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***CHAPTER III***

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

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## SECTION B

### CHAPTER III

## ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

### 3.1 Introduction

**3.1.1** In conformity with the 74<sup>th</sup> 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 Act, 1948; and The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. All the Municipal Corporations, except the Municipal Corporation of Greater Mumbai (MCGM) which had its own Act, are governed by the provisions of the amended Maharashtra Municipal Corporation Act, 1949. As of January 2016, there were 26 Municipal Corporations and 338<sup>1</sup> Municipal Councils including 109 Nagar Panchayats (NPs) in Maharashtra. Elections to the Municipal Corporations were held between 2012 and 2015.

**3.1.2** Of the 18 functions referred to in the XII Schedule of the Constitution of India, 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 74<sup>th</sup> 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 26 Municipal Corporations have been categorised<sup>2</sup> into five categories namely, A+, A, B, C and D based on the criteria of population and per capita income. At present, only MCGM falls in category A+, two<sup>3</sup> in category A, three<sup>4</sup> in category B, four<sup>5</sup> in category C and 16<sup>6</sup> Municipal Corporations in category D.

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<sup>1</sup> 100 Municipal Councils including 94 NPs were formed between August 2014 and October 2015

<sup>2</sup> Category A+ (population over one crore and per capita income above ₹ 50,000): one; Category A (population between 25 lakh and one crore and per capita income above ₹ 8,000): two; Category B (population between 15 lakh and 25 lakh and per capita income above ₹ 5,000): three; Category C (population between 10 lakh and 15 lakh and per capita income above ₹ 3,000): four; and Category D (population between 03 lakh and 10 lakh): 16

<sup>3</sup> Nagpur and Pune

<sup>4</sup> Nashik, Pimpri-Chinchwad and Thane

<sup>5</sup> Aurangabad, Kalyan-Dombivli, Navi Mumbai and Vasai-Virar

<sup>6</sup> Ahmednagar, Akola, Amravati, Bhiwandi-Nizampur, Chandrapur, Dhule, Jalgaon, Kolhapur, Latur, Malegaon, Mira-Bhayandar, Nanded-Waghala, Parbhani City, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar

**3.2.3** Similarly, 338 Municipal Councils have been created for smaller urban areas and categorised<sup>7</sup> based on their population. At present, there are 12 A class, 62 B class and 155 C class Municipal Councils, including 109 NPs in the State.

### 3.3 Organisational structure

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

**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, The Maharashtra Municipal Corporations Act, 1949 and The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. 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 Corporations 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 on the recommendation of the State Finance Commission and the Central Finance Commission 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.

<sup>7</sup> Category A (population between one lakh and three lakh): 12; Category B (population between 40,000 and one lakh): 62; Category C (population between 25,000 and 40,000): 155; and NPs (population between 15,000 and 25,000): 109

**3.4.4** Under The Maharashtra Municipal Corporation Act, 1949 and the MbMC Act, 1888, Municipal Corporations are required to constitute special purpose funds e.g. Water and Sewage Fund, Depreciation Fund, Sinking Fund etc. The capital works of water supply schemes and sewage projects are to be executed out of Water and Sewage 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. The position of overall receipts and expenditure of 26 Municipal Corporations in the State during 2010-15 is shown in **Table 2**.

**Table 2: Position of overall receipts and expenditure of 26 Municipal Corporations during 2010-15**

(₹ in crore)

Items	2010-11	2011-12	2012-13	2013-14	2014-15
Receipts	30137	32235	37046	40012	43355
Expenditure	27558	28647	34568	37229	41229

*Source: Figures furnished by Municipal Corporations*

The total receipts and expenditure of 26 Municipal Corporations during 2014-15 was ₹ 43,355 crore and ₹ 41,229 crore respectively which includes the total receipts (₹ 27,044 crore) and expenditure (₹ 25,131 crore) of MCGM.

### 3.4.6 Receipts of Municipal Corporations

The total receipts of 26 Municipal Corporations from various sources during 2010-15 are as shown in **Table 3**.

**Table 3: Details of receipts of 26 Municipal Corporations from various sources during 2010-15**

(₹ in crore)

Item	2010-11	Percentage to total receipts	2011-12	Percentage to total receipts	2012-13	Percentage to total receipts	2013-14	Percentage to total receipts	2014-15	Percentage to total receipts
Rents, taxes etc. including octroi, property tax and water charges	15989	53.05	17800	55.22	19233	51.92	20173	50.42	21647	49.93
Government grants	972	3.23	1198	3.72	1867	5.04	3036	7.59	2302	5.31
Commercial enterprises	13	0.04	82	0.25	17	0.05	75	0.19	89	0.21
Deposits, loans, etc.	1280	4.25	1853	5.75	496	1.33	251	0.63	477	1.10
Other income	11883	39.43	11302	35.06	15433	41.66	16477	41.18	18840	43.45
<b>Total receipts</b>	<b>30137</b>	<b>100</b>	<b>32235</b>	<b>100</b>	<b>37046</b>	<b>100</b>	<b>40012</b>	<b>100</b>	<b>43355</b>	<b>100</b>

*Source: Compiled from figures furnished by Municipal Corporations*

The share of Government grants in the total receipts of 26 Municipal Corporations ranged between 3.23 per cent and 7.59 per cent during the period 2010-15.

