no record maintained by DLB indicating number of ULBs preparing their annual accounts within prescribed time. The DLB confirmed (August 2017) the fact.

3.12.5 Maintenance of Accounts by Urban Local Bodies

3.12.5.1 As per Rule 25(xi) of Rajasthan Local Fund Audit Rules 1955, a certificate of correctness of annual accounts shall be included in Director's Report. As such, accounts of all 190 ULBs are required to be certified every year. Director, LFAD intimated (June 2017) that accounts of only 122 ULBs (64 per cent) had been certified during the year 2016-17. In absence of certification of accounts, the correctness of accounts could not be verified by Audit.

3.12.5.2 National Municipal Accounts Manual (NMAM) for ULBs in India developed by the Ministry of Urban Development, GoI was introduced in February 2005. On the lines of NMAM, Rajasthan Municipal Accounting Manual (RMAM) was prepared. Accordingly, the LSGD directed (December 2009) all ULBs to maintain the accounts on Accrual Based (Double Entry) Accounting System from 1 April 2010.

The Local Self Government Department intimated (August 2017) that all the ULBs were maintaining the accounts on Accrual Based (Double Entry) Accounting System. However, Director, LFAD intimated (May 2017) that only 48 ULBs were maintaining the accounts on the above system.

3.12.6 Maintenance of Database and the formats therein on the finances of Urban Local Bodies

As prescribed by the TFC, the Ministry of Urban Development, GoI has issued (April 2010) seven database formats to be adopted by ULBs. The DLB Department intimated (July 2017) that all the ULBs were preparing the information in prescribed database formats.

Recommendation: 3

Urban Local Bodies should follow the guidelines and instructions relating to accounting system as prescribed in Rajasthan Municipal Accounting Manual and recommended by Finance Commissions. These bodies should also make sincere efforts to prepare the accounts within the prescribed time limit and get them certified every year by the Director, Local Fund Audit.

3.13 Conclusion

The own resources generated by ULBs were not adequate to take care of their expenditure and they were largely dependent on grants and loans from Central/State Government. The receipts of ULBs through own revenue showed decreasing trend during the last five years.

Absence of timely finalisation of accounts in the prescribed formats, insignificant monitoring and lackadaisical approach in certification of accounts resulted in denial of correct accounting information to the stakeholders. During 2016-17, as against accounts of 190 ULBs required to be certified, accounts of only 122 ULBs (64 per cent) were certified by the LFAD.

There were also huge delays in attending to Audit observations and in their settlement. Failure to timely respond to Audit observations is fraught with the risk of continuance of irregularities/deficiencies.