
CHAPTER III

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

SECTION B

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3.1 Introduction

3.1.1 In conformity with the 74th Constitutional Amendment (1992), the Government of Maharashtra (GoM) amended (December 1994) the existing Mumbai Municipal Corporation (MbMC) Act, 1888; the Maharashtra Municipal Corporation Act, 1949; the Nagpur City Municipal Corporation (NCMC) Act, 1948; and the Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965 (MMC Act). 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 Maharashtra Municipal Corporation Act 1949. There were 26 Municipal Corporations and 238 Municipal Councils including 15 Nagar Panchayats¹ (NP) in Maharashtra. The elections of the Municipal Corporations were held between 2010 and 2014.

3.1.2 Of the 18 functions referred to in the XII Schedule of the Constitution, 12 functions were assigned to the Urban Local Bodies (ULBs) under Sections 61 and 63 of the MbMC Act and Section 63 of the Maharashtra Municipal Corporation Act, 1949, prior to the 74th amendment. The remaining six functions were also transferred/assigned to the ULBs after 1994.

3.2 Organisational set up

3.2.1 As per the Census of 2011, the total population of Maharashtra was 11.24 crore of which, 45 *per cent* were in the urban areas. The state has 45 cities/urban agglomerations having a population of over one lakh.

3.2.2 Twenty Six 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 five categories *i.e.* A+, A, B, C and D based on the criteria of population, per capita income and per capita area. At present, only MCGM falls in category A+, there are two² Municipal Corporations in category A, three³ in category B, four⁴ in category C and 16⁵ Municipal Corporations in category D.

3.2.3 Similarly, 238 Municipal Councils have been created for smaller urban

¹ Dapoli, Devrukh, Guhagar, Lanja (Ratnagiri), Kankavli (Sindhudurg), Shirdi (Ahmadnagar), Malkapur (Satara), Kaij (Beed), Ardhapur, Mahur (Nanded), Shindkhede (Dhule), Mahadula and Mouda (Nagpur), Rajgurunagar (Pune) and Gadchandur (Chandrapur)

² Nagpur and Pune

³ Nashik, Pimpri-Chinchwad and Thane

⁴ Aurangabad, Kalyan-Dombivli, Navi Mumbai and Vasai-Virar

⁵ Ahmednagar, Akola, Amravati, Bhiwandi-Nizampur, Dhule, Jalgaon, Kolhapur, Malegaon, Mira-Bhayander, Nanded-Waghala, Sangli-Miraj-Kupwad, Solapur, Ulhasnagar, Parbhani City, Latur and Chandrapur

areas and categorised⁶ based on their population. At present, there are 12 A class, 63 B class and 163 C class Municipal Councils including 15 NPs in the State.

3.3 Organisational structure

3.3.1 The organisational structure of ULBs is depicted in **Appendix-IV**.

3.3.2 The accountability structure of Municipal Corporations is shown in **Table 1**.

Table 1: Accountability structure of Municipal Corporations

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

3.4 Financial profile

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

3.4.2 The State Government and the Central Government release grants to the Municipal Corporations and Municipal Councils 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 development works.

3.4.3 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.

3.4.4 Under the Maharashtra Municipal Corporation Act, 1949, the MbMC Act and the NCMC Act, Municipal Corporations are required to constitute special purpose funds *e.g.* Water and Sewerage Fund, Depreciation Fund,

⁶ Category A (population between one lakh and three lakh): 12; Category B (population between 40,000 and one lakh): 63; Category C (population between 25,000 and 40,000): 148; and NPs (population between 15,000 and 25,000): 15

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.

3.4.5 The consolidated position of receipts and expenditure of ULBs are not maintained at the State level. As per the information furnished by all the 26 Municipal Corporations, the position of overall receipts and expenditure of the Municipal Corporations in the State during 2009-14 is shown in **Table 2**.

Table 2: Position of overall receipts and expenditure of the Municipal Corporations during 2009-14

(₹ in crore)					
Items	2009-10	2010-11	2011-12	2012-13	2013-14
Receipts	28860	30137	32235	37046	40012
Expenditure	28308	27558	28647	34568	37229
Source: Figures furnished by Municipal Corporations					

The total receipts and expenditure of all the 26 Municipal Corporations during 2013-14 was ₹ 40,012 crore and ₹ 37,229 crore respectively which includes the total receipts (₹ 24,041 crore) and expenditure (₹ 22,028 crore) of MCGM.

3.4.6 Receipts of Municipal Corporations

The total receipts of all the 26 Municipal Corporations from various sources during 2009-14 are as shown in **Table 3**.

