CHAPTER-IV
MUNICIPAL FINANCIAL ADMINISTRATION
4.1 INTRODUCTION

Finance is the life blood of administration be it public, private or any other sector. “It is the fuel for the engine of administration or is similar to the circulatory system in complex living organisms.”¹ Finance is as universally involved in administration as oxygen is in the atmosphere. No administration can function without finance i.e. the two are inseparable. The greater the finance available, the more the administrative activities.

No Government can function without finance; the governmental machinery will come to a halt unless adequate funds are available to meet its varied requirements necessary for attaining the desirable objectives. All the developmental efforts of a government are directly linked with the financial resources at all the layers be it national, state and local. Municipal organizations are not exception to this basic principle.

Adequacy of the finances would be of little avail unless the finances are properly administered. Sound financial administration is therefore vital to the success of any government, for the simple reason that, while there seems to be no limit to what we may ask of government, there is always a limit to the funds available.² Moreover, revenue is derived from the citizens it is morally incumbent upon governments to spend money efficiently and economically. Imprudent financial administration alienates the people from the government; ultimately endangering the latter’s existence. Unsound financial administration, thus, may destroy the prospects of democracy itself.³

Kautliya in his book Arthashastra very rightly described that the entire administration of the country can be controlled through financial administration.⁴

² Felix A. Nigro, Public Administration-Readings and Documents, Rinehart and co., 1951, P.312
⁴ Kautliya, Arthashastra (translated by ‘Shomasastri’) Mysore, Raghveer Printing Press, 1956, p.65
The term financial administration is used in a broad sense to include all the processes involved in: i) collecting, budgeting, appropriating and expanding public moneys; ii) auditing income and expenditures and receipts and disbursements; iii) accounting of assets and liabilities and for the financial transactions of the government, and iv) reporting upon income and expenditures, receipts and disbursements. Thus, financial administration consists of those operations, the object of which is to make funds available for the governmental activities and to ensure the lawful and efficient use of these funds. In short, we can say that financial administration is the technique of maximizing financial output, the optimization of financial resources and their judicious utilization.  

Municipal Financial Administration, may be defined as the art and science of policy-making, planning, decision-making, coordination, control of the processes of securing adequate resources, ensuring their safe custody, genuine allocations among different areas of development activities, effective utilization and avoiding the pilferages and leakage of resources and duplication of efforts to ensure best services to the people living in the area of the local Government.  

Thus, Local Government finance assumes great importance. Municipal bodies in order to be able to discharge their obligations in respect of development of their respective areas require adequate financial resources commensurate with the tasks assigned to them.

4.2 SOURCES OF INCOME:

An organization needs finances to fulfill the objectives it has chalked out for itself. The finances it may obtain by a variety of ways - by making profit out of its operations or in the form of grants and loans from external sources. The

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power of taxation that it enjoys is by no means an original one, derived from the Constitution itself; therefore local bodies are at the mercy of state Government for their financial resources. It is empowered to levy only such taxes as have been approved by the state government. The latter is perfectly at liberty either to add to or subtract from the list of taxes that have been at a given moment transferred to local government.

The money collected in the form of taxes and fees by the local bodies is supplemented by grants-in-aid from the state government as well as by loans it may get from the latter or some other source. Thus, sources of income of the urban government are taxes, grants-in-aid and loans. The minor sources include fees collected from licenses, permits etc.

**Chart-4.1**

Average Percentage Share of Main Components in Total Revenue of Urban Local Bodies in Punjab 2001-2006

- Tax Revenue: 61.24%
- Grants: 17.80%
- Non-tax Revenue: 20.96%


Income from taxes constitutes about two third of the revenue accounts and over one half of the total income from all the sources of the municipalities in Punjab. The graphical presentation of the figures obtained through net
proceeds of the three main components i.e. tax revenue, non-tax revenue and grants of the total revenue of urban local bodies in Punjab from 2001-2006 have been shown in Chart-4.1. During this period, tax revenue emerged to be the main contributor which claims around 61.24%, while the contribution of non-tax revenue and grants is 20.96% and 17.80% respectively, which is less than half of the total revenue received.

Chart-4.2 depicts the comparative proportion of the three main sources of income i.e. tax revenue, non-tax revenue and grants of the Municipal Council S.A.S Nagar (Mohali). Tax revenue of all the sources of income constitutes more than 90%, while the other sources i.e. non-tax revenue and grants, contribute less than 10% of the entire income of the Council from 1995 to 2008.

Tax revenue is one such source, on which the entire income of the council is based the other sources like non-tax revenue and grants do not contribute much in the whole net proceeds received by the Council. Thus, tax revenue is the major source of income of the Council.
Table-4.1

Tax and Non- Tax Revenue of Municipal Council S.A.S Nagar (Mohali)
1995-2008

(Figures in Lakh)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>VAT in lieu of Octroi</td>
<td>984.41</td>
<td>998.32</td>
<td>1084.89</td>
<td>1176.09</td>
<td>1237.82</td>
<td>1328.15</td>
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<td>135.65</td>
<td>218.32</td>
<td>138.17</td>
<td>204.32</td>
<td>140.23</td>
<td>142.03</td>
<td>145.85</td>
<td>230.26</td>
<td>159.32</td>
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<td>84.23</td>
<td>86.16</td>
<td>87.29</td>
<td>89.25</td>
<td>91.58</td>
<td>92.15</td>
<td>94.56</td>
<td>95.42</td>
<td>96.25</td>
<td>98.23</td>
<td>102.29</td>
<td>104.08</td>
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<td>Water Tax</td>
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<td>75.22</td>
<td>76.04</td>
<td>78.02</td>
<td>80.14</td>
<td>81.09</td>
<td>84.85</td>
<td>85.41</td>
<td>89.78</td>
<td>90.65</td>
<td>92.35</td>
<td>93.96</td>
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<td>Advertisement Tax</td>
<td>2.09</td>
<td>2.14</td>
<td>2.20</td>
<td>2.28</td>
<td>3.30</td>
<td>3.39</td>
<td>4.20</td>
<td>4.25</td>
<td>5.98</td>
<td>6.69</td>
<td>7.11</td>
<td>7.19</td>
<td>8.14</td>
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<td>Entertainment Tax</td>
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<td>0.9</td>
<td>0.10</td>
<td>0.13</td>
<td>0.15</td>
<td>0.16</td>
<td>0.19</td>
<td>0.20</td>
<td>0.23</td>
<td>0.27</td>
<td>0.31</td>
<td>0.32</td>
<td>0.34</td>
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<tr>
<td>Show Tax</td>
<td>0.4</td>
<td>0.7</td>
<td>0.10</td>
<td>0.11</td>
<td>0.13</td>
<td>0.14</td>
<td>0.15</td>
<td>0.18</td>
<td>0.21</td>
<td>0.25</td>
<td>0.29</td>
<td>0.30</td>
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<tr>
<td><strong>Total</strong></td>
<td>1277.57</td>
<td>1299.09</td>
<td>1468.94</td>
<td>1484.05</td>
<td>1617.44</td>
<td>1645.31</td>
<td>1667.65</td>
<td>1786.31</td>
<td>1987.94</td>
<td>2152.88</td>
<td>2363.82</td>
<td>2488.87</td>
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<table>
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<th>NON-TAX REVENUE</th>
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<td>Teh-Bazari</td>
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<td>3.97</td>
<td>4.15</td>
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<td>7.24</td>
<td>8.96</td>
<td>10.72</td>
<td>11.86</td>
<td>12.89</td>
<td>14.52</td>
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<td>Fee from Dangerous or Offensive Trade</td>
<td>1.31</td>
<td>1.49</td>
<td>1.65</td>
<td>1.89</td>
<td>2.10</td>
<td>2.52</td>
<td>2.58</td>
<td>2.80</td>
<td>2.89</td>
<td>3.03</td>
<td>3.15</td>
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<td>Pure Food Act Licence Fee</td>
<td>0.04</td>
<td>0.07</td>
<td>0.11</td>
<td>0.17</td>
<td>0.25</td>
<td>0.31</td>
<td>0.35</td>
<td>0.38</td>
<td>0.42</td>
<td>0.46</td>
<td>0.50</td>
<td>0.65</td>
<td>0.66</td>
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<tr>
<td>Slaughter House Licence Fee</td>
<td>0.50</td>
<td>0.62</td>
<td>0.71</td>
<td>0.98</td>
<td>1.11</td>
<td>1.18</td>
<td>1.23</td>
<td>1.32</td>
<td>1.37</td>
<td>1.41</td>
<td>1.53</td>
<td>1.60</td>
<td>1.72</td>
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<tr>
<td>Fee from Cattle Pond</td>
<td>0.18</td>
<td>0.12</td>
<td>0.19</td>
<td>0.26</td>
<td>0.36</td>
<td>0.41</td>
<td>0.48</td>
<td>0.53</td>
<td>0.58</td>
<td>0.62</td>
<td>0.74</td>
<td>0.80</td>
<td>0.93</td>
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<td>Miscellaneous</td>
<td>10.88</td>
<td>15.27</td>
<td>22.84</td>
<td>27.04</td>
<td>31.45</td>
<td>35.92</td>
<td>39.72</td>
<td>43.94</td>
<td>48.43</td>
<td>51.54</td>
<td>55.21</td>
<td>58.23</td>
<td>60.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16.23</td>
<td>21.54</td>
<td>29.65</td>
<td>35.16</td>
<td>41.12</td>
<td>47.58</td>
<td>53.32</td>
<td>59.69</td>
<td>65.55</td>
<td>69.95</td>
<td>75.65</td>
<td>80.33</td>
<td>83.61</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td>1293.80</td>
<td>1320.63</td>
<td>1498.59</td>
<td>1519.21</td>
<td>1658.56</td>
<td>1692.89</td>
<td>1720.97</td>
<td>1846.00</td>
<td>2053.49</td>
<td>2222.83</td>
<td>2439.47</td>
<td>2569.20</td>
<td>2717.99</td>
</tr>
</tbody>
</table>

Table-4.1 presents a detailed view of the net proceeds of tax as well as non- tax revenue of the council from 1995 to 2008. During the said period, the major chunk of income comes from the tax revenue, while non- tax revenue...
constitutes a very small part of the entire income (approximately in the proportion of 9:1).

