
CHAPTER-II

AN OVERVIEW

OF THE FUNCTIONING, ACCOUNTABILITY

MECHANISM AND FINANCIAL REPORTING ISSUES

OF URBAN LOCAL BODIES

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An Overview of the Functioning, Accountability Mechanism and Financial Reporting Issues of Urban Local Bodies

2.1 Introduction

In conformity with the 74th Constitutional Amendment Act, 1992, the Government of Maharashtra (GoM) amended (December 1994) the existing Mumbai Municipal Corporation (MbMC) Act, 1888; the Maharashtra Municipal Corporations (MMC) Act, 1949; and the Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships (MMCNP & IT) 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 (2011) Maharashtra Municipal Corporation (MMC) Act, 1949. The Municipal Councils and Nagar Panchayats (NPs) are governed by the MMCNP&IT Act, 1965.

2.1.1 State Profile

As per the Census of 2011, out of the total population of 11.24 crore in the State, 5.08 crore (45 *per cent*) was in the urban areas. The demographic and developmental status of the State as per census of 2011 is given in **Table 2.1.1**.

Table 2.1.1: Important statistics of the State

Indicator	Data
Population	11.24 crore
Population density (per sq. km)	365
Gender ratio (Urban) female: male	903: 1000
Urban population	5.08 crore
Literacy in <i>per cent</i> (Urban)	89.84
Number of Urban Local Bodies (ULBs)	412
(i) Municipal Corporations (MCs)	27
(ii) Municipal Councils	245
(iii) Nagar Panchayats	140
Source: Economic Survey of Maharashtra 2021-22, Performance Budget of Urban Development Department (UDD) 2022-23	

2.2 Organisational Structure of ULBs

2.2.1 The Urban Development Department (UDD), GoM headed by the Principal Secretary, is the nodal department for Urban Local Bodies (ULBs) at the State level. The Municipal Corporations (MCs) headed by the Municipal Commissioners report functionally to the respective elected bodies and administratively to UDD. Similarly Municipal Councils and NPs are headed by the Chief Officers functionally reporting to the respective elected bodies and administratively to the Commissioner and Director, Directorate of Municipal Administration (DMA).

DMA was established in 1965 under the administrative control of UDD to advise government in making policy relating to the local self-governance, monitoring general working of the municipalities and assisting them in drawing budget and plans. DMA also functions as a coordinator between Municipal Councils and

Government. The DMA is assisted by the Regional Directors at the divisional level and Collectors at the district level. The organisational structure of ULBs is depicted in **Appendix 2.1**.

2.2.2 Twenty-seven MCs in the State have been created for urban agglomerations having a population of more than three lakh. These 27 MCs have been classified¹ into five categories viz; A+, A, B, C and D based on the criteria of population and per capita income. At present, only MCGM falls in category A+ while there are two MCs² in category A, three MCs³ in category B, four MCs⁴ in category C and 17 MCs⁵ in category D.

Similarly, 385 Municipal Councils including NPs have been created for smaller urban areas and categorized⁶ based on their population. At present, there are 17 'A' class, 73 'B' class and 155 'C' class Municipal Councils and 140 NPs in the State.

2.3 Functioning of ULBs

2.3.1 The broad accountability structure of MCs and Municipal Councils/NPs is shown in **Table 2.1.2** and **Table 2.1.3**.

Table 2.1.2: Accountability structure of Municipal Corporations

Sr. No.	Name of the Authority	Functions assigned
1.	General Body	Taking policy decisions related to expenditure from the Corporation's Municipal Fund, implementation of various projects, schemes, etc.
2.	Standing Committee	All functions related to approval of budget and sanction for expenditure as per the delegation.
3.	Municipal Commissioner	Administration and execution of all schemes and projects subject to conditions imposed by the General Body, preparation of estimates of income and expenditure and laying it before the Standing Committee annually, preparation of Annual Administration Report and Statement of Accounts.
4.	Municipal Chief Accountant	Preparation of annual budget, finalisation of accounts.
5.	Municipal Chief Auditor	Functions as the internal auditor of MC, audit of MC accounts, preparation and submission of Audit Reports to the Standing Committee.
Source: The Mumbai Municipal Corporation Act, 1888 and The Maharashtra Municipal Corporation Act, 1949		

