

## **CHAPTER IV**

# **ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES**

## SECTION B

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#### ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

##### 4.1 Introduction

**4.1.1** In conformity with the 74<sup>th</sup> Constitutional Amendment, the Government of Maharashtra (GOM) amended (December 1994) the existing Mumbai Municipal Corporation (MMC) Act, 1888, the Bombay Provincial Municipal Corporation (BPMC) Act, 1949, the Nagpur City Municipal Corporation (NCMC) Act, 1948 and the Maharashtra Municipal Councils (MMC) Act, 1965. All the Municipal Corporations except Municipal Corporation of Greater Mumbai (MCGM) and NCMC which had their own Acts are governed by the provisions of amended BMC Act. There were 22 Municipal Corporations, 226 Municipal Councils and five<sup>19</sup> Nagar Panchayats in Maharashtra. The elections of the Municipal Corporations had been held from 2007 to 2010 and of the Municipal Councils from 2006 to 2010 and in respect of Nagar Panchayats during 2006.

**4.1.2** Out of the 18 functions referred to in the Twelfth Schedule of the Constitution, 12 functions were assigned to the Urban Local Bodies (ULBs) under Sections 61 and 63 of the MMC Act and Section 63 of the BMC Act, prior to the 74<sup>th</sup> amendment. The remaining six functions were also transferred/assigned to the ULBs after 1994.

##### 4.2 Organisational set up

**4.2.1** As per the Census of 2011, the total population of Maharashtra was 11.24 crore, of which 45.23 *per cent* was from urban areas. The state has 40 cities/urban agglomerations having a population of over one lakh.

**4.2.2** Twenty two Municipal Corporations in the state have been created for urban agglomerations having a population of more than three lakh. These Municipal Corporations have been classified into four categories *i.e.* A, B, C and D, based on the criteria of population, *per capita* income and *per capita* area. At present, apart from MCGM which is in category 'A', there are two Municipal Corporations<sup>20</sup> in category 'B' and four<sup>21</sup> and 15<sup>22</sup> Municipal Corporations in categories 'C' and 'D' respectively.

**4.2.3** Similarly, 226 Municipal Councils have been created for smaller urban areas and categorised based on their population. At present, there are 12 'A' class (having population more than one lakh), 60 'B' class (having population more than 40000 but not more than one lakh) and 154 'C' class

<sup>19</sup> Dapoli (Ratnagiri), Kankavali (Sindhudurg), Kej (Beed), Malkapur(Satara) and Shirdi (Ahmednagar)

<sup>20</sup> Nagpur and Pune

<sup>21</sup> Nashik, Navi Mumbai, Pimpri-Chinchwad and Thane

<sup>22</sup> Ahmednagar, Akola, Aurangabad, Amravati, Bhiwandi-Nizampur, Dhule, Jalgaon, Kalyan-Dombivli, Kolhapur, Malegaon, Mira-Bhayander, Nanded-Waghala, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar

(having population of 40000 or less) Municipal Councils. There are five Nagar Panchayats in the state for towns with population between 15000 and 25000.

#### **4.3 Organisational Structure**

**4.3.1** The organisational set up of Urban Local Bodies (ULBs) is depicted in **Appendix V**.

**4.3.2** The accountability structure of a Municipal Corporation is as follows:

<b>Sr. No.</b>	<b>Name of the Authority</b>	<b>Accountable for</b>
1	<b>General Body</b>	Policy decisions related to expenditure from the Corporation's Municipal Fund, implementation of various projects, schemes, <i>etc.</i>
2	<b>Standing Committee</b>	All functions related to approval of budget and sanction for expenditure as per the delegation. (Can delegate its powers to sub Committee/s).
3	<b>Municipal Commissioner</b>	Administration and execution of all schemes and projects subject to conditions imposed by the General Body.
4	<b>Municipal Chief Accountant</b>	Preparation of the annual budget and finalisation of accounts and internal audit.
5	<b>Municipal Chief Auditor</b>	Audit of municipal accounts, preparation and submission of Audit Reports to the Standing Committee.

#### **4.4 Financial profile**

**4.4.1** Municipal Funds are constituted under the provisions contained in the MMC Act, 1888, NCMC Act, 1948 and BPMC Act, 1949. All the moneys received by or on behalf of the Municipal Corporations under the provisions of the respective Acts, all moneys raised by way of taxes, fees, fines and penalties, all moneys received by or on behalf of Municipal Corporation from the Government, public or private bodies, from private individuals by way of grants or gifts or deposits and all interests and profits are credited to the Municipal Funds.

**4.4.2** The State Government and Central Government release grants to the Municipal Corporations for implementation of schemes of the State sector and for centrally sponsored schemes respectively. In addition, grants under the State Finance Commission and the Central Finance Commission recommendations are released for developmental works.

**4.4.3** The accounts of each scheme/project are required to be kept separately. Utilisation Certificates are required to be sent to Central Government for centrally sponsored schemes and to State Government for State schemes.