The analysis of data reveals that VAT (83.06%) is the major source of income of the entire tax as well as non-tax revenue. The other major contributor is through the excise duty, while the other taxes such as octroi from electricity, water tax, entertainment tax, advertisement tax, and show tax are not contributing much in the tax revenue.

As far as non-tax revenue is concerned teh-bazari is the major contributor with around 20% share, while miscellaneous fees such as, funeral charges, bus queue shelter charges, fee for road cut etc. constitute around 72% and the rest 8% comes from fee from dangerous or offensive trade, Pure Food Act license fee, slaughter house license fee and fee from cattle pond.

4.2.1 Tax Revenue:
A tax is a compulsory levy payable by an economic unit to the government without any corresponding entitlement to receive a definite and direct *quid pro quo* from the government. It is not a price paid by the tax-payer for any definite service rendered or a commodity supplied by the government. The benefits received by taxpayers from the government are not related to on the amount of tax paid. A tax is a generalized exaction, which may be levied on one or more criteria upon individuals, groups of individuals, or other legal entities.  

The municipalities in Punjab levy taxes under The Punjab Municipal Act, 1911. Major taxes levied as per the purview of this Act are as stated below-

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* *quid pro quo* means something given or taken, equivalent to one another.
8 Section 61 of the Punjab Municipal Act, 1911.
1) Property tax
2) Octroi tax
3) Vehicle tax
4) Profession tax
5) Toll tax
6) Terminal tax
7) Entertainment tax
8) Tax on advertisements except those published in newspapers
9) Tax on domestic servants
10) Sanitation Tax
11) Water Tax

Of all the taxes levied by urban local governments in Punjab, the property tax and octroi are the most significant. Besides, state government allows the local government to share with them the proceeds of entertainment tax and excise duty.

**Chart-4.3**

Average Percentage Share of Property Tax and Octroi in Total Tax Revenue of Urban Local Bodies in Punjab 2001-2006

- Octroi Tax: 84.47%
- Property Tax: 13.29%
- Other Taxes: 2.24%

Chart-4.3 indicates that octroi and property tax, out of the total gamut of available taxes such as vehicle tax, profession tax, toll tax, entertainment tax, advertisement tax, have been the main contributors to the municipalities’ tax income. The exclusive share of octroi tax is around 84.47% and property tax about 13.29%, while other taxes constitute around 2.24% of the entire tax income of the municipalities in Punjab during 2001-2006.

Tax revenue is the major source of income of the Council as the revenue from various types of taxes constitute approximately above 90 percent of the total income of the Council. This can easily be assessed through the following chart-

**Chart-4.4**


<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>VAT</td>
<td>85.70%</td>
</tr>
<tr>
<td>Share in Excise Duty</td>
<td>6.20%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>8.10%</td>
</tr>
</tbody>
</table>

Chart-4.4 shows that the Council has been imposing a number of taxes such as VAT in lieu of octroi, share in excise duty, entertainment tax, advertisement tax, show tax, octroi from electricity, and water tax. VAT in lieu of octroi turns out to be the major contributor (85.70%) in the entire collection of tax revenue, while share in excise duty constitutes 6.20% and other taxes constitute mere 8.10%.
Major Components of Tax Revenue:
Following are the major components of tax revenue-

1) Octroi:
Octroi is a tax on commodities being brought into a town. The Constitution of India mentions it as ‘taxes on entry of goods into a local area for consumption, use or sale therein.’ Octroi is, indeed, an ancient tax, and to many, a synonym for the municipal government itself. The common name used for octroi by the laymen is *chungi* (handful).

Octroi is a major source of local revenue accounting for about one-fourth of total tax revenue of all local bodies in the country. Occupying a prominent place in the tax structure, octroi accounts for 60 to 80 percent of the tax revenue of all the municipalities. A comparative study conducted by Planning Commission indicates that octroi accounts for 86.24 percent in Gwalior, 76.61 percent of tax revenue in Varanasi and 71.17 percent in Shimla. In Punjab it accounts for 84.47 percent of the total tax revenue.

The state government prescribes the schedule of octroi rates on different items entering a municipal area for their adoption. Municipal Committee can also initiate a proposal to the state government by adopting a special resolution to levy a tax on entry on a specified good and the state government may sanction the same or refuse or return it for reconsideration. In order to bring uniformity in the rates of octroi, Punjab Government in 1961 adopted a schedule of rates on different items, which was subsequently revised in 1983, 1990, 1993, 1994, 1998 and in 2001. The revision of 1993 was opposed by the traders on the ground that the rates were increased up to 400%. A new schedule was notified on 10.1.1994. Subsequently a few more changes were incorporated in 1998 and 2001.

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9 Entry 52 of the State List, Seventh Schedule, Constitution of India.
11 Section 62 of the Punjab Municipal Act, 1911
Thus, a new schedule of octroi rates on goods entering the municipal limits for consumption, use or sale prescribed by the Punjab Government was implemented throughout the state including Municipal Council S.A.S Nagar, Mohali under the Act. Since, the State Legislature is competent to levy a tax only on entry of goods for “consumption, use or sale into a local area, the council do not have the power to levy a tax in respect of goods brought into the local area for purposes other than consumption, use or sale.

Under the revised octroi schedule of 2001, octroi is levied by the council on certain items such as- articles of food and drink for human and animal consumption, tobacco, animals for sale and consumption, chemicals, medicines, textiles, toilet accessories, electric goods, sports and music instruments, toys, metal, rubber, lubricating oils, building material, fuel etc.

In some of the municipalities’ octroi is assessed either on the value of goods (ad valorem basis*), while in others it is on the basis of the weight. In municipalities where wholesale markets are in abundance particularly of cloth, octroi is assessed on the basis of weight. In municipalities where the import is for direct consumption the levy is on ad valorem basis such as in Municipal Council S.A.S Nagar, (Mohali) the octroi was assessed on ad valoram basis e.g. - on all soft drinks and juices 5% was deducted from the rate on which these were purchased. For the purpose of collecting octroi, 11 octroi posts were constituted at all the entry points in the city. The work in each octroi post was handled by an octroi clerk and an assistant were on duty to collect octroi from each post.

Though octroi constituted the financial backbone of the local bodies, it was abolished in Punjab in 2006. A similar move was initiated in 2001. The then Government headed by S. Prakash Singh Badal decided to abolish octroi.

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12 Section 61 of the Punjab Municipal Act, 1911

* A fixed percentage of money per 100kg is deducted from the amount on which the item is purchased
But the move suffered a major setback when it was restrained by the Punjab and Haryana high court against taking any step in this regard. The petition in this regard was filed by a few municipal councillors of Bathinda, seeking directions to quash the Punjab government’s decision of September 17, 2001 whereby the octroi charged by various municipal councils and corporations was to be abolished with effect from October 1 in the state. The petitioners contended that the decision was violative of the mandatory provisions of article 243-w read with the 12th schedule of the Constitution of India which imposed mandatory duties on the municipal councils in various public interest-related matters.13

A similar but futile move was initiated by the new Government headed by Chief Minister Amarinder Singh in July 2003.

Thereafter, an Advisory Committee on Fiscal Reforms was constituted to carry out an extensive study of the tax structure that could be evolved as an alternative to octroi and a proposal to adjust the massive staff engaged in octroi collection.

After studying the feasibility of the report submitted by the Advisory Committee, the Government again presented the proposal in Vidhan Sabha and it was approved by the House. Consequently, octroi was abolished in the state with effect from September 1, 2006 with an assurance of providing local bodies with substitute tax alternatives and also adjusting the employees engaged in octroi collection to other Government Departments.