¹ 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 3 lakh and 10 lakh): 17

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, Chandrapur, Dhule, Jalgaon, Kolhapur, Latur, Malegaon, Mira-Bhayandar, Nanded-Waghala, Parbhani, Panvel, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar

⁶ Category A (population between one lakh and three lakh): 17; Category B (population between 40,000 and one lakh): 73; Category C (population between 25,000 and 40,000): 155; and Nagar Panchayats (population between 10,000 and 25,000): 140

Table 2.1.3: Accountability structure of Municipal Councils/NPs

Sr. No.	Name of the Authority	Functions assigned
1.	General Body	Taking policy decisions related to expenditure from the 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.
3.	Chief Officer	Preparation of budget estimates and submission to the Standing Committee, supervise the financial and executive administration of the Council.
4.	Accounts Officer/ Head of Accounts	Preparation of financial statements of the Municipal Council annually, maintaining financial records of the Council.
5.	Municipal Auditor	Audit of accounts of Municipal Councils/NPs, preparation and submission of Audit Reports to the Chief Officer. Conducts internal audit.
Source: The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Township Act, 1965 and Maharashtra Municipal Account Code, 2013.		

2.3.2 Duties and Powers

To function as an institution of self-government and to carry out the responsibilities conferred upon them, the ULBs exercise their powers and functions in accordance with provision of Section 63 of the MMC Act, 1949, Section 61 to 68 of the MbMC Act, 1888 and Section 49 of the MMCNP&IT Act, 1965 which provides for various functions to be exercised in the sphere of public works, education, public health and sanitation, town planning and administration, *etc.*

2.3.3 Devolution of funds, functions, and functionaries to Urban Local Bodies

Article 243W inserted through the 74th 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 10⁷ functions; it was an implementing agency in two⁸ functions; it had

⁷ (i) Burial and burial grounds, cremation and cremation grounds, (ii) cattle pounds, prevention of cruelty to animals, regulation of slaughter houses and tanneries, (iii) vital statistics including registration of births and deaths, (iv) fire service, (v) promotion of cultural, educational and aesthetic aspects, (vi) public amenities including street lighting, parking lots, bus stops and public conveniences, (vii) provision of urban amenities and facilities such as parks, gardens, playgrounds, (viii) safe-guarding the interests of weaker sections of society including the handicapped and mentally retarded, (ix) urban forestry, (x) protection of the environment and promotion of ecological aspects

⁸ planning for economic and social development, urban poverty alleviation

overlapping jurisdiction with other State Government Departments and parastatals in six⁹ 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 for ₹ 54,318.06 crore, Grant-in-aid from GoI for ₹ 38,759.68 crore and compensation in lieu of GST was ₹ 17,834.22 crore.

2.4 Formation of various committees

Article 243 ZD of the Constitution of India envisages formation of District Planning Committee (DPC) at district level in every State. The MbMC Act, 1888 and MMC Act, 1949 provides that there shall be two mandatory committees in each Municipal Corporation *i.e.*, the Standing Committee and the Transport Committee. The Act also provides that the Corporation may from time to time appoint special committees which shall conform to any instructions that the Corporation may give. Section 62 of MMCNP&IT Act, 1965 provides for constitution of various committees such as Standing Committee, Planning and Development Committee, Public works Committee, *etc*; in each Municipal Council.

The DPC at the district level and other committees in MCs, Municipal Councils/NPs were duly constituted in the State.

2.5 Audit arrangements

2.5.1 Audit by the Primary Auditor

The Directorate of Local Fund Accounts Audit (DLFAA) is the Primary Auditor to the Panchayati Raj Institutions (PRIs) and ULBs in the State of Maharashtra, drawing its powers and functions mainly from the "Bombay Local Fund Audit Act (BLFA), 1930", amended as Maharashtra Local Fund Audit Act in 2011. The ULBs are audited as per provisions made in the respective legislations. Certification of accounts of ULBs was assigned to DLFAA in March 2011.

The DLFAA functions under the administrative control of the GoM, Finance Department (FD), headed by the Director. It has six Regional Offices, each is headed by the Joint Director. The District Office is headed by the Assistant Director. A separate wing under the control of Joint Director (Municipal Corporation Audit) was created in 2012 to undertake the audit of Municipal Corporations as per the recommendations of the 13th Finance Commission (FC). The Municipal Corporation Audit Wing is further divided into three sub-divisions, each headed by the Deputy Director.