### Arrears in tax collection

**Property Tax:** Information furnished by 26 Municipal Corporations revealed that during 2014-15, Municipal Corporations recovered 76 *per cent* of property taxes amounting ₹ 7,157 crore against total demand of ₹ 9,414 crore.

**Water charges:** Information furnished by 26 Municipal Corporations revealed that during 2014-15, Municipal Corporations recovered 44.65 *per cent* of water charges amounting ₹ 1,917 crore against total demand of ₹ 4,293 crore.

#### 3.4.7 Expenditure of Municipal Corporations

The total expenditure of 26 Municipal Corporations during 2014-15 was ₹ 41,229 crore of which, expenditure on administration was ₹ 11,903 crore. In MCGM, of the total expenditure of ₹ 25,131 crore incurred during 2014-15, the share of expenditure on administration was ₹ 8,392 crore and constituted 33.40 *per cent* of the total expenditure. In respect of eight<sup>8</sup> other Municipal Corporations, the share of expenditure on administration to total expenditure exceeded 35 *per cent* and ranged between 35.05 and 62.09 *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 2014-15, 209 of the 338 Municipal Councils incurred an expenditure of ₹ 5,458 crore against total receipts of ₹ 5,773 crore. 209 Municipal Councils had arrears of property tax of ₹ 292 crore against total demand of ₹ 671 crore. Similarly, 192 out of 338 Municipal Councils had arrears of water charges of ₹ 135 crore against total demand of ₹ 300 crore.

### 3.5 Thirteenth Finance Commission grants

On the recommendation of the 13<sup>th</sup> Finance Commission, Basic Grant of ₹ 1,816.95 crore and Performance Grant of ₹ 603.91 crore was released to various Municipal Corporations and Municipal Councils including NPs of which, ₹ 1,259.16 crore (69.30 *per cent*) and ₹ 466.32 crore (77.22 *per cent*) respectively were utilized (March 2015).

### 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

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<sup>8</sup> Amravati (35.17 *per cent*); Aurangabad (43.32 *per cent*); Bhiwandi-Nizampur (44.85 *per cent*); Jalgaon (36.30 *per cent*); Nagpur (35.05 *per cent*); Nanded Waghala (44.23 *per cent*); Parbhani (62.09 *per cent*); and Sangli-Miraj-Kupwad (56.22 *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 for the Municipal Councils only. No such Account code was prepared by the Director, Municipal Administration (DMA) for the Municipal Corporations even after 10 years of adoption of NMAM for implementation from 2005-06. Further, 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.

**3.6.3** On the recommendations of the 12<sup>th</sup> Finance Commission, GoM decided (July 2005) to implement the Double Entry Accounting System (DEAS) on accrual basis through customized module in the then 238 Municipal Councils. As per information furnished by DMA (January 2016) to audit, 116 Municipal Councils did not maintain accounts in DEAS. Of the remaining 122 Municipal Councils, 88 Municipal Councils started maintaining accounts in DEAS between 2005-06 and 2012-13 but discontinued the system in subsequent years and 34 Municipal Councils continued the system till 2013-14. Thus, even after a lapse of more than 10 years (July 2005 to March 2016), only 34 of 238 Municipal Councils could maintain accounts in DEAS till 2013-14.

The Urban Development Department (Department) stated (March 2016) that the work of DEAS was in progress in Municipal Councils and 34 Chartered Accountants have been appointed for this purpose. Further, a Consultant has also been appointed as the State Level Project Advisor and the work of data entry from the year 2009-10 to 2014-15 using Tally software in 234 Municipal Councils was underway. The Department added that due to shortage of manpower, there was delay in completing the work.

### **3.7 Audit arrangements**

**3.7.1** A Municipal Chief Auditor (MCA) is appointed by each Corporation under Section 78A of the MbMC Act, 1888 and Section 107A of The Maharashtra Municipal Corporation Act, 1949 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 Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. The GoM, as per the recommendation of the 13<sup>th</sup> 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 done by DLFA.

As per the information furnished by DLFA (March 2016), audit of all the 26 Municipal Corporations was completed up to 2012-13 while audit of only three<sup>9</sup> of 26 Municipal Corporations was completed for the year 2013-14. However, certification of accounts of none of the 26 Municipal Corporations could be done by DLFA for the years 2011-12, 2012-13 and 2013-14 due to non-submission of approved accounts by the respective Municipal

<sup>9</sup> Aurangabad, Bhiwandi-Nizampur and Kalyan-Dombivli

Corporations. Thus, there were significant arrears in audit and certification of annual accounts in the Municipal Corporations.

Further, audit of annual accounts of 222 of 338<sup>10</sup> Municipal Councils including NPs was completed for the year 2013-14 of which, annual accounts of only one NP was certified. Annual accounts of only eight of 222 Municipal Councils were certified for the year 2012-13.