Consequently, Value Added Tax (VAT) was introduced in Punjab. VAT is “a tax on the value addition at different stages, of manufacturing and distribution of goods and services.”14 It is known as general consumption tax assessed on the value added to goods and services. It is a general tax that

13 The Times of India, 27.09.2001
applies, in principle, to all commercial activities involving the production and
distribution of goods and the provision of services. It is collected fractionally,
via a system of deductions whereby taxable persons can deduct from their
VAT liability the amount of tax they paid to other taxable persons on
purchases for their business activities. This mechanism ensures that the tax is
neutral regardless of how many transactions are involved.

In other words it is a multi-stage tax, levied only on value added at each
stage in the chain of production of goods and services with the provision of a
set-off for the tax paid at earlier stages in the chain. The objective is to avoid
cascading which can have a snowballing effect on prices. It is assumed that due
to cross-checking in a multi-staged tax, tax evasion will be checked, resulting
in higher revenues to government.15

Thus the mechanism of VAT is such that, for goods that are imported
and consumed in a particular state, the first seller pays the first point tax, and
the next seller pays tax only on the value-addition done-leading to a total tax
burden equal to the last point tax.

After introduction of VAT in Punjab, the Finance Department of Punjab
Government collects VAT from the owners of the shops falling under
Municipal Council S.A.S Nagar, (Mohali) and 10% share of VAT is given to
the Council. The employees working in octroi posts for the collection of tax
have been adjusted to other departments of the Council.

15 V. Balachandren, Indirect Taxation, Sultan Chand and Sons, New Delhi, 2005, p.145.
Table 4.2
Proceeds received through Octroi and Value Added Tax (VAT) by Municipal Council S.A.S. Nagar (Mohali) 1995-2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Proceeds</th>
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<tr>
<td>1995-1996</td>
<td>984.41</td>
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<td>1996-1997</td>
<td>998.32</td>
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<td>1997-1998</td>
<td>1084.89</td>
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<td>1998-1999</td>
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<td>2004-2005</td>
<td>1797.47</td>
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<td>2006-2007</td>
<td>2050.42</td>
</tr>
<tr>
<td>2007-2008</td>
<td>2257.63</td>
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</table>

Table 4.2 presents a comparison of net proceeds received through octroi from 1995-96 to 2005-06 and the amount received through VAT from 2006-07 to 2007-08. The analysis of data indicates that the amount of VAT given has been showing the same annual percentage increase (ranging from 0.5% to 7.5%) after its imposition in 2006. Which clearly indicates that the amount which council was receiving through octroi has now been received through VAT.

The councilors were asked about their opinions on abolition of octroi in the state. Most of them were in favour of abolishing octroi as they argued that abolition of octroi does not affect the tax revenue in any way as the alternative tax (VAT) fetches them same amount of money as they were getting through octroi. Thus, Council has not been suffering any loss due to imposition of VAT.
Those who were against it argued that octroi is a tax with a local base which shall always be with local people; state has nothing to do with it. Imposition of VAT no doubt brings no financial loss to the Council but definitely throws power in the hands of the state Government and making Council financially dependent on it. Indian Express reported, “after the abolition of octroi, the Municipal Council has become totally dependent on the amount of VAT paid by Government every year.”

2) Excise Duty:

The word "Excise" is derived from a Dutch term "Acise", which itself is derived from the Latin word "Accensay", which means "to tax". It is an indirect tax on commodities manufactured, produced, sold, used or transported within the country. Excise duty is a duty levied on goods manufactured and not on sales or the proceeds of sale of goods. It is, thus, a duty that is indigenously manufactured.\(^7\)

The Webster’s New International Dictionary defines "Excise duty" as:

a) any duty, toll or tax;

b) an inland duty, levied upon the manufacture, sale or consumption of commodities within the country.\(^8\)

Excise duty is a tax on goods or commodities. It can, thus, be called as a commodity tax. It is not a tax on services. A few special features, describing the nature of excise duty, are as follows:-

1. The duty of excise is not levied directly on the goods, but is levied on the manufacture or production of a new commodity. Hence, it is called an 'indirect tax'

2. Excise duty is payable by the manufacturer or producer, not by the consumer.

\(^6\) Indian Express, 18.05.2007.
\(^8\) The Webster’s New International Dictionary, 2005, p.144.
However, the incidence of duty is always, indirectly, on the consumer.

3. Excise duty is levied on goods and the taxable event is manufacture or production of a new commercial commodity. The levy and collection of excise duty is, practically, made at a stage next to the manufacture of goods.

4. The taxable event is not independent of liability to pay duty from levy of duty. Therefore, there cannot be different taxable events for different purposes.

5. The method of collection does not affect the essence of excise duty, but only relates to the machinery of collection for administrative convenience.\(^19\)

Excise duty tax is administered by the Central Government as well as by the State Governments.\(^20\) The Constitution of India empowers Government to impose duties of excise on tobacco and other goods manufactured or produced in India, except alcoholic liquors for human consumption, opium, narcotics, but including medicinal and toilet preparations containing alcohol, which is called “Central Excise”\(^21\) and State Governments can impose tax on alcoholic liquors, opium and narcotics, etc., which is called “State Excise”.\(^22\)

Central Excise duties on medicinal and toilet preparations containing alcohol are administered by Center Government but the revenue is collected by the states and form part of their finances.\(^23\) The revenue collected through state excise is distributed between the state and municipalities on the basis of the recommendations of State Finance Commission.

In Punjab the share given by the state from excise duty on Indian Made Foreign Liquor (IMFL) and beer, and on auction money from liquor vends to municipal bodies is 16% and 10% respectively as per the recommendations of The Second Punjab Finance Commission. Even The Third Punjab Finance

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\(^{20}\) Article 256 of the Constitution of India.

\(^{21}\) Entry 84 of the Union List, Seventh Schedule, Constitution of India.

\(^{22}\) Entry 51 of the State List, Seventh Schedule, Constitution of India.

\(^{23}\) Article 268 of the Constitution of India.
Commission made similar recommendation. The Finance Department of Punjab Government is responsible to collect excise duty imposed on Indian Made Foreign Liquor (IMFL) and beer and auction money from liquor vends falling under Municipal Council S.A.S Nagar, (Mohali) and 10% of its share is given to the Council.

**Table-4.3**

**Net Proceeds received through Excise Duty by Municipal Council S.A.S. Nagar (Mohali) 1995-2008**

<table>
<thead>
<tr>
<th>Figures in Lakh</th>
<th>Year</th>
<th>Net Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1996</td>
<td></td>
<td>131.52</td>
</tr>
<tr>
<td>1996-1997</td>
<td></td>
<td>135.65</td>
</tr>
<tr>
<td>1997-1998</td>
<td></td>
<td>218.32</td>
</tr>
<tr>
<td>1998-1999</td>
<td></td>
<td>138.17</td>
</tr>
<tr>
<td>1999-2000</td>
<td></td>
<td>204.32</td>
</tr>
<tr>
<td>2000-2001</td>
<td></td>
<td>140.23</td>
</tr>
<tr>
<td>2001-2002</td>
<td></td>
<td>142.03</td>
</tr>
<tr>
<td>2002-2003</td>
<td></td>
<td>145.85</td>
</tr>
<tr>
<td>2003-2004</td>
<td></td>
<td>230.26</td>
</tr>
<tr>
<td>2004-2005</td>
<td></td>
<td>159.32</td>
</tr>
<tr>
<td>2005-2006</td>
<td></td>
<td>160.23</td>
</tr>
<tr>
<td>2006-2007</td>
<td></td>
<td>232.60</td>
</tr>
<tr>
<td>2007-2008</td>
<td></td>
<td>163.11</td>
</tr>
</tbody>
</table>

Table-4.3 depicts the share of excise duty received by the council during the period 1995-2008. During discussions with the employees it was revealed that the Council is not getting its full share of 10% out of the total excise generated in the state. Only 6% to 7% amount is received and the remaining 2% to 4%...

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amount is given after two or three years depending upon the availability of funds with the Government. As it can be seen in the table that more amounts were given in the years 1997-98, 1999-2000, 2003-04, 2006-07. This shows that the amount of excise duty has not been received regularly by the Council thus, making Council fully dependent on state government in this regard.

3) Entertainment Tax:
Entertainment tax is levied on programmes and luxuries including betting and gambling. It is generally levied on the price charged for admission to any place of entertainment, like cinemas, theatrical performances, exhibitions, games and variety entertainment. The incidence of this tax falls on the public who enjoy and patronise such entertainment. However, entertainment for charitable, religious or for educational purposes as also for advancement of agriculture, industry and public health are exempted. 25

The usual procedure of assessment and collection is to charge the tax on the total value of tickets sold. In some cases, the tax is charged on the basis of a specified percentage of the gross collection. 26

The tax is determined, imposed and collected by the state government and once the financial year is over, it is reimbursed to the municipal body concerned in whole or part. The Committee on Augmentation of Financial Resources of Urban Local Bodies had suggested that entire proceeds from this tax which at present go to the state exchequer should be given to the local bodies as it has a local basis and can also be best administered by a local authority with a certain degree of autonomy. 27

25 Entries 33, 34 and 62 of the State List, Seventh Schedule, Constitution of India.
However, it is not necessary that the entertainment tax is collected by the state only like in S.A.S Nagar, (Mohali) the tax is collected by the Municipal Council. There is one cinema hall in the city from where entertainment tax is drawn. It is charged on the basis of number of tickets sold per day. 15% of the money is paid from the gross collection through selling of tickets per day as entertainment tax by the theater owner to Council every month.