DLFAA carries out financial/compliance audit with special emphasis on misappropriation, fraud or embezzlements. DLFAA prepares Audit Report as stipulated in Section 9 of the BLFA, 1930 and issues to the auditee unit. DLFAA also prepares Audit Review Report (ARR) which gives a consolidated financial position of all the ULBs of the State, with special focus on serious omissions and

⁹ (i) Urban planning including town planning, regulation of land-use and construction of buildings, (ii) slum improvement and upgradation, (iii) water supply for domestic, industrial and commercial purposes, (iv) public health, (v) sanitation conservancy and solid waste management, (vi) roads and bridges

irregularities. This Report is submitted by the DLFAA to the UDD which in turn places it before the State Legislature.

- As of June 2022, out of 27 MCs, audit of eight MCs¹⁰ was pending from the year 2015-16, 15 MCs¹¹ from the year 2016-17 and four¹² MCs from 2018-19 onwards.
- As per Section 8 of the BLFA, DLFAA was required to issue the Audit Report to the auditee unit within three months from the last date of audit. 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.
- As of June 2022, 35 cases involving money value of ₹ 1.25 crore, 1,927 cases involving money value of ₹ 28.23 crore and 29 cases involving money value of ₹ 65 lakh related to misappropriations, frauds, embezzlements *etc*, were outstanding in MCs, Municipal Councils and NPs respectively.
- 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.

2.5.2 Audit by the Comptroller and Auditor General of India

Audit of 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 C&AG to DLFAA.

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. Audit observations outstanding for over six months are also brought to the notice of State Government for action. The important audit observations arising out of audit of ULBs are processed for inclusion in the Audit Report of C&AG which is placed before the State Legislature under Article 151 (2) of the Constitution of India.

¹⁰ Aurangabad, Kalyan-Dombivli, Kolhapur, MCGM, Navi-Mumbai, Sangli-Miraj-Kupwad, Solapur and Thane

¹¹ Ahmednagar, Akola, Amravati, Bhiwandi-Nizampur, Dhule, Jalgaon, Latur, Malegaon, Nagpur, Nanded, Nashik, Parbhani, Pimpri-Chinchwad, Pune and Ulhasnagar

¹² Chandrapur, Mira-Bhayandar, Panvel and Vasai-Virar

2.6 Technical Guidance and Support by C&AG

Para 10.67 of the 13th FC recommended (December 2009) that the C&AG should be entrusted with the responsibility of Technical Guidance and Support over maintenance of accounts and audit of the PRIs and the ULBs. Accordingly, FD, GoM vide Government Resolution (GR) of March 2011, entrusted TGS to C&AG. 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.*

2.7 Response to Audit Observations

2.7.1 Outstanding Inspection Reports/Paragraphs of ULBs audited by Accountant General

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 shown in the **Table 2.1.4**.

Table 2.1.4: Position of outstanding Inspection Reports and Paragraphs

Year	Inspection Reports	Paragraphs
Up to 2017-18	916	3876
2018-19	95	660
2019-20	109	858
2020-21	10	81
2021-22	28	380
Total	1,158	5,855

2.7.2 Audit paragraphs included in Audit Reports/Annual Technical Inspection Report but pending discussion by Public Accounts Committee

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 Annual Technical Inspection Report (ATIR) for the years 2016-17 and 2018-19 were pending discussion by Public Accounts Committee as shown in the **Table 2.1.5**.

Table 2.1.5: Status of audit paragraphs pending for discussion by PAC

Year of Audit Report/ATIR	Number of paragraphs in Report	Number of paragraphs discussed in PAC	Paragraphs pending for discussion in PAC
Up to 2015-16	104	67	37
2016-17	18	12	06
2017-18	01	00	01
2018-19	01	00	01
Total	124	79	45
2019-21*	04	00	04

* Audit material of Local Bodies for the year 2019-21 included in the Compliance Audit Report of the C&AG for the year 31 March 2021

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

2.8 Social Audit

Social audit is a continuous and ongoing process which includes verification of quantity and quality of works at different stages of implementation to ensure transparency and public accountability in the implementation of projects, laws and policies and its results by the community with active involvement of primary stakeholders.

For conducting social audit of schemes implemented by the ULBs, no such set-up is in existence.