**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.

Information furnished by 22 out of 26 Municipal Corporations, which have prepared their annual accounts, revealed that audit of accounts for the years 2014-15, 2013-14, 2012-13 and 2010-11 has been completed by MCA in eight<sup>11</sup>, five<sup>12</sup>, four<sup>13</sup> and three<sup>14</sup> Municipal Corporations respectively and reports submitted to the Standing Committees. In the remaining two<sup>15</sup> of 22 Municipal Corporations, there were arrears of five and 12 years in audit by MCA.

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

The Department stated (March 2016) that all the Municipal Corporations have been directed *vide* Government notification (January 2016) to place their accounts before the Standing Committees by 30 June every year.

**3.7.3** 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.

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<sup>10</sup> Of the remaining 116 Municipal Councils, 100 were formed between August 2014 and October 2015 hence, their annual accounts for the year 2013-14 were not prepared.

<sup>11</sup> Akola, Aurangabad, Dhule, Malegaon, Mira Bhayandar, Pune, Ulhasnagar and Vasai-Virar

<sup>12</sup> Ahmednagar, Chandrapur, Kolhapur, Navi Mumbai and Sangli-Miraj-Kupwad

<sup>13</sup> Bhiwandi-Nizampur, Kalyan-Dombivli, Nashik and Thane

<sup>14</sup> MCGM, Nanded-Waghala and Solapur

<sup>15</sup> Jalgaon and Pimpri-Chinchwad



### 3.8 Lack of response to audit observations

#### 3.8.1 Outstanding Inspection Reports and Paragraphs

The Municipal Commissioners, Chief Officers and the elected bodies/Standing Committees are mainly responsible for the system of internal controls in the Municipal Corporations and Municipal Councils. For efficient implementation of the functions transferred to the ULBs, all deficiencies pointed out in audit by the Principal Accountant General/Accountant General, Maharashtra are required to be complied with as early as possible for efficient service delivery to the urban population. However, as of March 2015, there was large pendency in Inspection Reports and Paragraphs issued by the Principal Accountant General/Accountant General 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 2011-12	625	2905
2012-13	96	525
2013-14	88	577
2014-15	18	189
<b>Total</b>	<b>827</b>	<b>4196</b>

The Department stated (March 2016) that the heads of various offices have been directed *vide* Government notification (January 2016) to clear the outstanding paragraphs by preparing timelines.

#### 3.8.2 Follow-up on Audit Reports

According to instructions issued (January 2001) by the Finance Department, GoM, Administrative Departments were required to furnish Explanatory Memoranda (EMs) duly verified by Audit to the Maharashtra Legislature Secretariat in respect of paragraphs included in the Audit Reports, within three months of presenting the Audit Reports to the State Legislature. The Administrative Departments however, did not comply with these instructions. The EMs in respect of 11 paragraphs/reviews figuring in Audit Reports of 2006-07 to 2013-14 (except 2007-08 and 2010-11) have not yet been received by audit (31 March 2016) as indicated in **Table 5**.

**Table 5: Status of submission of EMs in respect of Audit Reports**

Audit Report	Date of tabling the Report	Number of Paragraphs and Reviews	Number of EMs received	Balance
2006-07	23 December 2009	13	09	04
2008-10	23 December 2011	18	15	03
2011-12	19 December 2013	09	08	01
2012-13	24 December 2014	11	09	02
2013-14	31 July 2015	06	05	01
<b>Total</b>		<b>57</b>	<b>46</b>	<b>11</b>

Further, with a view to ensuring accountability of the Executive in respect of all issues dealt with in the Audit Reports, the Public Accounts Committee

(PAC) lays down in each case, the period within which Action Taken Notes (ATNs) on its recommendations should be sent by the Department.

The PAC discussed 27 paragraphs of ULBs and issued (up to December 2015) 17 recommendations on nine paragraphs - seven pertaining to the Audit Report 2005-06 and one paragraph each from Audit Reports of 2006-07 and 2007-08. ATNs in respect of all the 17 recommendations were pending as indicated in **Table 6**.

**Table 6: Position of outstanding ATNs**

Year of Audit Report	Report Number and year of PAC	Number of PAC recommendations	Number of ATNs awaited on PAC recommendations
2005-06	19 <sup>th</sup> Report of 2012-13	11	11
2006-07	4 <sup>th</sup> Report of 2015-16	3	3
2007-08	5 <sup>th</sup> Report of 2015-16	3	3
<b>Total</b>		<b>17</b>	<b>17</b>

### **3.9 Conclusion**

The Accounts and Finances of Urban Local Bodies (2014-15) in the State revealed that:

- utilization of Basic Grants and Performance Grants released by the 13<sup>th</sup> Finance Commission to the Municipal Corporations and Municipal Councils including Nagar Panchayats was to the extent of 69.30 *per cent* and 77.22 *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 for the Municipal Councils only. However, the notification for implementation of the Municipal Account Code was issued by the GoM 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 years 2013-15 and 2014-15 respectively;
- response to Inspection Reports and Paragraphs issued by the Principal Accountant General/Accountant General, Maharashtra was not adequate; and
- action taken notes in respect of 17 recommendations made by the Public Accounts Committee up to December 2015 were pending.