CHAPTER - XII

FINANCIAL ADMINISTRATION AND PLANNING

A sound system of local finance depends to a large extent on an efficient working of financial administration. In consonance with the general policy of decentralisation, financial controls should be curtailed in relation to their imperative need "for securing propriety and probity in financial transactions. Some kind of check in the form of audit, inspections and prior sanctions are necessary." "Financial autonomy of the local bodies is not impaired by providing safeguards against the possibilities of mal-administration which are inherent in the system of representative government."¹

"Financial administration refers to the collection, preservation and distribution of public funds, with the coordination of public expenditure and revenue with the management of the credit operation on behalf of the State and general control of financial affairs of the public household."² Financial administration includes
the collection of revenues, preservation of surplus funds, the
distribution of revenue among various items of expenditure, the
preparation of estimates of revenue and expenditure, the approval
of these estimates by the municipal bodies, the contracting of
loans, the accounting of revenues and expenditures periodically
to the municipal bodies and finally the submission of accounts
for the purpose of audit.

Objects of Financial Administration

The main objects of financial administration are:

1- To ensure that responsibilities are clearly defined;

2- That committee members are kept alive to their commitments;

3- That financial duties are properly distributed and discharged;

4- That expenditure is properly sanctioned and outlays wisely
   made;

5- That collection of money is carried out with diligence
   and honesty; and

6- That precautions for the custody of cash and the protection
   of property are not overlooked.

The financial administration must ensure regularity and
enforce accountability in order to build public confidence in offi-
cials. It consists of three types of activities:
1- giving of financial advice to the members of the governing body;
2- to supply financial information to the management; and
3- routine control to ensure integrity in administration.

Broadly speaking, the financial administration incorporates the following:

i- Budgeting;
ii- Collection of taxes and rates;
iii- Safe custody of municipal funds;
iv- Accounting;
v- Internal check; and
vi- Audit

**Local Budgeting**

Revenues and expenditures of local bodies are planned and controlled through budget. The latter outlines the nature and scope of activities of a local authority/government. Ideally the budget is a statement of a careful estimate and honest intention. Further he writes "Ideally also, the budget document permits the average citizen to see the fiscal policy in the integrated form; in practice the picture is often excessively complex even for the legislator whose business it is to legislate budgeting plans."
Marshall outlines the main functions and features of a local budget as follows:

"A- It indicates the purpose and fixes the rate of local taxes, and allocates the scarce resources between competing claims,

B- It helps in short and long term policy formulation, implementation, review and monitoring,

C- The budget is a plan of action,

D- It is an instrument to ensure that funds are allocated as decided upon and modifications, if necessary, are accommodated,

(E) A budget helps to secure an efficient and economic administration".5

Thus, the local budget reflects and shapes the economic life of the citizens of a town.

Meaning of Budget

The budget, as a device of expenditure and revenue control, is a vehicle for financing the numerous programmes of the Government and promoting its fiscal objectives.6 It is an annual plan of financial policy. In developed countries the budget is regarded as an annual work programme. "A budget is a specific work programme set down in terms of results to be accomplished, cost to
be incurred and resources to finance the proposed goals." 7 The Budget brings together estimates of anticipated revenues and proposed expenditures for the budget period, and from these estimates the activities to be undertaken and means of their financing can be inferred. 8

"A budget therefore, is nothing but an imaginary account of anticipated income and anticipated expenditure... Budget is the basis on which the spending departments of a local body base their programmes of expenditure and it is the ideal to which the earning departments try to reach." 9

Fisher and Bishop regarded budget as an annual plan of anticipated revenue and expenditure of a government whether small or large. The plan has program of expenditures and the program of revenues to finance the expenditures. 10 In some countries budget connotes much more than a mere annual plan of financial operations of the government. It defines powers of the executive, means of control and supervision and basis of accounting. In France the budget is considered 'a definite legislative act, conferring powers on the executive and is at the same time the means of control by the supervising authority and the basis of the accounting." 11 Budget is the first link in the chain of an effective financial administration. It is an administrative necessity as well as legal obligation besides, of course, being a financial review and estimate of the activities of the body. 12
The budget, in the present context, is an annual plan of a municipal authority outlining its specific work programmes involving expenditures and potential sources of revenue to finance the same. It spells out the objectives and set targets.