**Table-4.4**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1996</td>
<td>0.8</td>
</tr>
<tr>
<td>1996-1997</td>
<td>0.9</td>
</tr>
<tr>
<td>1997-1998</td>
<td>0.10</td>
</tr>
<tr>
<td>1998-1999</td>
<td>0.13</td>
</tr>
<tr>
<td>1999-2000</td>
<td>0.15</td>
</tr>
<tr>
<td>2000-2001</td>
<td>0.16</td>
</tr>
<tr>
<td>2001-2002</td>
<td>0.19</td>
</tr>
<tr>
<td>2002-2003</td>
<td>0.20</td>
</tr>
<tr>
<td>2003-2004</td>
<td>0.23</td>
</tr>
<tr>
<td>2004-2005</td>
<td>0.27</td>
</tr>
<tr>
<td>2005-2006</td>
<td>0.31</td>
</tr>
<tr>
<td>2006-2007</td>
<td>0.32</td>
</tr>
<tr>
<td>2007-2008</td>
<td>0.34</td>
</tr>
</tbody>
</table>

The income from entertainment tax has increased over the years as may be seen from Table 4.4. The increase in tax collection has been made possible due to increase in population of the city during 1995-2008. The population has increased mainly due to three reasons setting up of I.T. companies like Dell, Quark, etc., acquiring of the status of a district and its proximity with the city.
like Chandigarh.

4) Show Tax:

Show tax is imposed on video parlours exhibiting cinema films on commercial basis. A person is liable to pay show tax, who is running or maintaining a cinema and the tax is imposed on the number of shows held by the management per week. Show tax is different from the entertainment tax in the sense that entertainment tax is imposed on the sale of cinema tickets and the burden of which necessarily falls on the person purchasing the tickets.28

Table-4.5
Net Proceeds received through Show Tax by Municipal Council
S.A.S. Nagar (Mohali)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Proceeds</th>
<th>Figures in Lakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1996</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>1996-1997</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>1997-1998</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>1998-1999</td>
<td>0.11</td>
<td></td>
</tr>
<tr>
<td>1999-2000</td>
<td>0.13</td>
<td></td>
</tr>
<tr>
<td>2000-2001</td>
<td>0.14</td>
<td></td>
</tr>
<tr>
<td>2001-2002</td>
<td>0.15</td>
<td></td>
</tr>
<tr>
<td>2002-2003</td>
<td>0.18</td>
<td></td>
</tr>
<tr>
<td>2003-2004</td>
<td>0.21</td>
<td></td>
</tr>
<tr>
<td>2004-2005</td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td>2005-2006</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>2006-2007</td>
<td>0.30</td>
<td></td>
</tr>
<tr>
<td>2007-2008</td>
<td>0.32</td>
<td></td>
</tr>
</tbody>
</table>

Show tax in S.A.S Nagar, (Mohali) is imposed by the Municipal Council on the only cinema hall in the city, where 15% of the gross collection from the shows held in a month is deposited by the theatre owner. Table 4.5 has been

28 Rule 17, Municipal Account Code, 1930
showing income generated through show tax from 1995-2008. During these years the income has increased around 8 times. The increase in collection is mainly due to increase in population and the proximity of the city with Chandigarh.

5) Advertisement Tax:
Municipalities are empowered to levy tax on advertisements other than those published in the newspapers with the prior sanction of the state government. Every person who erects, exhibits, fixes or retains upon or over any land, building, wall hoarding, frame post, kiosk or structure any advertisement of, or displays an advertisement to public view or in any vehicles plying within municipal area or by means of cinematograph, in any manner whatsoever, visible from a public street or public place pays for every advertisement at the prescribed rate.

In S.A.S Nagar (Mohali) advertisement tax is imposed and collected by the council on all the advertisements published on walls, buildings, roundabouts, including hoardings within the municipal area. However, any advertisement relating to public meetings or election to Parliament or state legislature or the Council is exempted from such tax. It is charged on following parameters-
(a) In the case of posters - Re. 10 per square feet per month.
(b) In the case of illuminated advertisement - Rs.20, 000 per board per month.

31 Section 61 of the Punjab Municipal Act, 1911
Table 4.6
Net Proceeds received through Advertisement Tax by Municipal Council S.A.S. Nagar (Mohali)
(From 1995-2008)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>2.09</td>
</tr>
<tr>
<td>1996-97</td>
<td>2.14</td>
</tr>
<tr>
<td>1997-98</td>
<td>2.20</td>
</tr>
<tr>
<td>1998-99</td>
<td>2.28</td>
</tr>
<tr>
<td>1999-2000</td>
<td>3.30</td>
</tr>
<tr>
<td>2000-2001</td>
<td>3.39</td>
</tr>
<tr>
<td>2001-2002</td>
<td>4.20</td>
</tr>
<tr>
<td>2002-2003</td>
<td>4.25</td>
</tr>
<tr>
<td>2003-2004</td>
<td>5.98</td>
</tr>
<tr>
<td>2004-2005</td>
<td>6.69</td>
</tr>
<tr>
<td>2005-2006</td>
<td>7.11</td>
</tr>
<tr>
<td>2006-2007</td>
<td>7.19</td>
</tr>
<tr>
<td>2007-2008</td>
<td>8.14</td>
</tr>
</tbody>
</table>

Table 4.6 is showing total increase in income of advertisement tax from 1995-2008. During this period, the revenue through this source has raised by almost 4 times. The increase in tax collection is mainly due to opening up of shopping complexes, mobile stores, eating joints in all over the city to meet the demands of increasing population and competition amongst them.

6) Water Tax:
Urban utilities like water supply require massive investment. Municipal bodies are responsible for providing water supply in urban areas and a tax is imposed on citizens on the quantity of water consumed and the cost incurred on providing water supply which include the cost of water purification,
maintenance and depreciation of water plants.32

In S.A.S Nagar, (Mohali) water tax is imposed on the persons residing within municipal limits however; the occupants of the houses who do not use the public hydrants are not liable to pay the water tax.33 It is imposed by Municipal Council on consumers residing in industrial area phase VI to IX, where water is supplied through a water works situated in industrial Phase VII. A total of 923 connections have been fed by the council daily. Water to the residents is supplied through tubewells. For residential connections it is imposed @ Re. 3.20 per kiloliter and for commercial connections @ Re. 6.00 per kiloliter.

7) Octroi from Electricity:

Octroi from Electricity is another source of income of the Municipal Council S.A.S. Nagar (Mohali). Punjab State Electricity Board pays @ 1 % per unit from gross revenue collected through electricity bills charged from the residents bi-monthly. Though, the Council does not perform any of the function relating to supply of electricity in the city, it gets a share from the Punjab State Electricity Board.

The income generated through water tax and octroi from electricity have been presented in Table 4.8.

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33 Sub-clause 2 of Section 61 of the Punjab Municipal Act 1911.
Table 4.7
Net Proceeds received through Water Tax and Octroi from Electricity by Municipal Council S.A.S. Nagar (Mohali) 1995-2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Water Tax</th>
<th>Octroi from Electricity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1996</td>
<td>74.12</td>
<td>84.23</td>
</tr>
<tr>
<td>1996-1997</td>
<td>75.22</td>
<td>86.16</td>
</tr>
<tr>
<td>1997-1998</td>
<td>76.04</td>
<td>87.29</td>
</tr>
<tr>
<td>1998-1999</td>
<td>78.02</td>
<td>89.25</td>
</tr>
<tr>
<td>1999-2000</td>
<td>80.14</td>
<td>91.15</td>
</tr>
<tr>
<td>2000-2001</td>
<td>81.09</td>
<td>92.15</td>
</tr>
<tr>
<td>2001-2002</td>
<td>84.85</td>
<td>94.56</td>
</tr>
<tr>
<td>2002-2003</td>
<td>85.41</td>
<td>95.42</td>
</tr>
<tr>
<td>2003-2004</td>
<td>89.78</td>
<td>96.25</td>
</tr>
<tr>
<td>2004-2005</td>
<td>90.65</td>
<td>98.23</td>
</tr>
<tr>
<td>2005-2006</td>
<td>92.35</td>
<td>102.29</td>
</tr>
<tr>
<td>2006-2007</td>
<td>93.96</td>
<td>104.08</td>
</tr>
<tr>
<td>2007-2008</td>
<td>95.71</td>
<td>109.13</td>
</tr>
</tbody>
</table>

Table 4.7 has been depicting the income generated through water tax and octroi from electricity from 1995-2008. Water tax has been showing a total 29.4% increase while, octroi from electricity is showing 30% increase during these years. Major factors contributing to the increase are increase in number of connections (from 605 in 1995 to 923 in 2008) and increase in use of electrical appliances like air conditioners, inverters, water pumps etc.

