

# OVERVIEW



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This Report comprises of three chapters under two sections. Section A includes one chapter containing an overview on the functioning, accountability mechanism and financial reporting issues of Panchayati Raj Institutions (PRIs). Section B comprises of two chapters containing an overview on the functioning, accountability mechanism and financial reporting issues of Urban Local Bodies (ULBs).

### 1. Functioning of Panchayati Raj Institutions

A review of finances of PRIs revealed that of the 29 functions referred to in the XI Schedule of the Constitution of India, 15 functions were transferred to the PRIs. Though all the 15 functions were discharged by the PRIs, they did not have full jurisdiction in respect of these functions; they functioned as implementing agencies in ten functions; they have dual role in two functions; they have overlapping jurisdiction with State Government departments and parastatals in three functions. The PRIs have limited role in discharging their functions and it was not consistent with the spirit of devolution.

The PRIs were allocated ₹ 29,417.83 crore (12.25 *per cent*) for the year 2021-22 out of the State Government's total revenue receipts of ₹ 2,40,233.83 crore. The share of Union taxes/duties was ₹ 54,318.06 crore, Grant-in-aid by GoI was ₹ 38,759.68 crore and Compensation in lieu of GST was ₹ 17,834.22 crore.

(Paragraph 1.3)

The Director, Local Fund Accounts Audit (DLFAA), under the administrative control of Finance Department, Government of Maharashtra is the statutory auditor for all the PRIs in the State. DLFAA prepares annually, an Audit Review Report (ARR) containing important audit observations issued during the year to the PRIs. The ARR is placed in the State Legislature through Rural Development & Panchayat Raj Department (RDD).

In respect of compliance audit, DLFAA completed audit of all the 34 ZPs and 351 PSs during the year 2021-22. Similarly, out of 57,152 GPs (including backlog of audit of GPs of previous years), DLFAA had completed the audit of 44,398 GPs during 2021-22. Out of 760 Audit Reports of ZPs and PSs issued by DLFAA during the year 2021-22 (July 2021 to June 2022), 669 (88 *per cent*) audit reports were issued within the stipulated time. Similarly, out of 19,686 audit reports of GPs issued during the year 2021-22 in 29 districts 16,605 (84 *per cent*) audit reports were issued within time.

As of June 2022, 1,767 audit objections related to misappropriations, frauds, embezzlements involving money value of ₹ 100.93 crore were outstanding in ZPs/PSs for audits completed up to the year 2021-22. Similarly, in GPs, 37,706 audit objections involving money value of ₹ 594.92 crore were outstanding as of June 2022.

The ARR is discussed by Panchayat Raj Committee constituted by State Legislature. The Panchayat Raj Committee has discussed ARR up to the year 2016-17. The ARR of PRIs for the year 2018-19 was submitted (August 2021)

by DLFAA to RDD and the same was presented to State Legislature in March 2022. The ARR for year 2019-20 was yet to be prepared and presented to the State Legislature (September 2022).

Audit of PRIs and ULBs is conducted under Section 14 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Technical Guidance and Support (TGS) is also provided by Comptroller and Auditor General of India (C&AG) to DLFAA.

**(Paragraph 1.5)**

The Thirteenth Finance Commission (December 2009) recommended that the Comptroller and Auditor General of India (C&AG) should be entrusted with the responsibility of Technical Guidance and Supervision (TGS) over maintenance of accounts and audit of the Panchayati Raj Institutions and the Urban Local Bodies. Accordingly, the Technical Guidance and Supervision (TGS) was entrusted to CAG by the State Government in March 2011. The GR *inter-alia* provided for training of officers and employees of DLFAA by C&AG, besides commenting on the audit report of DLFAA.

As part of the technical guidance and support responsibility entrusted with C&AG, the officials of Accountant General in the State provide training to the officials of DLFAA on double entry accounting system, maintenance of accounts in Model Accounting System, audit checks, e-Governance in local bodies, introduction to Performance Audit *etc.*

**(Paragraph 1.6)**

As of December 2022, a total of 2,549 Inspection Reports (9,102 paragraphs) of PRIs audited by Accountant General were outstanding. As of December 2022, 35 out of 60 paragraphs included in the Audit Reports from 2005-06 to 2015-16 and 3 paragraphs included in the Annual Technical Inspection Report (ATIR) for the period 2016-17 to 2018-19 were pending discussion by Public Accounts Committee (PAC). The Social Audit Unit conducted social audit of 5,366 GPs out of 6,120 GPs planned during 2021-22.

**(Paragraph 1.7, 1.8)**

As of 30 June 2022, 966 UCs for grants amounting to ₹ 3,029.19 crore released till March 2021 by RDD were pending submission from the field offices. During audit of PRIs by the Accountant General in 2021-22, cashbooks of six out of 90 test-checked units revealed a number of discrepancies such as daily/monthly closing of cashbooks not done, non-maintenance of separate cashbooks for various schemes, regular attestation of daily entries by Drawing and Disbursing Officers (DDOs) not done, *etc.* During 2021-22, in 13 out of 90 test-checked units, reconciliation of balances as per cashbook with bank passbook was not done.