Principles of Local Budgeting

Many scholars have emphasized over certain points regarding the preparation and presentation of budget of a local body. The principles of local budgeting are:

i- The budget should be prepared and presented in a standardized accounting format to facilitate spatio-temporal comparison.

ii- Revenue and Capital receipts payments must be properly set apart for quick assessment and, if need be, necessary action.

iii- All ordinary expenditures must be met out of ordinary revenue and there should not be any surplus.

iv- Loans and special funds should be shown separately.

v- Budget should show items of revenue and expenditure in gross values.

vi- Several forms of expenditure should be arranged and classified in a perfectly logical sequence.

vii- The budget should be debated and deliberated upon freely in proper forum to win public confidence.
Capital Budget

It consists of short and medium term planning of programmes and commitment of municipal resources. It is the process of deciding whether or not to commit resources to a project whose benefits would be spread over several years. It considers proposed capital outlays and their financing.

The Capital Budget of municipal corporations in U.P. covers a longer period details being worked out from year to year. The tendency of the departments and sabhasads to get included in the capital budget all schemes they can think of, becomes a difficult proposition.

The Capital Budget helps to achieve the following objectives:

1- A careful programming of capital requirements helps to work out priorities and carry out various schemes in a rational sequence.

2- The contemplated loan programme to finance capital expenditure along with the existing debt situation should be clearly stated.

3- In case a corporation has a complete short and medium term development programme and improvement schemes of its own, these can be easily incorporated in the development plans and national resources allocated accordingly.
Preparation and Passing of Budget

The budget is a statement of all revenues and expenditures for 3 consecutive years. It shows a estimated: a. income and expenditure for ensuing financial year; b. revised estimates for the current financial year; and c. actual receipts and payments of the preceding year.

It is divided into two parts: (i) the abstract of the budget; and (ii) the detailed estimates under major and minor heads.

The budget of a municipal corporation has to be prepared annually in prescribed form before a specified date for the financial year ending with March 31. The Mukhya Nagar Adhikari asks chiefs of various spending departments to furnish details of their requirements in prescribed format for the next financial year. These estimates include payments towards salaries and wages and the cost of materials. The departmental heads submit their estimates to the central office, before the specified date showing the method of arriving at the estimates of income and expenditure shown in the budget. The departmental estimates are compiled together scrutinised and submitted to the Mukhya Nagar Adhikari in the prescribed form. The budget is considered by the appropriate authority and finally prepared by the Mukhya Nagar Adhikari every
year before 10th December in case the Mahapalika is indebted and before 10th January in case it is not.

Thereafter, the budget proposals are considered by the Executive Committee of the Mahapalika. The suggestions and modifications are incorporated. The budget is then discussed in the meeting of the general body and sanctioned with changes in the budget proposals where necessary. A copy of the original as well as the revised budget is sent to the State Government for information. In case a Mahapalika has been declared indebted the budget is submitted to the State Government for sanction.13

The Mahapalika is empowered to make alterations in the budget estimates and to transfer the amount from one head to the other. In case of the Mahapalika being indebted the budget proposals and alterations must be approved by the State Government. The Government can declare a Mahapalika indebted in public interest.

The above procedure is followed by the Varanasi Municipal Corporation in preparing the budget and passing the same. It is published in the Annual Administrative Report. The budget contains details of municipal revenue and expenditure for three consecutive years as discussed earlier in this chapter. In addition, the budget gives the actual figures of revenue and expenditure for the first six months of the current financial year. It lends credence to the
budget estimates worked out for the next financial year and helps to monitor the progress in programme implementation.