Table 3: Details of sources of total receipts of Municipal Corporations

(₹ in crore)										
Item	2009-10	Percentage to total receipts	2010-11	Percentage to total receipts	2011-12	Percentage to total receipts	2012-13	Percentage to total receipts	2013-14	Percentage to total receipts
Rents, taxes <i>etc.</i> including octroi, property tax and water charges	12712	44.04	15989	53.05	17800	55.22	19233	51.92	20173	50.42
Government grants	1217	4.22	972	3.23	1198	3.72	1867	5.04	3036	7.59
Commercial enterprises	2650	9.18	13	0.04	82	0.25	17	0.05	75	0.19
Deposits, loans, <i>etc.</i>	6242	21.63	1280	4.25	1853	5.75	496	1.33	251	0.63
Other income	6039	20.93	11883	39.43	11302	35.06	15433	41.66	16477	41.18
Total receipts	28860	100	30137	100	32235	100	37046	100	40012	100
Source: Compiled from figures furnished by Municipal Corporations										

The share of Government grants in the total receipts of the Municipal Corporations ranged between 3.23 *per cent* and 7.59 *per cent* during the period 2009-14.

Arrears in tax collection

Property Tax: Information furnished by 26 Municipal Corporations revealed that during the year 2013-14, Municipal Corporations recovered 74.85 *per*

cent of property taxes amounting to ₹ 13,874 crore against total demand of ₹ 18,536 crore.

Water charges: Information furnished by 23⁷ of 26 Municipal Corporations revealed that during the year 2013-14, Municipal Corporations recovered 49.05 per cent of water charges amounting to ₹ 4,979 crore against total demand of ₹ 10,151 crore.

3.4.7 Expenditure of Municipal Corporations

The total expenditure of 26 Municipal Corporations during 2013-14 was ₹ 37,229 crore of which, expenditure on administration was ₹ 10,732 crore. In MCGM, of the total expenditure of ₹ 22,028 crore incurred during 2013-14, the share of expenditure on administration was ₹ 7,548 crore and constituted 34.27 per cent of the total expenditure. In respect of six⁸ other Municipal Corporations, the share of expenditure on administration to total expenditure exceeded 35 per cent and ranged between 35.05 and 48.53 per cent. High establishment cost restricted availability of funds for other services to be provided by the Municipal Corporations.

3.4.8 Receipt and expenditure of Municipal Councils

During 2013-14, 192 of the 238 Municipal Councils incurred an expenditure of ₹ 3,450 crore against total receipts of ₹ 4,085 crore. Further, 185 of 238 Municipal Councils had arrears of property tax of ₹ 167 crore against total demands of ₹ 428 crore. Similarly, 177 out of 238 Municipal Councils had arrears of water charges of ₹ 103 crore against total demands of ₹ 231 crore.

3.5 Thirteenth Finance Commission grants

On the recommendation of the 13th Finance Commission, Basic Grant of ₹ 1,573.99 crore and Performance Grant of ₹ 603.91 crore was released to various Municipal Corporations, Municipal Councils and Nagar Panchayats of which, ₹ 1,210.66 crore (76.92 per cent) and ₹ 456.68 crore (75.62 per cent) respectively were utilized (December 2014).

3.6 Accounting arrangements

3.6.1 Section 93 of the Maharashtra Municipal Corporation Act, 1949 and Section 123 of the MbMC 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 recommendations, the Ministry of Urban Development, GoI in consultation with the 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.

3.6.2 The GoM adopted (July 2005) the NMAM for implementation from 2005-06. As per the NMAM guidelines, all Municipal Corporations were to maintain their accounts on accrual basis from 2005-06. The Steering

⁷ In three municipal corporations, water was either supplied by Maharashtra Jeevan Pradhikaran or by private parties

⁸ Amravati (40.73 per cent); Bhiwandi-Nizampur (41.97 per cent); Latur (38.08 per cent); Nagpur (35.05 per cent); Parbhani (47.95 per cent); Sangli-Miraj-Kupwad (48.53 per cent).

Committee constituted by the GoM also recommended (January 2007) implementation of accrual system of accounting in the ULBs. However, the GoM published (January 2013) the Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements only for the Municipal Councils. The notification for the implementation of Maharashtra Municipal Account Code, 2013 was issued by GoM in November 2014 *i.e.* after a delay of nearly two years.

On the recommendations of the 12th Finance Commission, GoM decided (July 2005) to implement the Double Entry Accounting System (DEAS) on accrual basis through customized module in all the 238 Municipal Councils. The GoM appointed Director Municipal Administration (DMA) as nodal agency for implementation of DEAS. Funds amounting to ₹ 10.06 crore were sanctioned (December 2006) under 12th Finance Commission for all the Municipal Councils for implementation of DEAS on accrual basis with effect from April 2006. Of ₹ 10.06 crore sanctioned, ₹ 2.98 crore was released by DMA to the Municipal Councils for meeting the establishment costs, procurement of hardware and fees to the Chartered Accountants (CAs) firms, for imparting training to Municipal staff and preparation of annual accounts of the Councils. However, DMA could not finalize the tender for procurement of customized module and thus, DEAS could not be implemented.

The DMA subsequently directed the Municipal Councils to procure Tally package 8.1 or 9.0 for maintenance of annual accounts. The Municipal Councils were required to provide details of all receipts, expenditure, assets and liabilities *etc.* in the prescribed format (Form 1 to 29) to the CAs for preparation of annual accounts. Audit verified the position in 36 of the 238 Municipal Councils and it revealed that none of the 36 Municipal Councils provided the requisite information to the CAs. As a result, the CAs could neither prepare the final accounts nor impart any training to the Municipal staff. Of the remaining ₹ 7.08 crore, 15 of the 238 Municipal Councils diverted ₹ 5.87 crore for other purposes⁹.