4.2.2 Non-Tax Revenue:
As discussed above, the bulk of municipal revenue is from taxes. Apart from taxes there are some sources of revenue such as fees, fines, rents, penalties and user charges for specific services rendered license fees etc.

Fees: The term 'fee' is generally defined to be a charge for special service
rendered to individuals by government or semi-government agency. The amount of the fee levied is supposed to bear some relationship with the expenses incurred by an agency in rendering the said service.\footnote{Article 265 of the Constitution of India.}

The municipal committees are authorized to levy the following fees\footnote{Sub-Section 2 of Section 61 of the Punjab Municipal Act, 1911}: 

(i) For copies of registers, documents, maps, etc.  
(ii) For a notice of demand for payment of a tax (warrant fee).  
(iii) For permission to place movable or immovable encroachments on public streets (Tehbazari Fee).  
(iv) For licence for dangerous or offensive trades.  
(v) For licence for the drivers of the vehicles, or animals, kept or plying for hire.  
(vi) For licence of hotels and lodging houses.  
(vii) For licensing of job porters, animals etc.  
(viii) For licensing of premises and persons engaged in sale, preparation or exposure for sale of specified articles of food and drink.  
(ix) For registration of clogs.  
(x) For use of premises of slaughter of animals.  
(xi) For the disposal of dead animals.  
(xii) For use of washing and bathing places.  

Apart from above fees there can be some other fees such as cattle pound fee, fee for detention of stray dogs, for letting of fireworks, for supply of copies of bye laws of municipal committees, medical fee, fee from educational institutions, and so on.  

Out of all the above fees, substantial revenue is derived from license fee for motor vehicles, for sale of spirits and drugs etc. and fee from educational institutions.  

\footnote{Trades involving danger from fire, poisonous gas, electric shock etc.}
Rents: Apart from fees, a substantial portion of the municipal revenue is earned by the way of rents from land and buildings, dak bungalows, rest houses, serais, etc. Revenue from other sources: Some non-tax revenue is also collected by the municipalities in the shape of fines, penalties, etc. Apart from this, some municipalities derive revenue as a result of sale of plots, trees and other products of land. Slaughter houses are also run by municipalities in order to ensure quality and avoid unhygienic effects on the town environment, which are the source of income to them.

Non-tax revenue of Municipal Council S.A.S Nagar, (Mohali) constitute mere 1.16% of the total revenue earned. Though, Non-tax revenue does not contribute much in the total income, it plays an important role in regulating certain practices in city such as encroachment on municipal property without taking permission, sale of adulterated food, running dangerous trades or selling food items without license etc.

Non-tax revenue of the Council has been generated through following sources of collecting fees and fine-
- Teh-bazari
- Pure Food Act license fees
- Fees from dangerous or offensive trades
- Slaughter house license fees and fees from cattle pond
- Miscellaneous: Road cut charges, funeral charges, cremation charges, bus queue shelter charges
### Table 4.8

**Non-Tax Revenue of Municipal Council S.A.S Nagar, Mohali**

1995-2008

<table>
<thead>
<tr>
<th>Figures in lakh</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Teh-Bazari</td>
<td>3.32</td>
<td>3.97</td>
<td>4.15</td>
<td>4.82</td>
<td>5.85</td>
<td>7.24</td>
<td>8.96</td>
<td>10.72</td>
<td>11.86</td>
<td>12.89</td>
<td>14.52</td>
<td>15.75</td>
<td>16.98</td>
</tr>
<tr>
<td>Fee from Dangerous or Offensive Trade</td>
<td>1.31</td>
<td>1.49</td>
<td>1.65</td>
<td>1.89</td>
<td>2.10</td>
<td>2.52</td>
<td>2.58</td>
<td>2.80</td>
<td>2.89</td>
<td>3.03</td>
<td>3.15</td>
<td>3.30</td>
<td>3.32</td>
</tr>
<tr>
<td>Pure Food Act Licence Fee</td>
<td>0.04</td>
<td>0.07</td>
<td>0.11</td>
<td>0.17</td>
<td>0.25</td>
<td>0.31</td>
<td>0.35</td>
<td>0.38</td>
<td>0.42</td>
<td>0.46</td>
<td>0.50</td>
<td>0.65</td>
<td>0.66</td>
</tr>
<tr>
<td>Slaughter house Licence Fee</td>
<td>0.50</td>
<td>0.62</td>
<td>0.71</td>
<td>0.98</td>
<td>1.11</td>
<td>1.18</td>
<td>1.23</td>
<td>1.32</td>
<td>1.37</td>
<td>1.41</td>
<td>1.53</td>
<td>1.60</td>
<td>1.72</td>
</tr>
<tr>
<td>Fee from Cattle Pond</td>
<td>0.18</td>
<td>0.12</td>
<td>0.19</td>
<td>0.26</td>
<td>0.36</td>
<td>0.41</td>
<td>0.48</td>
<td>0.53</td>
<td>0.58</td>
<td>0.62</td>
<td>0.74</td>
<td>0.80</td>
<td>0.93</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10.88</td>
<td>15.27</td>
<td>22.84</td>
<td>27.04</td>
<td>31.45</td>
<td>35.92</td>
<td>39.72</td>
<td>43.94</td>
<td>48.43</td>
<td>51.54</td>
<td>55.21</td>
<td>58.23</td>
<td>60.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16.23</strong></td>
<td><strong>21.54</strong></td>
<td><strong>29.65</strong></td>
<td><strong>35.16</strong></td>
<td><strong>41.12</strong></td>
<td><strong>47.58</strong></td>
<td><strong>53.32</strong></td>
<td><strong>59.69</strong></td>
<td><strong>65.55</strong></td>
<td><strong>69.95</strong></td>
<td><strong>75.65</strong></td>
<td><strong>80.33</strong></td>
<td><strong>83.61</strong></td>
</tr>
</tbody>
</table>

Table 4.9 gives a glimpse of the total collection received through teh-bazari, Pure Food Act license fees, fees from dangerous or offensive trades, slaughter house license fees, fees from cattle pond and miscellaneous sources including road cut charges, funeral charges, cremation charges, bus queue shelter charges.

Further analysis of data clearly indicates that the major source of non-tax revenue is (excluding miscellaneous sources) teh-bazari, which constitutes 72% of the total collection.

1) **Teh-bazari:**

Under section 61 of the Act, nobody has a fundamental right to use a land belonging to another without the person paying for it. The local bodies, therefore, have been authorized to levy teh-bazari, for use and occupation of...
the land belonging to them or entrusted to their management.  

Thus, teh-bazari is a fee charged from the persons aspiring to use municipal property including open lands, community centers for organizing ceremonial functions, religious functions, exhibitions etc.

In Municipal Council S.A.S. Nagar (Mohali), Municipal Engineer has been authorized to give permission to persons interested in using municipal land for organizing certain functions such as marriages, birthday parties, ceremonies such as paths, bhogs or exhibiting fairs and festivals, exhibitions, game shows, magic shows etc. at their own cost, for maximum a period of one month. Teh-Bazari is charged @ 5 Rs. Per square feet, the payment for which is taken in advance by the Council.

During discussions with the teh-bazari staff about the problems faced by them in collecting the fee, it was found that generally, people avoid paying for more days so, they pay for few days and after the expiry of the specified time period, they do not vacate the land and stay there illegally. There is a system of checking such encroachments regularly by the area inspectors who have been empowered to confiscate the goods and materials including tents, furniture utensils etc. lying on the site and to impose errant persons a fine of Rs. 1000 per day. However, most of the time people go unchecked or escaped from the punishment because of their contacts with the higher officials/politicians of the Council or money power. So, there is a need to check the activities of the inspectors through sudden inspections by the Municipal Engineer and to take strict action against them.

2) Pure Food Act License fees:
Municipal Council S.A.S. Nagar (Mohali) has been empowered to impose Pure Food Act license fees on eating joints in the city and to keep a check on the sale of eatables outside institutions or market places. The basic purpose of charging license fee is to keep a vigil on the persons selling eatables without

getting license and to stop the sale of adulterated, sub-standard food.37

Executive Officer of the council has been authorised to issue licence to the owners of the eateries including hotels, restaurants dhabhas etc. A monthly fee is charged @ 5 Rs. per square feet from them.

Apart from this, it imposes fine on the vendors @ Rs. 750 for selling eatables, fruits, vegetables etc. on roadsides, outside schools/colleges, cinemas or markets.

Though, council makes efforts to check the sale of adulterated food by keeping a vigil over such people through monthly inspections, the system itself has been adulterated as the officials are involved in taking bribe from the people running vends of cut fruits, salads, meals etc.