A close scrutiny of the budgets reveals some major defects in the budgeting system and financial practice of the corporation. The budgeting structure of the corporation may be amended or transformed in the following way:

1- **Realistic Budgeting**

The budgets of the Varanasi Municipal Corporation do not provide realistic estimates of income and expenditure. Income is deliberately inflated to achieve a balance and to secure increased amounts of grants-in-aid from the state government. The table (XII.1) clearly illustrates the unrealistic estimates of income adopted by the Varanasi Municipal Corporation. The budget estimates have fallen short of the actual revenue by about 15%. The corporation should ensure more realistic budget estimates to serve any useful purpose.

2. **Performance Budgeting**

The municipal budgets in India are purely in financial terms. "Amounts are often provided in the budget without working out the details and it is quite usual to make lump sum provision under each head of budget. Details of schemes and works are sorted out much later." ¹⁴
Table No. XII.1
VARANASI MUNICIPAL CORPORATION
BUDGET ESTIMATES VIS-A-VIS ACTUAL REVENUE
(Rs. in lakh)

<table>
<thead>
<tr>
<th>Years</th>
<th>Actual Revenue</th>
<th>Revenue estimates</th>
<th>Variation (amount)</th>
<th>Variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>204</td>
<td>225</td>
<td>(-) 21</td>
<td>(-) 10.30</td>
</tr>
<tr>
<td>1974-75</td>
<td>221</td>
<td>262</td>
<td>(-) 41</td>
<td>(-) 18.55</td>
</tr>
<tr>
<td>1977-78</td>
<td>270</td>
<td>322</td>
<td>(-) 52</td>
<td>(-) 19.26</td>
</tr>
<tr>
<td>1980-81</td>
<td>394</td>
<td>453</td>
<td>(-) 59</td>
<td>(-) 14.97</td>
</tr>
<tr>
<td>1983-84</td>
<td>475</td>
<td>576</td>
<td>(-) 101</td>
<td>(-) 21.26</td>
</tr>
<tr>
<td>1988-89</td>
<td>1129</td>
<td>1209</td>
<td>(-) 80</td>
<td>(-) 7.09</td>
</tr>
</tbody>
</table>

Source: Budgets of Varanasi Municipal Corporation for various years.

The budget should correlate financial outlays with easily measurable physical targets in order to render the mid-term evaluation and monitoring of the performance of the municipal economy much more convenient. In other words what is needed is "a system of presentation of public expenditure in terms of functions, programmes, performance units viz. activities/projects etc reflecting primarily, the governmental output and its cost." This is known as performance budgeting which has recently been resorted to by the central and the state governments.

3. **Long-term Perspective**

The annual budget of the corporation should not loose sight
of national and state Five Year Plans and fifteen to twenty year Master Plan of the municipal corporation. Annual schemes and projects should ordinarily flow from the Master Plan having a much longer time perspective. In order to provide basic amenities and social services to growing urban population, it is necessary to estimate needs of the people at a future target date and draw the plans accordingly. The budget should be framed keeping in view the long term perspective provided by such plans. "Ideally the annual budget which is used for detailed control purposes and for calculating the level of the rate which is to be levied should flow from the longer term corporate plans of the local authority."

Collection of Taxes and Rates

A sound system of local finance depends on well-founded system of local taxation as well as on an efficient system of tax administration and tax collection. As soon as the taxes ought to be paid are finalised these are entered in respective demand registers. The demand notices and bill receipts written up in prescribed forms are compared with the entries in the demand registers and then are handed over to tax collectors to be delivered formally to the persons concerned.

The tax collectors prepare challan for the day showing total receipts from each tax and the grand total. The officer receiving collection is required to acknowledge the same in the collection register and on the last counterfoil of the receipts.
The tax department compares all entries in the tax collectors papers and challans prepared by him. Other corporation officials are required to verify at least 10 percent of receipts to prevent temporary appropriations.