2.9 Property Tax Board

The 13th FC recommended the establishment of a State Level Property Tax Board to assist the ULBs to put in place an independent and transparent procedure for assessing property tax. The State Legislature enacted (March 2011) the Maharashtra Municipal Property Tax Board Act, 2011, however, the constitution of Property Tax Board is under process (December 2022).

2.10 Service Level Benchmarks

Service Level Benchmarks (SLBs) have been promulgated (July 2008) by the Ministry of Urban Development, Government of India (GoI) in four key sectors viz; Water Supply, Sewage Management (Sewage and Sanitation), Solid Waste Management (SWM) and Storm Water Drainage (SWD). SLBs set indicators for these key sectors for performance monitoring and evaluation of ULBs. The SLBs prescribed by GoI were adopted by GoM in February 2010 to be achieved by all ULBs. As per the instructions issued (October 2010) by UDD, GoM, ULBs were required to fix goals for SLB achievements during each financial year and furnish the details of achievements of these goals to the State Government. The State Government issued yearly notifications indicating the targets and achievements in the ULBs as per the goals fixed.

The UDD had notified the target of service level benchmarks for the year 2021-22 in April 2022.

2.11 Fire Hazard Response

As per 13th FC recommendations, all MCs with a population of more than one million as per 2001 census must put in place a fire hazard response and mitigation plan for their respective jurisdictions.

Accordingly, in March 2011 the UDD had formulated fire hazard response and mitigation plan for the MCs.

2.12 Submission of Utilisation Certificates

The Bombay Financial Rules, 1959 stipulates that utilisation certificates (UCs) for grants provided for specific purposes should be obtained by the departmental officers from the grantee institutions and after verification, the UCs should be forwarded to the concerned accounting offices *i.e.* Accountant General (Accounts

and Entitlements), Maharashtra within 12 months from the date of their sanction unless specified otherwise.

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. Out of the 760 pending UCs, 164 UCs amounting to ₹ 3,569.92 crore (26.16 *per cent*) were pending between one to two years, 114 UCs amounting to ₹ 651.43 crore (4.77 *per cent*) were pending for more than three years and 482 UCs amounting to ₹ 9,423.98 crore (69.06 *per cent*) were pending for more than four years.

2.13 Internal Audit and Internal Control System of ULBs

An effective Internal Control System and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities and helps to protect resources against loss due to waste, abuse and mismanagement.

Section 105 of MMC Act, 1949 and Section 135 of the MbMC Act, 1888 stipulate that the Municipal Chief Auditor (MCA) should audit the municipal accounts and submit a report thereon to the Standing Committee of the MC. The MCA functions as the internal auditor of MCs. Rule 393 & 394 of Maharashtra Municipal Account Code, 2013 stipulates that the Municipal Auditor should audit the municipal accounts and submit a report to the Chief Officer of the Municipal Council/NP.

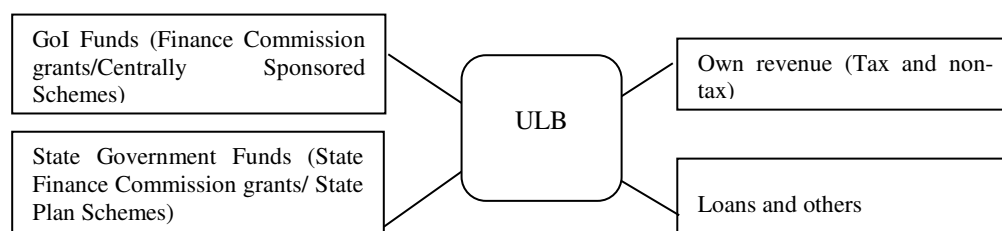
The internal controls in ULBs were inadequate in view of non-reconciliation of cashbook with passbook, improper maintenance of cashbook, incomplete cashbook, non-maintenance of separate cashbook for different schemes, delay in preparation of annual accounts as discussed in paragraphs 2.11.4.1, 2.11.4.2 and 2.11.5.1.

2.14 Financial Reporting Issues

2.14.1 Source of Funds

The resource base of ULBs consists of own revenues, assigned revenues, Central/State grants and loans as depicted in the **Chart 1**:

Chart 1: Source of Funds



The position of the receipts and expenditures of 23 MCs and 385 Municipal Councils and NPs during 2017-18 to 2021-22 is shown in **Table 2.1.6**.