3) Fees from dangerous or offensive trades:

The council charges fees from traders dealing in dangerous trades involving danger from fire, poisonous gas, electric shock etc. Along with this, it imposes penalty on industries practicing dangerous trades, running without taking license.38

The license to the industries dealing in trades such as fire works, petro products, liquid petroleum gas cylinders, kerosene oil, paints and distempers etc. is issued by Deputy Commissioner of the city. However, the responsibility of charging monthly fee from such industries lies with the Executive Officer of the council. It is charged @ Rs. 10 per square feet. The council also imposes penalty ranging from Rs. 10,000 to Rs. 50,000 on the persons running industry without taking license.

There is a system of keeping a check on the industries through monthly inspections by area inspectors, who give report to the Executive Officer and impose fine with his permission only. During discussions with the traders it was revealed that many a times the inspectors join the errant party for getting

37 Section 61 of the Punjab Municipal Act, 1911
38 Ibid.p.198.
financial gains and do not report to the council. Such types of activities negatively effect the fee collection, which need to be checked by Executive Officer through surprise visits.

4) Fee from Cattle Pond:
The council has its own cattle pond, which generates income by imposing fine on the owners of cows and buffalos caught by it from public places including streets, roads, parks, markets etc. A fine of Rs. 1000 is imposed on cows/buffalos and Rs. 500 on calves. Income is also generated through bidding of animals, which fetches around 50,000-60,000 annually to council.

Though, the system generates good income through imposing fine, it has been found during discussions that people are not willing to pay hefty amount of fine for their animals to council, rather they prefer to pay few percentage of amount to the inspector. So, there is a need to keep a check on the activities of inspectors through sudden inspections by Executive Officer.

5) Other Sources:
Other sources of the council include slaughter house license fee. The council charges a monthly fee @ Rs. 5 per square feet to slaughter house owners. It also imposes a penalty ranging from Rs. 5,000-10,000 from persons running such business without getting license.

Along with these sources, the miscellaneous sources include- Road cut charges, funeral charges, cremation charges, bus queue shelter charges etc.

4.2.3 Grants-in-aid:
Grants-in-aid form an essential part of municipal finance. They may be defined as "a sum of money assigned by a superior to an inferior government authority."39 It is a payment made from the treasury of the state government to a local authority for the purpose of assisting that authority in carrying out a part or all of its activities. The financial

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disparity resulting from the continuous increase of local expenditure and a limited base of local taxation accounts for the increasing importance of state contributions to the local coffers (like local bodies and the like) in the shape of grants-in-aid subventions and shared taxes. There are some other reasons for grants to local governments, such as:

(i) Firstly, the state government delegates a number of responsibilities for public services to local bodies. The income of the local bodies is not sufficient to discharge these responsibilities.

(ii) Secondly, the economic conditions vary from area to area, the local bodies in less developed areas will, therefore, especially be handicapped.

(iii) Thirdly, local governments cannot keep within their boundaries, all the benefits from their expenditure. In fact, there is virtually no public service which fails to afford some benefits external to the jurisdiction which provides it. Moreover, there are some services for which local government would be reluctant to spend fund from its own resources. The Central or state government, has therefore, to provide funds to encourage local bodies to undertake activities; whose benefits are not strictly confined to their jurisdictions.

(iv) Lastly, the richest sources of revenue are pre-empted by higher government levels, and local bodies are consequently left without adequate resources. It follows therefore, that a general objective of transfer of resources to local bodies is to supplement their resources so as to enable them to provide services adequate to the requirements at the local level.

In this connection it may be mentioned that an ideal system of Government grants would take into account the local needs of the area, the financial means of the local bodies and the cost of providing necessary services in the area. These factors vary in each case and are difficult to assess. Further, financial

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transfers based on local needs alone, without adequate allowance being made for the effort on the part of the local bodies for mobilising local resources, might fail to remove inter-unit inequalities. Therefore financial transfers may have to take into account both 'need' and 'effort'. 41

The grants are mainly of two types: Conditional (Specific Purpose) and Unconditional (General Purpose). In case of the former, the grantor defines the purpose for which the recipient is to use the funds. The amount of a specific grant may be determined in different ways. A certain percentage of locally financed expenditure may be assigned to a given service. Alternatively, a certain amount may be assigned to each unit of need. In contrast, for general-purpose grants, the recipient government can employ the grants according to its own set of priorities. These grants are designed to ensure that all local bodies at a given level are financially able to provide certain basic services.

There exist a variety of possible forms within the category of conditional grants. One particular type is matching grants, where, according to a specified formula, the recipient is required to match each grant money it accepts with a certain amount of funds from its own revenues. So, grants to local governments play important role in developing local area.42

General purpose grants are given by Punjab Government to develop the area falling under Municipal Council S.A.S Nagar, Mohali. Basic purpose behind giving such grants to the city is that during the last 8-10 years the city has become an IT hub. A number of industries like Quark, Infosys, Dell etc. have been setting up. Which poses problem of developing residential area for their staff. Though, the responsibility of developing residential areas lies with the GMADA (Greater Mohali Area Development Authority), the provision of basic services in these areas is the responsibility of council. Thus, council

41 V. Gnaneswer, “Inter Government Financial Transfers: The Case of Shared Taxes”, Urban India, LXV, January-June, 1994, p. 20
needs funds for the adequate provision of basic services such as water, roads, sanitation, street lighting etc. in these areas.

Table 4.9
Grants Released by Govt. of India and Punjab Govt. to Urban Local Bodies 2001-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Govt. of India</th>
<th>Govt. of Punjab</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2002</td>
<td>16.74</td>
<td>3.67</td>
<td>20.41</td>
</tr>
<tr>
<td>2002-2003</td>
<td>29.27</td>
<td>2.79</td>
<td>32.06</td>
</tr>
<tr>
<td>2003-2004</td>
<td>26.13</td>
<td>0.09</td>
<td>26.22</td>
</tr>
<tr>
<td>2004-2005</td>
<td>11.96</td>
<td>50.83</td>
<td>62.79</td>
</tr>
<tr>
<td>2005-2006</td>
<td>15.86</td>
<td>72.01</td>
<td>87.87</td>
</tr>
<tr>
<td>Total</td>
<td>99.96</td>
<td>129.39</td>
<td>229.35</td>
</tr>
</tbody>
</table>


Table 4.9 gives a clear indication of the grants released by Govt. of India and Govt. of Punjab during 2001-2006. During this period, 99.96 cr were released by Govt. of India and 129.39 cr by Govt. of Punjab for implementing urban development projects including sewerage and water supply schemes.
### Table 4.10
Grants Received by Municipal Council S.A.S Nagar, Mohali 1995-2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Grants</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1996</td>
<td>98.15</td>
<td>-</td>
</tr>
<tr>
<td>1996-1997</td>
<td>101.63</td>
<td>1.77 %</td>
</tr>
<tr>
<td>1997-1998</td>
<td>105.81</td>
<td>2.05 %</td>
</tr>
<tr>
<td>1998-1999</td>
<td>106.32</td>
<td>0.24 %</td>
</tr>
<tr>
<td>1999-2000</td>
<td>109.53</td>
<td>1.50 %</td>
</tr>
<tr>
<td>2000-2001</td>
<td>111.22</td>
<td>0.77 %</td>
</tr>
<tr>
<td>2001-2002</td>
<td>113.81</td>
<td>1.16 %</td>
</tr>
<tr>
<td>2002-2003</td>
<td>116.23</td>
<td>1.06 %</td>
</tr>
<tr>
<td>2003-2004</td>
<td>117.12</td>
<td>0.38 %</td>
</tr>
<tr>
<td>2004-2005</td>
<td>119.25</td>
<td>0.90 %</td>
</tr>
<tr>
<td>2005-2006</td>
<td>123.77</td>
<td>1.89 %</td>
</tr>
<tr>
<td>2006-2007</td>
<td>126.64</td>
<td>1.15 %</td>
</tr>
<tr>
<td>2007-2008</td>
<td>131.82</td>
<td>2.04 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1481.30</strong></td>
<td><strong>14.91%</strong></td>
</tr>
</tbody>
</table>

Analysis of figures presented in Table 4.10 points out that during the last decade 1995-2008, the grants given by Punjab Government has increased with an average growth rate of 1.24% annually. The maximum increase (2.05%) was found in the year 1997-1998, while minimum increase (0.24%) was in the year 1998-1999.

During discussions it was found that there is no consistency in providing grants to council as it generally depends upon the availability of funds with the government. Moreover, grants are to be given by government in installments after every six months. But these are not given in time. Generally, it takes more than 8 months in receiving grants, which hampers developmental works in the city.
4.2.4 Loans:

Municipal bodies are obliged to borrow from state government and other agencies to meet emergencies and for capital expenditure which they cannot afford out of their own revenues. Their borrowings are regulated by central law known as the Local Authorities Loan Act, 1914. Based on this Act their exact borrowing powers are defined in the respective municipal laws detailing the limits and purposes of their borrowing.