The tax collection is the weakest aspect of municipal governments. The Simon Commission (1930) observed "The most disturbing feature is the failure to collect direct taxes imposed. In Great Britain, a municipality expects to collect upto 98 or 99 percent of the rates imposed by it, and a drop in the collection to 95 percent would be the subject of very close enquiry. But in municipalities in India, since the Reforms, uncollected arrears have been mounting upto very large sums." The position has not improved since then and in many cases has deteriorated further.

Table No. XII.2
VARANASI MUNICIPAL CORPORATION
TAX COLLECTION AND DEMANDS

<table>
<thead>
<tr>
<th>Particulars</th>
<th>% of collection to demand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1987-88</td>
</tr>
<tr>
<td>Tax on land and buildings</td>
<td>59.26</td>
</tr>
<tr>
<td>Income from sanitation work other than tax</td>
<td>73.30</td>
</tr>
<tr>
<td>Rent from land and building Sarai and Dak Bungalow</td>
<td>33.35</td>
</tr>
<tr>
<td>Income from slaughter houses</td>
<td>79.08</td>
</tr>
<tr>
<td>All Collections</td>
<td>60.74</td>
</tr>
</tbody>
</table>

Source: Annual Administrative Report of Varanasi Municipal Corporation for various years.
It is clear from the table (XII.2) that the percentage of tax collection to total demands varied from 33.35 to 79.08 in 1987-88 and between 31.64 and 69.18 in 1988-89. This speaks of the poor performance of the Mahapalika. There is enough scope for improving the demand collection ratio of municipal taxes specially rent from land and buildings, sarai and dak bungalows and tax on land and buildings. The Corporation Officials should take effective and adequate measures to improve the tax collection and augment the municipal revenue.

Table XII.3
VARANASI MUNICIPAL CORPORATION
TAX COLLECTION, TOTAL DEMANDS AND ARREARS

<table>
<thead>
<tr>
<th>Year</th>
<th>% of collection to demand</th>
<th>% of Arrears to total demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-85</td>
<td>78.54</td>
<td>21.46</td>
</tr>
<tr>
<td>1985-86</td>
<td>79.85</td>
<td>20.15</td>
</tr>
<tr>
<td>1986-87</td>
<td>55.11</td>
<td>44.89</td>
</tr>
<tr>
<td>1987-88</td>
<td>60.74</td>
<td>39.26</td>
</tr>
<tr>
<td>1988-89</td>
<td>52.00</td>
<td>48.00</td>
</tr>
<tr>
<td>Average</td>
<td>65.25</td>
<td>34.75</td>
</tr>
</tbody>
</table>

Source: Annual Administrative Report of Varanasi Municipal Corporation for various years.

The table (XII.3) clearly depicts that percentage collection varied from 52.00 to 79.85 between 1984-85 and 1988-89. The
collection was below the average percentage during 1986-87. The percentage of uncollected taxes varied from 20.15 in 1985-86 to 40 in 1988-89. This poor percentage of tax collection explains unsatisfactory financial position of Varanasi Municipal Corporation.

Safe Custody of Municipal Funds

The municipal fund, to ensure proper management and safe custody, should be kept in government treasury or subtreasury or in the bank to which the government treasury business has been made over. These funds may be kept in a scheduled bank in case the state government so directs. Where there is no such treasury it is to be kept with a local banker who has given such security as may be prescribed by Government.

The State Government exercises certain degree of control over the municipal funds through Mukhya Nagar Adhikari. He is authorised to receive the money, to conduct the bank transactions and to make current payments as directed by the Executive Committee. Under the Mahapalika Adhiniyam (1959), the money to be deposited in the Mahapalika Fund is received by the Mukhya Nagar Adhikari. He deposits the entire amount in the State Bank of India or in any scheduled bank or banks as decided by the Mahapalika with the prior permission of the state government. The Mukhya Nagar Adhikari is also authorised to keep some money as reserve for making current payments under the general or special orders of the Executive Committee.
Maintenance of Accounts