Table 2.1.6: Position of receipts and expenditure of ULBs during 2017-18 to 2021-22

(₹ in crore)

Description	2017-18		2018-19		2019-20		2020-21		2021-22	
	MCs	Municipal council/ NP	MCs	Municipal council/ NP	MCs	Municipal council/ NP	MCs	Municipal council/ NP	MCs	Municipal council/ NP
Own revenue	29,711.64	2,097.30	26,997.64	2,277.73	28,300.30	2,209.35	26,704.96	2,094.59	44,877.83	2,946.35
Grants received from GoM	12,710.80	4,323.34	15,934.11	5,848.34	16,926.63	5,680.83	18,704.26	5,309.94	19,040.07	4,982.13
Finance Commission (14 th and 15 th) grants	338.86	2,123.42	903.88	2,286.31	1,014.57	2,782.03	967.06	975.45	811.66	1,155.13
Other Central Government Grants	211.71	382.02	483.14	580.65	445.07	556.60	358.18	567.50	249.00	681.16
Other receipts	4,682.33	5204.72	4,593.75	5,042.94	5,064.42	6,261.54	4,061.73	2,766.56	4,193.77	4,704.17
Total receipts	47,655.34	14,077.56	48,912.52	15,951.17	51,750.99	17,597.09	50,140.59	11,717.04	69,172.33	14,478.91
Percentage of own revenue to total receipts	62.35	14.90	55.20	14.28	54.69	12.56	53.26	17.88	64.88	20.35
Total expenditure	38,758.64	13,194.17	42,378.20	15,649.37	49,291.00	24,110.63	54,536.31	15,742.83	63,120.71	18,432.62

Source: Information furnished by the MCs/Municipal Councils/NPs

As seen from **Table 2.1.6**, the percentage of own revenue to total receipts pertaining to MCs declined during 2018-19 to 2020-21 *vis-à-vis* the percentage during 2017-18. In respect of Municipal Councils and NPs, the percentage of own revenue to total receipts declined during 2018-19 and 2019-20 *vis-à-vis* the percentage during 2017-18. The reasons for decline in own revenue were due to abolition of octroi and pendency in recovery of property tax due to Covid-19 pandemic. Nevertheless, the percentage of own revenue to total receipts has shown a positive trend in 2021-22 in MCs and for the years 2020-21 and 2021-22 for Municipal Councils and NPs.

2.14.2 Recommendations of the State Finance Commission

The Fifth State Finance Commission (SFC) for the period 2020-25 constituted in March 2018 submitted its report along with the recommendations to Government in August 2019 which was placed in the State Legislature in December 2020.

Recommendations made by the SFC could be broadly categorized into two categories *viz*; (i) recommendations having financial burden on the exchequer and (ii) recommendations of administrative nature.

Out of 169 recommendations made by the Fifth SFC, 91 recommendations (Financial burden: 16 and Administrative nature: 75) were fully accepted (December 2020), while 30 recommendations (Financial burden: 13 and Administrative nature: 17) were partially accepted. Action was taken on 13 recommendations (Financial burden: Eight and Administrative nature: Five). Remaining 35 recommendations were rejected by the GoM.

Action taken by UDD on the recommendations of the Fifth SFC accepted was awaited (December 2022).

2.14.3 Utilisation of the Central Finance Commission Grants by ULBs

The 14th FC recommended grants of ₹ 3,798.23 crore to the ULBs of Maharashtra during the year 2019-20. As against this, basic grant of ₹ 2,979.02 crore was released by the GoI to GoM whereas performance grant of ₹ 819.21 crore for the year 2019-20 was yet to be released by GoI.

During the year 2020-21 and 2021-22, the 15th FC recommended grants of ₹ 2,806 crore¹³ and ₹ 2,121 crore¹⁴ respectively to the ULBs. The position of grants released by the GoI to GoM and the grants released by the GoM to the ULBs, utilization of grants by ULBs is shown in **Table 2.1.7**.