The council may from time to time by a resolution in this behalf passed at the meeting of the council raise a loan, by the issue of debenture, on the security of the consolidated rate or of all or any of the taxes dues under the Punjab Municipal Act, 1911 on the guarantee of the State Government of any sum of money which may be required for—

a. the construction work, acquisition of land, to pay-off debt;

b. for relief work during times of famine or scarcity and for the prevention of dangerous epidemic diseases;

c. to pay loan, for the acquisition of a public utility concern which renders such services as the council is authorised to render and

d. for the purchase of vehicles, or other machinery necessary for the carrying out of the purposes of the Act.43

However, there are some significant differences in some of the salient features of the borrowing operations of municipal committees. First, no loan can be raised without the prior permission of the state government. Second, maximum period for which loans can be borrowed by municipal committees is thirty years. Third, municipal committees can borrow on the security of their funds only.

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Table 4.11
Outstanding Debt Liability of Urban Local Bodies as on 01.09.2006

<table>
<thead>
<tr>
<th>Name of Financial Inst.</th>
<th>Loan Amount</th>
<th>Purpose of Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>HUDCO, New Delhi</td>
<td>112.58</td>
<td>Water Supply, Sewerage &amp; Low Cost Sanitation</td>
</tr>
<tr>
<td>LIC, Bombay</td>
<td>39.12</td>
<td>Water Supply &amp; Sewerage</td>
</tr>
<tr>
<td>Banks</td>
<td>7.50</td>
<td>-do-</td>
</tr>
<tr>
<td>GMADA</td>
<td>29.25</td>
<td>-do-</td>
</tr>
<tr>
<td>SUDA</td>
<td>1.50</td>
<td>-do-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>189.95</strong></td>
<td></td>
</tr>
</tbody>
</table>


Table 4.11 shows the amount of outstanding debt liability of urban local bodies in Punjab. The total amount taken as on 01.09.2006 is 189.95 cr. The maximum amount (112.58) of loan has been taken from HUDCO, New Delhi, while the minimum amount (1.50cr.) is taken from SUDA.

Municipal councils in India may borrow from institutional funding agency, like HUDCO. The urban infrastructure financing wing (UIFW) of HUDCO provides long-term loan to municipal bodies on soft-terms to carryout a variety of projects.

Municipal Council S.A.S. Nagar (Mohali) can also take loan from State Bank of India or any other scheduled bank as may be approved by Punjab government with its prior permission. However, the council has never raised any loan from any institution so far.

**4.3 EXPENDITURE:**

Municipal expenditure refers to the application of money from the Municipal fund (Municipal fund constitutes all sums received by or on behalf of the committee) of all service charges and costs necessary for carrying out the provisions of the Act, and on all acts and things
which are likely to promote the safety, health, welfare or convenience of the inhabitants, for meeting the cost of the local government Directorate or its sub-offices and for the execution of any work certified by the Secretary, Local Government Department of the concerned state to be urgently required in public interest.  

The Punjab Municipal Act, 1911 has laid down certain priorities in respect of expenditure of municipal committees. The first charge on the municipal fund is the repayment of loans followed by various other items of expenses in the following order:

a) Contributions towards the cost of Directorate/Inspectorate as the state government may establish for advising, assisting, and supervising the work of municipal bodies;

b) Charges of establishment including police;

c) audit fees;

d) maintenance of homes pauper and lunatics;

e) water works;

f) drainage, sewerage and other works;

g) annual payment to the state government equivalent to the total provision made in the budget for the year (when the educational institutions run by the municipal bodies were provincialised) under the main head 'Education' excluding provisions relating to public libraries, reading rooms and museums;

h) construction and maintenance of public streets, bridges, drains, latrines, urinals, tanks and water courses;

i) hospitals and dispensaries, rest houses, sarais, poor houses, markets and other works of public utility;

j) relief works in time of famine, floods and scarcity;

k) maintenance of public parks and gardens;

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44 Section 51 of the Punjab Municipal Act, 1911
l) holding of fairs and exhibitions and
m) all acts and things which are likely to promote the safety, health
welfare and convenience of the inhabitants.45

On the basis of the provisions explained above municipal expenditure
is further divided into three heads-
a) charges of establishment- It includes day-to-day expenses for operating
essential services, pay staff salaries as well as for maintenance of offices;
b) payment of loans- It involves long-term expenditure for construction for
which local authorities generally depend on borrowing, subsidies, grants, etc.
c) provision of minimum needs of the citizens- It involves expenditure
on developmental activities such as water supply, sanitation, street lighting,
roads etc. 46

In Municipal Council S.A.S. Nagar Mohali expenditure is divided into three
heads-

i) Establishment:
Establishment covers expenditure on -salaries of staff, annual increments, and
superannuation benefits such as gratuity, pension, provident etc.

ii) Development:
Expenditure on development includes –charges on maintenance of water
supply, roads, street lights, sewer and storm water, installation of tubewells,
development of parks, etc.

iii) Contingency:
Contingency contains expenses on stationery, electricity/ water bills, repair of
vehicles, telephone bills etc.

45 Section 52 of the Punjab Municipal Act, 1911
Delhi, 1993, p. 65
Table-4.12
Expenditure of Municipal Council S.A.S Nagar, Mohali
From 1995-2008
Figures in lakh

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment</td>
<td>211.77</td>
<td>221.16</td>
<td>225.61</td>
<td>231.55</td>
<td>243.05</td>
<td>245.00</td>
<td>298.66</td>
<td>301.89</td>
<td>398.78</td>
<td>469.11</td>
<td>572.67</td>
<td>586.56</td>
<td>658.63</td>
</tr>
<tr>
<td>Development</td>
<td>939.44</td>
<td>1010.71</td>
<td>1190.46</td>
<td>1194.55</td>
<td>1273.00</td>
<td>1275.14</td>
<td>1326.50</td>
<td>1331.45</td>
<td>1443.82</td>
<td>1603.32</td>
<td>1703.25</td>
<td>1743.27</td>
<td>1935.00</td>
</tr>
<tr>
<td>Contingency</td>
<td>68.52</td>
<td>70.80</td>
<td>73.00</td>
<td>75.10</td>
<td>79.21</td>
<td>82.96</td>
<td>85.11</td>
<td>88.58</td>
<td>91.62</td>
<td>97.36</td>
<td>103.25</td>
<td>108.23</td>
<td>114.00</td>
</tr>
<tr>
<td>Grand Total</td>
<td>1219.73</td>
<td>1302.67</td>
<td>1489.07</td>
<td>1501.20</td>
<td>1595.26</td>
<td>1603.10</td>
<td>1710.27</td>
<td>1721.92</td>
<td>1934.23</td>
<td>2169.79</td>
<td>2379.12</td>
<td>2438.06</td>
<td>2707.63</td>
</tr>
</tbody>
</table>

Table-4.12 clearly indicates that during 1995-2008 development grabs major chunk of expenditure as it constitutes approximately 72% of the total expenditure of the council, while establishment and contingency constitute mere 24% and 4% respectively.

Further analysis of data points out that the expenditure on all the three components viz., development, establishment and contingency has risen during 1995-2008 by 16.23%, 8.15% and 5.10% respectively. This clearly shows that after development establishment is one such head which is getting lesser financial allocations than development head but showing more percentage increase during these years.

4.4 BUDGETING:

Budget is a principal instrument of financial administration. It consists of those operations the object of which is to make funds available for the government activities, and to ensure the lawful and efficient use of these funds.

A budget is a statement containing a forecast of revenues and expenditure for a period of time usually a year. It is a comprehensive plan of action designed to achieve the policy objectives set by the government for the coming year. A budget is a plan which is a reflection of what the government expects to do in future.
Budget in fact, is a record of past performance, a method of current control, and a projection of future plans. It is a report of the entire financial operations of the government of the past and gives us a glimpse into future government fiscal policy. It is an attempt to allocate financial resources through political processes. It reflects an organisation's goals and aspirations and its policies and proposals to realise them.

A budget is a financial report of statement and proposals which are periodically placed before the legislature for its approval and sanction. A budget is a balanced estimate of expenditures and receipts for a given period of time. In this sense "budgeting is concerned with systematic, intelligent planning and control." 47

Thus, budget is the keystone of municipal finance and it plays following roles effectively-
1) a policy making role in allocating resources between various categories of infrastructure and services; 
2) a management role in allocating resources to particular agencies/departments and estimating the inputs-personnel, equipment, etc. required to achieve specific outputs; and
3) a control in giving authority to local officials to collect and spend money and in prescribing, who can spend how much and on what. 48

Municipal budget is the annual financial statement of the anticipated income and expenditure of the concerned municipal body. Budget preparation is usually the occasion for determining the levels of taxation and the ceilings on expenditure. The main objective of the budget is to ensure that funds are raised and money is spent by the executive departments in accordance with rules and regulations and within the limits of sanctions and authorizations by the municipal council.

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The budget estimates of Municipal Council S.A.S. Nagar (Mohali) are prepared by the Accounts Branch of the council. Normally, the proposals are initiated in the months of October-November. The budget is broadly classified into revenue and expenditure. The revenue side includes the net income received through taxes, fees and fines. The expenditure side includes the expenditure on establishment (the salaries and other expenses including the allowances given to employees), contingency (stationary, water/electricity bills etc.) and development (maintenance of roads, development of parks etc.).