Accountability helps to streamline the programming, implementation and monitoring of activities. A good system of accounting displays the sources of revenue and items of expenditure and helps in decision making, financial control and developmental budgeting as well as in monitoring the performance of a local body in raising its own resources and utilizing them efficiently. "The municipal corporations possess vast properties, receive large amount of money through taxation, borrowings, grants etc. and spend the same on wide variety of objects. It is necessary that all these transactions are properly recorded by the people appointed for the purposes. 20 This task of recording these transactions is covered by accounting. "A good system of local accounts is to be regarded as a means to an end not the end in itself." 21 Accounting provides information that helps in management and decision making and facilitates the cost control. 22

Under Section 142 of the U.P. Nagar Mahapalika Adhiniyam 1959, keeping accounts of all the receipts and expenditure is obligatory for all the city corporations. Under the U.P. Nagar Mahapalika Account Rules 1960, Accountant is responsible for the proper maintenance of all accounts and for their internal check. The Accountant General has prescribed the accounting format. The accounts are maintained on cash basis.
The Account rules 1960 prescribe the number and the nature of the registers to be maintained, the way in which entries are to be recorded by senior officers, the way in which entries are to be recorded by senior officers; the way in which the money is to be paid and collected, particulars about records regarding establishment, taxes, work-in-progress and stock etc. These rules also lay down the duties of tax collectors, cashier, accountants and other personnel connected with financial transactions. Procedures have been outlined for monthly checks and for taking appropriate action in case the actual exceeds the budgeted amount. The accounts of Varanasi Municipal Corporation are maintained in accordance with the Account Rules (1960). There is one Account Officer who is responsible for proper maintenance of accounts and is assisted by other subordinate staff.

Defects in accounting practices

The audit reports of the Corporation have revealed the following shortcomings in accounting practice of the corporation:

Non-compliance of Accounting Rules

The Account Rules (1960) issued under the Nagar Mahapalika Adhiniyam (1959), laid down standards and principles to prepare the Accounts of Mahapalika. According to rule 5 corrections and alterations be made in red ink, initialled and dated by the concerned official. However, corrections and alterations have been made arbitrarily, which raise doubt about manipulation.
13 and 14 pertaining to money order and cheque receipt register are not being observed.  

Missing Vouchers

Accounting must be supported by relevant vouchers which are written evidence of transaction. The vouchers and chalans must be numbered serially for each month and filed in the Central Office in guard file. The audit reports of the corporation reveal that several vouchers have been either found missing or have not been filed. The audit report for the year 1984-85 contains as many as 335 objections pertaining to missing vouchers. A better filing system and effective supervisory checks are needed.

Delay in Adjustment of Advances

Advances are sanctioned to the departments of the corporation to expedite work execution and to facilitate office administration. The officers did not pay attention and accounts department did not take effective measure for adjustment of advances within the specified period. In accordance with the accounting rule 57(4) a statement of outstanding temporary advances shall be prepared half yearly and laid before the Mukhya Nagar Adhikari for examination and orders in regard to overdue items.

The amount of outstanding advances is quite large more so with the lighting department (Table XII.4). Effective steps have not been taken to settle advances or to fix responsibility.
### Table No. XII.4
VARANASI MUNICIPAL CORPORATION
OUTSTANDING ADVANCES

<table>
<thead>
<tr>
<th>Departments</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Engineering</td>
<td>54,730.00</td>
</tr>
<tr>
<td>2. Health</td>
<td>15,500.00</td>
</tr>
<tr>
<td>3. Lighting</td>
<td>1,32,344.04</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,02,544.04</strong></td>
</tr>
</tbody>
</table>


**Management Orientation of Accounting**

As accounting plays an important role in the management of complex functions of urban local governments, it should be related to the management set-up. The accounts department should undertake appraisal of various expenditure proposals in order to provide estimates of their overall costs and benefits. "If reasonable decisions are to be made concerning programme priorities and funding, information concerning costs, revenues and effectiveness of each of these services must be brought together by a city's financial information system."  