**4.4.4** Under the BPMC Act, the MMC Act and the NCMC Act, Municipal Corporations are required to constitute special purpose funds *e.g.* Water and Sewerage Fund, Depreciation Fund, Sinking Fund, *etc.* The capital

works of water supply schemes and sewerage projects are to be executed out of the Water and Sewerage Fund. The Depreciation Fund is to be created for replacement of capital assets. The Sinking Fund is to be created for redemption of long term loans.

**4.4.5** The consolidated position of receipts and expenditure of ULBs are not maintained at the State level. As per the information furnished by Municipal Corporations for 2010-11 the overall receipts and expenditure of the Municipal Corporations in the State from 2006-07 to 2010-11 is as follows:

(₹ in crore)

Items	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Receipts</b>	16217	18348	23973	28860	30137
<b>Expenditure</b>	14820	16728	24278	28308	27558

As per the information received from all the Municipal Corporations for the year 2010-11, the total receipt and expenditure worked out to ₹ 30137 crore and ₹ 27558 crore respectively, as detailed in the **Appendix VI**. The total receipts and expenditure of Municipal Corporation of Greater Mumbai for 2010-11 is ₹ 19053 crore and ₹ 17684 crore respectively.

#### **4.4.6 Receipts**

The receipts other than Capital Receipts of Municipal Corporations from various sources during the last five years ending 31 March 2011 were as follows :

(₹ in crore)

Item	2006-07	Percentage to total receipts	2007-08	Percentage to total receipts	2008-09	Percentage to total receipts	2009-10	Percentage to total receipts	2010-11	Percentage of total receipts
Rents, taxes <i>etc.</i> including octroi, property tax and water charges	11147	68.74	12094	65.91	12253	51.11	12712	44.04	15989	53.05
Government grants	636	3.92	990	5.40	1084	4.52	1217	4.22	972	3.23
Commercial enterprises	199	1.22	198	1.08	2387	9.96	2650	9.18	13	0.04
Deposits, Loans, <i>etc.</i>	640	3.95	2525	13.76	4111	17.15	6242	21.63	1280	4.25
Other Income	3595	22.17	2541	13.85	4138	17.26	6039	20.93	11883	39.43
<b>Total</b>	<b>16217</b>	<b>100</b>	<b>18348</b>	<b>100</b>	<b>23973</b>	<b>100</b>	<b>28860</b>	<b>100</b>	<b>30137</b>	<b>100</b>

Overall, the total receipts of the Municipal Corporations showed an increasing trend over the five year period from 2006-07 to 2010-11. The share of Government grants in the total receipts of the Municipal Corporations ranged between 3.23 and 5.40 *per cent* upto 2010-11.

The tax revenue has increased by ₹ 3277 crore which is 25.78 *per cent* of the previous year, whereas the total revenue receipt has increased by ₹ 1277 crore which is 4.42 *per cent* (4.424 *per cent*, upto two digit *i.e* 4.42 *per cent*) of the previous year.

**Arrears in Tax Collection:** Information furnished by the Municipal

Corporations except MCGM, Malegaon and Solapur revealed that during the year 2010-11 Municipal Corporations recovered property taxes amounting to ₹ 1220 crore against total demand of ₹ 2637 crore.

#### **4.4.7 Expenditure**

As per the information furnished by the Municipal Corporations for the year 2010-11, the total item-wise expenditure of all Municipal Corporations put together in the state for the last five years is given in **Appendix VII**.

The expenditure on administration increased to ₹ 7313 crore during 2010-11 as compared to ₹ 6366 crore in 2009-10. In the case of MCGM, out of their total expenditure of ₹ 17684 crore for 2010-11, the share of expenditure on administration was ₹ 4951 crore which constituted 28 *per cent*. In respect of seven<sup>23</sup> more Municipal Corporations the share of expenditure on administration exceeded 28 *per cent* and ranged between 28 to 69 *per cent*. Sizable portion of expenditure of Municipal Corporations thus, is committed towards meeting firm liabilities and to that extent, money for providing various services is restricted.

#### **4.5 Twelfth and Thirteenth Finance Commission grants**

**4.5.1** The Twelfth Finance Commission (TFC) recommended grant of ₹ 791 crore to the ULBs in Maharashtra State for the years 2005-06 to 2009-10 to be utilized for development of civic services and basic amenities in the urban areas. The delay in utilization and diversion etc of TFC grants received upto 2008-09 was commented in the previous Audit Reports (2007-08 and 2009-10) of Comptroller and Auditor General of India.

Though ₹ 772.20 crore under TFC grants have been allocated to ULBs for utilization within next six months ₹ 237.22 crore is still remaining to be utilized by various ULBs (December 2011). Information regarding final utilization is awaited from Government.

The Thirteenth Finance Commission released ₹ 447.65 crore to various Municipal Corporations, Municipal Councils and Nagar Panchayats of which ₹ 89.85 crore was utilized (November 2011).