The budget estimates are ready for presentation by the mid of February and are placed before the House by the President in a special meeting generally held in the last working days of February or first week of March. It is not mandatory that budget is to be presented during these days only, but it is due to a convention which is being followed since last 8-10 years. Like the budget for 2008-09 was presented on March 4th, 2008; the budget for 2007-08 was presented on February 26th, 2007; the budget for 2006-07 was presented on March 2nd, 2006.

Before presenting the budget in the House, the agenda of meeting is supplied to each member of the House 48 hours before the commencement of meeting. This is done with a view to give adequate information to members regarding the budget estimates, so that they can prepare themselves for the discussion in the House.

After presentation of the budget in the House, discussions are carried out. No gap is given between the presentation of the budget and general discussion over it; rather discussions are initiated immediately after presenting the budget in the House. The scope of budget at this stage is confined to the general examination of the budget i.e. proper distribution of the items of expenditure according to the importance of a particular subject or service, i.e. preference is given to the developmental works such as maintenance of roads, parks, streetlights etc.
Members therefore, make observations with regard to the general scheme and the structure of the budget. The general scheme of the budget includes consideration of revenue, surplus or deficit, revenue and expenditure account and the overall surplus or deficits. So far as the revenue account is concerned, members may take into account the method of estimation, whether the revenue is over-estimated or under-estimated. Whether the expenditure is pitched too high as compared to previous years. (Generally, items which are scanned under this are- estimates of repairing roads (patch works), broken roads, construction of road gullies, back-lanes etc.)

During discussions, the members may ask to cut down the expenditure on the items which they feel are over-estimated and can give suggestions in this regard. However, no cut motions are introduced during voting; rather demands are passed with mutual consent of the members.

After discussing the facts, finally, the president may either approve or ask to modify the estimates in the light of discussions and suggestions made by the members of the house of the council. Thus, it takes only a day in the council to approve the budget. After passing of budget by the President, it is sent to Directorate of Local Bodies, Punjab for final approval.

The opinions of the staff were sought on the system of passing of budget by the council and Directorate. According to them it takes a single day to pass the budget by council, however, it takes a month or more than that in passing the budget by the Directorate. The reason behind such delay is the procedure at the Directorate level which includes the fixing of date (which may take around 15-20 days) for a special budget meeting by the convener. The Minister of Local Bodies acts as convener of the meeting. The other members include the Director, Secretary, Joint Secretaries etc. After fixing of date, the agenda is prepared and then it is communicated to each member (which may take around 5-7 days). On a fixed day meeting is commenced and
the members discuss mainly the expenditure part keeping in view the expenditure of previous years. On the basis of the suggestions given by members regarding bringing economy in the expenditure, some modifications are made. Lastly, the budget is approved.

Thus, it can be said that the procedure of giving approval on the municipal budget causes delay in passing the budget by the state government. “The system and procedure of financial control by state government on local bodies is more involved and cumbersome.”

“The system of approval of the budget of council by the state government is not conducive to the efficient management of municipal affairs as quite often the process of approval is time consuming and till the formal approval is received, the municipal government is run on a most slender budget. But the state government had its own reasons to have the right to approve the municipal budget. Chief among them being its concern in ensuring proper financial health of the local government for which it is accountable to the legislature on the one hand and to the people on the other; since it gives substantial grants to the municipal bodies for a number of activities and it would naturally be interested in ensuring proper utilization of such grants.”

The procedural delays at the state level can possibly be reduced if the state government retains indirect control over the budget of the local bodies. It may assume powers under the municipal statutes to issue detailed guidelines and the municipal bodies may be given a free hand to formulate and finalize their budgets within the framework of the provisions laid down there under. The reforms suggested by The Committee on Budgeting Reforms in Municipal Administration,

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49 M.J.K. Thavaraj, op.cit., p.263.
50 Pardeep Sachdeva, Urban Local Government and Administration in India, Kitab Mahal, Allahabad, p.213.
accented on the elimination of direct control, streamlining the procedures and decentralization.\textsuperscript{51}

\begin{table}
\centering
\small
\caption{Total Revenue Receipts and Expenditure of Municipal Council S.A.S. Nagar (Mohali) 1995-2008}
\begin{tabular}{|c|c|c|c|}
\hline
Year & Revenue Receipts & % Growth & Expenditure & % Growth \\
\hline
1995-1996 & 1293.80 & -- & 1219.73 & -- \\
1996-1997 & 1320.63 & 1.0 & 1302.67 & 3.3 \\
1997-1998 & 1498.59 & 6.7 & 1489.07 & 7.1 \\
1998-1999 & 1519.21 & 0.6 & 1501.20 & 0.4 \\
1999-2000 & 1658.56 & 4.5 & 1595.26 & 3.1 \\
2000-2001 & 1692.89 & 1.0 & 1603.10 & 0.2 \\
2001-2002 & 1720.97 & 0.8 & 1710.27 & 3.3 \\
2002-2003 & 1846.00 & 3.6 & 1721.92 & 0.3 \\
2003-2004 & 2053.49 & 5.6 & 1934.23 & 6.1 \\
2004-2005 & 2222.83 & 4.1 & 2169.79 & 6.0 \\
2005-2006 & 2439.47 & 4.8 & 2379.17 & 4.8 \\
2006-2007 & 2569.20 & 2.6 & 2438.06 & 1.2 \\
2007-2008 & 2717.99 & 2.8 & 2707.63 & 5.5 \\
\hline
\end{tabular}
\end{table}

Table 4.14 gives detail of the revenue receipts and expenditure of the council from 1995 to 2008. The figure clearly indicates that the council has constantly been producing a surplus budget since its constitution in the year 1995 i.e. the income is more than the expenditure.

\textbf{4.5 AUDITING:}

Audit is an indispensable tool for ensuring sound financial administration. It is one of the most important instruments of parliamentary control over the finances. Its primary purpose is to

ensure that in the process of expending government funds, all cannons of financial propriety have been observed, that the rules and regulations which govern expenditures are adhered to, that the expenditure has been incurred by the authority which is empowered to incur it, and that it has been incurred for the purpose for which it has been appropriated by the Parliament.52 Ashok Chanda describes its role aptly in these words:

“In all recognized democracies, audit is not just tolerated as necessary evil, but is looked upon as a valued ally which brings to notice procedural irregularities and lapses on the part of individuals, whether they are errors of judgement, negligence or acts and intents of dishonesty. The complimentary role of audit in administration is accepted as axiomatic being essential for toning up the machinery of government.”53

Audit of the municipal bodies, generally, is conducted either through post-audit or pre-audit system of auditing. Post-audit is the post-mortem of the expenditure which has already been incurred and it is just like locking the barn after the horse is stolen. So, it is said to be a post-mortem of the expenditure already made. Pre-audit system, on the other hand, is regarded to be a more effective instrument of financial control as in pre-audit system all the payments are pre-audited i.e. audit is conducted before making actual expenditure.

Examiner, Local Fund Accounts, Punjab, Chandigarh, conducts audit of the receipts and expenditure of all the Municipal councils/corporations of Punjab including the Municipal Council S.A.S. Nagar (Mohali).

In Municipal Council S.A.S. Nagar (Mohali) auditing is done

through the system of pre-auditing. Under pre-audit system in the
council, certain officials have been appointed by the state government
including one Resident Audit Officer (RAO) representing the
Examiner, Local Fund Accounts, Punjab assisted by one junior auditor.
The auditors draw their salary from the government. They pre-audit all
the payments which have been sanctioned under budget relating to the
salaries of employees; developmental works (repairing of roads,
construction of road gullies, back-lanes etc.); stationary; furniture etc.
No payment can be made by the council without getting approval from
the RAO i.e. the council cannot spend even a single penny without
getting prior approval from the RAO.

In case a particular loss is incurred due to the negligence
misconduct of a particular councillor or officer of the council, the
Examiner issues a certificate of surcharge and transmits it to the State
Government who alone has the power of ordering surcharge and
realizing it from the councillor/office concerned. Generally, the
objections raised which are not of serious nature are settled through
discussions with the concerned councillor/office and objections
involving bigger amounts are reported to the Punjab Government.

Discussions with the staff revealed that the employees are not
satisfied with the pre-audit system as according to them this system
causes delay in making expenditure as sanctions may take 8-10 days or
more than that even a month. Due to which, many a times their
requirements are not fulfilled in time like many developmental works
relating to patch works/ recarpetting of roads; installation of
tubewells/pumping machinery get delayed. “Thus Pre-audit is criticised
on the ground that it curbs initiative and leads to delay in the process of

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implementation."

During discussions it has also been found that most of the audit rules and regulations have been taken from manual made during the British Rule. It is suggested that the finance department should prepare an exhaustive manual in simple language, so that, it can be understood by all the employees and may not be the ex-document for audit personnel only. It would be more appropriate if the manual is first written in Punjabi Language and then translated into English to avoid ambiguities and to inject further clarity.

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