The accounting system should measure collections against the monthly revenue projections in order to ensure timely action.
The functioning of various executing departments must be rationalised in order to achieve an optimum utilization of municipal resources and better allocation of job responsibilities. "Explicit criteria against which financial performance can be measured must be developed. Actual costs of various services should be compared with the standard costs in order to eliminate wasteful expenditures. The costing techniques may help in achieving efficiency and ensuring economy.

Internal Check

The objective of the internal checks is to divorce the handling of cash from the book-keeping so that it becomes pretty difficult for a member of the staff to cover misappropriation of funds by manipulation of the accounts. Duties and responsibilities, if properly assigned, may reduce the risk of collusion between two or more members. The incoming mail should neither be handled by the book-keeping staff, nor the remittances received should be handed over to the cashier until the officer authorised to open the mail has rubber stamped the cheques, postal orders, etc., with a bank 'crossing' thus preventing the remittances being encashed fraudulently. Rent or rate collectors should not be allowed to make entries in the tenants or 'rate payers' accounts in the ledgers. Officers passing invoices for payment by the authority or compiling wage records and pay rolls, ought not to be concerned with actual payment, whether in cash or by cheque.
Audit of the Accounts

Prior to the Montague Chelmsford Reforms, the audit of the local funds accounts was the responsibility of the Accountant General of the Province. With the introduction of the diarchy, the local fund audit was made a provincial subject and Provincial Governments were free to make such arrangements for this audit as they pleased. Governments of Madras (Tamilnadu), U.P. and Punjab chose to take local fund audit under their own control. Other provincial governments preferred to let local fund audit remain with the provincial Accountant General. In the latter case, the expenditure on the local fund audit is borne by the provincial and the Central governments.

Definition of Auditing

Audit is an examination of accounts by an authorised person in order to ensure that financial transactions are properly and timely recorded in accordance with the prescribed rules and regulations. "Auditing may be defined as the examination or investigation of accounting books and records by one who has had no part in their preparation." 29

It is a systematic examination of books and records of a business or organisation and is final aspect of financial administration. "Audit performs in the financial field the same function as the police in the maintenance of law and order." 30 It is designed
to ensure that all receipts and payments are recorded within proper
time in accordance with the rules and regulations and that all
irregularities, embezzlements and frauds are brought to light. It
is performed with the following main objectives:

1- Audit of expenditure with a view to see that:
   (a) there is a provision of funds authorised by a competent
       authority;
   (b) the expenditure incurred conforms to the relevant
       provision of the act and rules;
   (c) there is a sanction of competent authority - authorising
       the expenditure;
   (d) the money has been spent on the intended purposes
       according to rules; and
   (e) there is a proper custody of stores and precaution
       against fraud.

2- Audit of receipt to see that all sums due to local authority
   have been brought to the accounts.

3- to promote economisation.

4- To facilitate diligent collection of income.

5- To secure conformity to rules and regulations.

The audit may be called pre-audit, post-audit or adminis-
trative audit depending on whether it is made by outsiders before
or after the payments or by the accounts section itself. Under
the provisions of the U.P. Municipalities Act, 1916, the municipal
books and accounts are audited annually on test basis by the auditor appointed by the Government. The Examiner, Local Funds Accounts audits and scrutinises financial transactions of any two months of a year. In case serious irregularities or embezzlements are detected by test audit, the Government may order for a special audit.

The Uttar Pradesh Nagar Mahapalika Adhiniyam 1959 lays down a three tier system of audit. The internal audit is carried by the audit departments of the Corporation with Mukhya Nagar Lekha Parikshak as its Officer-in-Charge. The latter is assisted by auditors and assistant auditors. The Mukhya Nagar Lekha Parikshak has to report to the Executive Committee of the Corporation every month about his findings.\(^31\) The Executive Committee is also empowered to check and get the books of Mahapalika audited from time to time independently.\(^32\) The State Government may order for a special audit of Mahapalika accounts. A copy of the special audit report is submitted by the auditor to the State Government.\(^33\) The audit charges, fees and expenses are borne by the Mahapalika.