#### **4.6 Accounting arrangements**

**4.6.1** Section 93 of the BPMC Act, 1949 and Section 123 of MMC Act, 1888 provide that the accounts of the Municipal Corporations should be maintained in the formats prescribed by the Standing Committees. In pursuance of the Eleventh Finance Commission (EFC) recommendations, the Ministry of Urban Development, Government of India in consultation with Comptroller and Auditor General of India had finalised the National Municipal Accounts Manual (NMAM) for implementation of accrual based accounting system by ULBs in November 2004.

**4.6.2** The GOM adopted (July 2005) the NMAM for implementation from 2005-06. The State Accounting Manual in conformity with the NMAM was under preparation. Till finalisation of the Manual, all Municipal

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<sup>23</sup> Ahmednagar (47%), Amravati (46%), Aurangabad (40%), Jalgaon (69%), Pune (43%), Sangli-Miraj-Kupwad (36%), Solapur (28%)

Corporations were directed to maintain their accounts on accrual basis from the year 2005-06, as per the NMAM guidelines. The Steering Committee constituted by the State Government also recommended (January 2007) the implementation of accrual system of accounting in the ULBs. The draft State Account Code for ULBs prepared by Project Management Consultant appointed by Director, Municipal Administration (DMA) was submitted to Steering Committee in February 2008. The revised Account Code has not been adopted so far (May 2012).

#### **4.7 Audit Arrangements**

**4.7.1** Municipal Chief Auditor (MCA) is appointed by the respective Corporation under Section 78(a) of the MMC Act, 1888 and Section 45(i) of the BPMC Act, 1949 except NCMC where audit is entrusted to Chief Auditor, Local Fund Account. The pay and allowances of the MCA is borne on the establishment expenditure of the respective Corporation, as such independence of audit could not be ensured.

**4.7.2** Section 105 of the BPMC Act, 1949 and Section 135 of the MMC Act, 1888 provide that the MCA should audit the Municipal accounts and submit a report thereon to the Standing Committee. This report should comment on the instances of material impropriety or irregularities which the MCA may, at any time, observe in the expenditure or in the recovery of the money due to the Municipal Corporation. Section 136 of the MMC Act, 1888 further provides that the MCA shall examine and audit the statement of accounts and shall certify and report upon these accounts.

**4.7.3** Based on the information furnished by the Municipal Corporations, out of 18 Municipal Corporations which have prepared their annual accounts, audit by MCA has been completed upto 2010-11 in 14 Municipal Corporations. In Navi Mumbai and Thane Municipal Corporations, audit has been completed upto 2001-02 and 2004-05 respectively and reports submitted to Standing Committee. In the balance two<sup>24</sup> Municipal Corporations there are arrears in finalisation of accounts and audit by MCA.

**4.7.4** The State Government issued orders in October 2002 entrusting the audit of Municipal Corporations to the Comptroller and Auditor General of India. Comptroller and Auditor General of India conducts audit of Municipal Corporations under Section 14(2) of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Services) (DPC) Act, 1971. The audit of Municipal Councils and Nagar Panchayats has been entrusted (March 2011) by GOM under Technical Guidance and Supervision (TGS).

The audit observations on financial irregularities and defects in initial accounts/records noticed during local audits but not settled on the spot are communicated to the heads of offices and departmental authorities through Inspection Reports. Statements indicating the number of observations outstanding for over six months are also sent to the Government for action.

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<sup>24</sup> Ahmednagar, Nagpur

#### **4.8 Lack of response of audit observations**

The Commissioners, Officers and the elected bodies/standing committees are mainly responsible for the internal control. For efficient implementation of the functions transferred to the ULBs, all deficiencies pointed out by the Accountant General's audit were required to be complied with as early as possible and this would ultimately be helpful in achieving the objective of service to the urban population. However, the position of outstanding 471 Inspection reports and 2144 paras issued by Accountant General, Maharashtra to the Corporations, is a reflection of inadequate internal control.

<b>Year</b>	<b>Inspection Reports</b>	<b>Paras</b>
Upto 2007-08	214	698
2008-09	81	432
2009-10	68	325
2010-11	108	689
<b>Total</b>	<b>471</b>	<b>2144</b>

The arrears in audit of the Municipal Corporations by MCA as already pointed out in Para 4.7.3 is also indicative of weaknesses in the system of internal controls existing for the Municipal Corporations.

#### **4.9 Conclusion**

- Utilization of grants only to the extent of 69.28 *per cent* in respect of Twelfth Finance Commission (₹ 772.20 crore) and only 20.07 *per cent* in respect of Thirteen Finance Commission (₹ 447.65 crore) has adverse effect on the development of civic service and basic amenities.
- Although the GOM had adopted (July 2005) the National Municipal Accounting Manual for implementation from 2005-06, all the ULBs had not implemented the same so far.
- Arrears in pendency in preparation of accounts of Municipal Corporations, audit of Municipal Corporations by MCAs and huge pendency of audit paras of Accountant General's audit was indicative of inadequacy and ineffectiveness of the internal control.

The matter was referred to Government in December 2011. Reply has not been received (May 2012).