Thus, despite lapse of more than eight years (December 2006 to March 2015), none of the 36 Municipal Councils could switch over to DEAS on accrual basis under the Tally package.

3.7 Audit arrangements

3.7.1 A Municipal Chief Auditor (MCA) is appointed by each Corporation under Section 78 (a) of the MbMC Act, 1888 and Section 45 (i) of the Maharashtra Municipal Corporation Act, 1949 except for NCMC, where audit is entrusted to Director, Local Fund Audit (DLFA). The audit of Municipal Councils is conducted by DLFA under the provisions of the Bombay Local Fund Act, 1930 read with Section 104 of the MMC Act. The GoM, as per the recommendation of the 13th Finance Commission, entrusted (March 2011) the audit of all ULBs to DLFA. The certification of accounts of all Local Self Institutions was also to be conducted by DLFA.

The DLFA stated (January 2015) that audit of eight of the 26 Municipal

⁹ Establishment of bio-gas plants, purchase of ambulance and fire extinguishers, construction of roads, sewerage, street lights *etc.*

Corporations for the year 2012-13 had been completed and certification of annual accounts would be done after submission of accounts by the Corporations. Only five of the 26 Municipal Corporations prepared their annual accounts for the year 2013-14. In respect of Municipal Councils, DLFA stated (February 2015) that audit of annual accounts of 94 of the 238 Municipal Councils for the year 2013-14 had been completed of which, annual accounts of only 14 Municipal Councils were certified. Certification of accounts of the remaining 80 Municipal Councils would be done after submission of accounts by the Councils. Audit of the remaining 144 Municipal Councils for the year 2013-14 was not yet completed.

3.7.2 Section 105 of the Maharashtra Municipal Corporation Act, 1949 and Section 135 of the MbMC Act, 1888 provide that the MCA should audit the Municipal accounts and submit a report thereon to the Standing Committee of the Municipal Corporation. 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 MbMC Act, 1888 further provides that the MCA shall examine and audit the statement of accounts and shall certify and report upon these accounts.

3.7.3 As per information furnished by 17 out of 25 Municipal Corporations (excluding NCMC) which have prepared their annual accounts, audit by MCA has been completed up to 2013-14 in six¹⁰ Municipal Corporations and up to 2012-13 in five¹¹ Municipal Corporations and reports submitted to the respective Standing Committees. In the remaining six¹² of 17 Municipal Corporations, there were arrears in audit by MCA ranging between two and 11 years.

The arrears in certification and audit of the accounts of Municipal Corporations by MCA indicated weak internal controls in the Municipal Corporations.

3.7.4 The GoM issued orders in October 2002 entrusting the audit of Municipal Corporations to the Comptroller and Auditor General of India under Section 14 (2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The audit of Municipal Councils and NPs was entrusted (March 2011) to the Comptroller and Auditor General of India by GoM under Technical Guidance and Supervision.

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 State Government for action.

¹⁰ Dhule, Malegaon, MCGM, Mira Bhayandar, Pimpri-Chinchwad and Thane

¹¹ Ahmednagar, Bhiwandi-Nizampur, Kalyan-Dombivli, Kolhapur and Vasai-Virar

¹² Jalgaon, Nasik, Navi Mumbai, Pune, Sangli-Miraj-Kupwad and Solapur

3.8 Lack of response to audit observations

The Municipal Commissioners, Chief Officers and the elected bodies/Standing Committees are mainly responsible for the system of internal controls in the Municipal Corporations. For efficient implementation of the functions transferred to the ULBs, all deficiencies pointed out in audit by the Principal Accountant General/Accountant General are required to be complied with as early as possible for efficient service delivery to the urban population. However, as of March 2014, there were large pendency in Inspection Reports and Paragraphs issued by the Principal Accountant General/Accountant General, Maharashtra to the Corporations, which was a reflection of inadequate internal controls. The position of pendency in Inspection Reports and Paragraphs is indicated in **Table 4**.

Table 4: Position of outstanding Inspection Reports and paragraphs

Year	Inspection Reports	Paragraphs
Up to 2010-11	709	3077
2011-12	134	774
2012-13	80	326
2013-14	59	228
Total	985	4405

3.9 Conclusion

The functioning of ULBs in the State revealed the following:

- Utilisation of Basic Grants and Performance Grants released by the 13th Finance Commission to the Municipal Corporations, Municipal Councils and Nagar Panchayats was to the extent of 76.92 *per cent* and 75.62 *per cent* respectively;
- The GoM published (January 2013) the Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements only for the Municipal Councils. The GoM issued the notification for implementation of the Municipal Account Code after a delay of nearly two years in November 2014;
- Audit of the accounts of Municipal Corporations and Municipal Councils by DLFA was in arrears for the year 2012-14; and
- Response to Inspection Reports and Paragraphs issued by the Principal Accountant General/Accountant General, Maharashtra was not adequate.

The matter was referred to the Government in February 2015; their reply was awaited as of March 2015.