The latter two audits are adopted only in special cases.

The monthly examination and audit of accounts is conducted by the Mukhya Nagar Lekha Parikshak in the manner stated below:

1. All payments are audited as they are incurred;
2. All receipts are examined as they are brought to account in the General Cash Book;
3. Subsidiary books and accounts may be examined daily or at the close of the month as may be convenient.
The monthly audit reports are brought to the notice of the Executive Committee. The Executive Committee considers the report within 15 days of its receipt and takes suitable action thereon. Serious irregularities shall be brought to the personal notice of the Mukhya Nagar Lekha Parikshak who shall refer the matter to the Mukhya Nagar Adhikari for suitable action.

The Annual Audit Report consists of two parts:

1. The Objection Statement contains outstanding objections dealing with technical irregularities, omissions and defects; and

2. The Audit Note contains general and important matters brought to the notice of relevant authorities in monthly reports and also the action taken by authorities thereon including statement of financial condition of the Mahapalika.

A copy of the Annual Audit Report is submitted by Mukhya Nagar Lekha Parikshak to Government. The latter may communicate their observation to the Mahapalika. The annual audit report is also considered by the Executive Committee at its meeting within two months of its receipt together with an explanation on the part of the staff concerned. The audit report along with the views of the Executive Committee is placed before the Mahapalika. The action taken by the Mahapalika is communicated to the Mukhya Nagar Lekha Parikshak within a week after the meeting of the
Mahapalika. In case of any difference of opinion between the Mukhya Nagar Lekha Parikshak and the Mahapalika, the Mukhya Nagar Adhikari is required to send the matter to the State Government whose decision is supposed to be the final.

<table>
<thead>
<tr>
<th>Years</th>
<th>General</th>
<th>Special</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>6,414</td>
<td>343</td>
<td>6,757</td>
</tr>
<tr>
<td>1981-82</td>
<td>7,383</td>
<td>367</td>
<td>7,750</td>
</tr>
<tr>
<td>1982-83</td>
<td>8,201</td>
<td>398</td>
<td>8,599</td>
</tr>
<tr>
<td>1983-84</td>
<td>8,741</td>
<td>426</td>
<td>9,167</td>
</tr>
<tr>
<td>1984-85</td>
<td>9,195</td>
<td>446</td>
<td>9,641</td>
</tr>
</tbody>
</table>

Source: Mahapalika Audit Reports

One can easily discern from the table (XII.5) that a large number of audit objections remain unsettled and their number has been continuously increasing. There has been an increase of 43% in the number of outstanding audit objections during 1980-81 and 1984-85. Usually there is inordinate delay in returning the audit reports with replies within the statutory period. This may lead to serious financial crisis for the Mahapalika. The State Government should take effective steps to ensure prompt disposal of audit objections.
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Department</th>
<th>Audit Objections</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>General</td>
<td>Special</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Nagar Abhiyanta (Samanya)</td>
<td>1988</td>
<td>90</td>
<td>2078</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Octroi</td>
<td>1919</td>
<td>30</td>
<td>1949</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Health</td>
<td>1884</td>
<td>60</td>
<td>1944</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Development</td>
<td>768</td>
<td>-</td>
<td>768</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Nagar Abhiyanta (Water Works)</td>
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Out of 9641 outstanding audit objection as many as 4027 are related to the departments of Nagar Abhiyanta (Samanya) and Octroi. This represents 41.77% of the total objections. These two departments are not very serious to comply with audit objections.
The Corporation should exercise some sort of control in sanctioning advances to these departments. No fewer than 1944 (20.16%) objections relate to the department of Health (Table XII.6).

A somewhat weak financial position of the corporation may be attributed to the indifference and carelessness of the authorities of the Octroi Department more so when it is a major source of income.