As of March 2023, the annual accounts of all ZPs for the year 2017-18 were certified and submitted to Government for placing it in the State Legislature. Annual accounts of two ZPs for the year 2018-19, three ZPs for the year 2019-20 and eight ZPs for the year 2020-21 and 32 ZPs for the year 2021-22 were yet to be submitted to Government.

As on March 2023, annual accounts of 14,433 GPs of 18 districts were approved by Gram Sabha and certified by DLFAA for the period 2016-21.

As of December 2022, two DC bills amounting to ₹ 1.82 lakh pertaining to RDD were outstanding for more than three years.

(Paragraph 1.10, 1.11)

## **2. Functioning of the Urban Local Bodies**

Article 243W inserted through the 74<sup>th</sup> Constitutional Amendment Act, 1992 envisaged devolution of powers and responsibilities to municipalities in respect of 18 subjects mentioned in Twelfth Schedule of the Constitution. All the 18 functions were assigned to the ULBs under Sections 61 to 68 of the MbMC Act, 1888, Section 63 of the MMC Act, 1949 and Section 49 of the MMCNP&IT Act, 1965. Though all the 18 functions were discharged by the ULBs, it has full jurisdiction in respect of 10 functions; it was an implementing agency in two functions; it had overlapping jurisdiction with other State Government Departments and parastatals in six functions.

The ULBs were allocated ₹ 36,340.72 crore (15.13 *per cent*) for the year 2021-22 out of the State Government's total revenue receipts of ₹ 2,40,233.83 crore. The share of Union taxes/duties was ₹ 54,318.06 crore and Grant-in-aid by GoI was ₹ 38,759.68 crore.

(Paragraph 2.3.3)

The Director, Local Fund Accounts Audit (DLFAA), under the administrative control of Finance Department, Government of Maharashtra is the statutory auditor for all the ULBs in the State. DLFAA carries out financial/compliance audit with special emphasis on misappropriation, fraud or embezzlements. DLFAA also prepares Audit Review Report (ARR) if the ULBs which gives a consolidated financial position of all the ULBs of the State which is submitted by DLFAA to the UDD which in turn places it before the State Legislature.

As of June 2022, out of 27 MCs, audit of eight MCs was pending from the year 2015-16, 15 MCs from the year 2016-17 and four MCs from 2018-19 onwards. Out of 24 Audit Reports of MCs to be issued during 2021-22, three Reports (13 *per cent*) were yet to be issued (June 2022).

In Municipal Councils, out of 75 Audit Reports issued during 2021-22, 28 (37 *per cent*) were issued within the time limit whereas 47 (63 *per cent*) were issued beyond the time limit. Similarly in NPs, out of 19 Audit Reports issued during 2021-22, six (32 *per cent*) were issued within the time limit whereas 13 (68 *per cent*) were issued beyond the time limit.

DLFAA had submitted ARR for the year 2013-14 to UDD in January 2021 which was placed in the State Legislature in March 2021. ARR for year 2014-15 was prepared by DLFAA in June 2022 and was under printing (August 2022). Though, Panchayat Raj Committee was constituted by the State Legislature to discuss the ARR of PRIs, no committee was constituted to discuss the ARR of ULBs.

(Paragraph 2.5)

As of December 2022, 1,158 Inspection Reports involving 5,855 paragraphs pertaining to ULBs audited by Accountant General up to March 2022 were outstanding. As of December 2022, 37 out of 104 paragraphs included in the Audit Reports from 2005-06 to 2015-16 and eight out of 20 paras included in

the ATIR for the years 2016-17 and 2018-19 were pending discussion by Public Accounts Committee.

**(Paragraph 2.7)**

As of June 2022, 760 UCs for grants amounting to ₹ 13,645.33 crore released till March 2021 by UDD were pending submission from the field offices.

**(Paragraph 2.12)**

During audit of ULBs by the Accountant General, in 14 out of 150 test-checked units during 2019-21 and in one unit (Pune Municipal Corporation) out of 27 units test-checked during 2021-22, discrepancies such as improper maintenance of cashbook, incomplete cashbook, non-maintenance of separate cash book for different schemes *etc.* were observed. During 2019-21 and 2021-22, in 12 out of 150 units test-checked and in seven units out of 27 units test-checked respectively, reconciliation of balances as per cash books with bank pass books was not done.

The Urban Development Department, (UDD) Government of Maharashtra adopted (July 2005) National Municipal Accounts Manual for implementation of accrual based accounting system by ULBs from 2005-06. The system of maintaining the accounts on accrual basis was implemented in all MCs. 244 out of 245 Municipal Councils and 135 out of 140 NPs, had maintained their accounts on accrual basis while one Municipal Council and five NPs were yet to implement the same.

There was arrears in preparation of annual accounts by MCs and Municipal Councils/ (NPs). Information furnished by 15 out of 27 MCs, revealed that only 03 MCs had prepared their annual accounts till 2021-22, while there were arrears in preparation of annual accounts in respect of 12 MCs. As per the information furnished (September 2022) by 245 Municipal Councils and 140 NPs, the arrears in the preparation of annual accounts for the period 2015-22.

As of December 2022, no DC bills pertaining to UDD were pending.

**(Paragraph 2.14)**