The audit system can merely discover and cannot prevent the misappropriation and misuse of funds. The accounts are audited when financial transactions have become more or less outdated and obsolete. Moreover, being a test; several mistakes and misappropriations may remain undetected.

The audit system of the corporations is better than those of the municipalities. Nevertheless; the Mukhya Nagar Lekha Pari-kshak does not have power of spot verification as cooperative auditors have. Unless this is done the audit system of Mahapalika will not prove much fruitful.

Event the most efficient system of financial administration is bound to fail unless the officers-in-charge of these operations are efficient and honest. "Integrity and competence of staff is a factor of primary importance; and cannot be ensured merely by
instituting a right procedure of transacting financial business and providing a system of checks and counter-checks on the conduct of financial affairs. The only way to get honest and efficient men for carrying on the financial administration of local bodies is to pay them well and make the conditions, under which they have to work, consistent with a sense of security of tenure and their self-respect." Favouritism and political pulls need to be eliminated. Only able men promising best return for the outlay of public funds are employed. Their efficiency and honesty need to be constantly watched.

**Development of New Sources of Finance**

A local authority with a viable financial base can expect to enjoy popular support and lesser government intervention. The inelasticity of rate of income along with the growth in expenditures of local government, has naturally promoted a search for additional sources of obtaining local revenues.

Lack of financial resources may, sometime, lead to the neglect of an essential service by a local authority. Municipal bodies in Uttar Pradesh often utilise development grants for paying salaries and wages to their employees. The financial constraints result in poor maintenance of urban infrastructures and social facilities. Though the local authority can augment financial resources by enhancing the rate of tax on traditional sources; nevertheless, it may lead to tax arrears, evasion and pilferage.
A local income tax, rating of site values, local taxes or transfer of state taxes and increased charges for services rendered are some of the measures which may be adopted to augment income of local authorities.

1. Local Income Tax

The idea of local income tax though attractive, does not seem practicable because of certain administrative difficulties. It could interfere with national policy regarding the total amount by which income should be taxed. Divided control might present difficult problems for the government. Furthermore, the rate of income tax being high, any further enhancement seems unlikely.

2. The Rating of Site Values

The existing system of taxation depending on annual value of occupied land and building should be replaced by the rating system which takes into consideration the appreciation in the value of vacant land. As municipal expenditure in urban infrastructures increases the values of sites in private ownership, additional income ought to be taxed for the benefit of the urban community. Further it is likely to prevent land speculation and facilitate development of vacant and unoccupied land.

A concurrent site valuation for the whole state/country will involve a tremendous task and the site value rate could only be a modest proportion of the ground rent received by the owner.
Hence, it is not likely to contribute in any significant way to the corporation revenue. However, it is wise to keep this option open.

3. **Local Taxes or Transfer of State Taxes**

   The charges for dog, pawn brokers, money lenders and other licences are not taxes in the usual sense of the term. The transfer of state taxes like entertainment tax, seems to be a better proposition. This proposal would reduce the state revenues to the same extent, but the amount involved is relatively insignificant as an item in the state/national budget.

   However, the local authorities should not be involved in a new fixation and collection of such a tax because administrative costs may become prohibitive. The levy and collection of such a tax should remain vested in the existing integrated system.

4. **Increased Charges forExisting Services**

   It would be possible to charge for services provided ex-gratias at present and, in some cases, to increase the tax rates at present levied on activities such as parks and baths. It would be feasible to make specific charges for services like education, roads, sewers and health which involve heavy expenditure. However, the amount collected would be substantial.
It is difficult to envisage any substantial addition to local funds through alternative sources which would not conflict with national policy or be otherwise objectionable. An enhanced direct assistance from the state/central government seems to be a feasible solution. However, it should be done without undermining the autonomy of local authorities and their sense of financial responsibility. The amount of grant may be linked to the efficiency in managing municipal finances and raising its own resources. The block grant system may be extended to cater to the needs of all authorities.

REFERENCES