Table 2.1.7: Release and utilisation of 14th FC & 15th FC grants

(₹ in crore)

Year	Category of grants	Recommendations of 14 & 15 FC	Actual grants released by GoI	Grants released by GoM to ULBs	Utilisation of grants by ULBs as per UCs furnished	Balance grants to be utilised
14 FC						
2019-20	Basic	2,979.02	2,979.02	2,979.02	395.77	2,583.25
	Performance	819.21	0	0	Not Available	Not Available
15 FC						
2020-21	MPCs ¹⁵	1,586.00	1,586.00	1,586.00	39.56	1,546.44
	NMPCs ¹⁶	1,220.00	1,220.00	1,220.00	113.54	1,106.46
2021-22	MPCs	1,199.00	400.00	400.00	0.00	400.00
	NMPCs	922.00	922.00	922.00	0.00	922.00
	Total				Not Available	Not Available
Source: Information furnished by UDD, GoM and DMA, also including grants released to Cantonment Boards under 15 th Finance Commission						

2.14.4 Maintenance of Records

2.14.4.1 Cashbook

As per Rule 98 (2) (ii) of The Maharashtra Treasury Rules, 1968, all monetary transactions should be entered in the cash book as soon as they occur and attested by the head of the office in token of check.

During scrutiny of records 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 (**Appendix 2.2**).

2.14.4.2 Reconciliation of balances as per cash book with bank pass book

As per Paragraph 30.5 of National Municipal Account Manual, 2004, the balances in bank accounts at the end of each month were required to be reconciled with the

¹³ ₹ 1,586 crore for Million Plus Cities and ₹ 1,220 crore for Non-million Plus Cities

¹⁴ ₹ 1,199 crore for Million Plus Cities and ₹ 922 crore for Non-million Plus Cities

¹⁵ Million Plus Cities

¹⁶ Non-million Plus Cities

balances as per cash books. 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 (**Appendix 2.3**).

2.14.4.3 Non-disbursement of 15th FC grant of ₹ 799 crore

As per Operational Guidelines (July 2021) of the recommendations of the 15th FC, one of the pre-conditions for determining eligibility for release of grants from the year 2021-22 onwards, was that each State Government and each Category-I¹⁷ City/ town shall sign a tripartite Memorandum of Understanding (MoU) with Ministry of Housing and Urban Affairs (MoH&UA) which shall contain the baseline level as on 01/04/2021, Service Level Benchmarks, annual targets/outcomes and incentives for achieving the targets for water supply, water conservation measures and solid waste management and sustaining outcomes for Swachh Bharat Mission. GoI allocated (October 2020) grants of ₹ 1,199 crore for Category I cities (million plus cities) for the year 2021-22.

Audit observed that MoU was entered into by the GoM and six MCs viz; Greater Mumbai, Aurangabad, Nagpur, Nashik, Pune and Vasai Virar Municipal Corporations with MoH&UA for Solid Waste Management and Sanitation at the fag end (March 2022) of the year 2021-22, due to which grants amounting to ₹ 799 crore for 2021-22 was not released (August 2022). Thus, delay in entering into MoU deprived the ULBs from receiving the 15th FC grants which could have been utilized for implementing solid waste management and sanitation schemes.

2.14.4.4 Pending Action for getting grants under 15th FC

One of the pre-conditions for getting 15th FC grants from the years 2022-23 to 2025-26 was that the States should notify the floor rates of property tax and operationalise the arrangements for collection of property tax.

Audit observed that UDD has not notified (October 2022) the floor rates of property tax due to which the ULBs could not receive the 15th FC grants.

2.14.5 Maintenance of accounts by ULBs

As per 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) in November 2004 for implementation of accrual-based accounting system by ULBs.

The (UDD) adopted (July 2005) NMAM for implementation 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 Council¹⁸ and five NPs¹⁹ were yet to implement the same.

¹⁷ Category I cities: million plus cities, Category II cities: non-million plus cities

¹⁸ Nagardevale Municipal Council

¹⁹ Tirthpuri, Malegaon (B), Manchar, Pali, & Atpadi NPs

2.14.5.1 Arrears in preparation of Annual Accounts

The annual accounts of MCGM are required to be prepared on or before 31st July of the following year and in respect of other MCs, annual accounts are required to be prepared as soon as may be, after first day of April of the following year. The annual accounts of Municipal Councils/NPs are required to be prepared by 30th June of the following year. The annual accounts approved by the MCs and Councils/NPs is certified by DLFA.

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 given in **Table 2.1.8**.

Table: 2.1.8 Arrears in preparation of annual accounts by MCs

Arrears from the year	Number of MCs	Name of the MCs
2017-18	01	Panvel
2018-19	02	Latur, Thane
2019-20	02	Amravati, Navi Mumbai
2020-21	07	Akola, Chandrapur, Kolhapur, Mira-Bhayander, Malegaon, Pimpri-Chinchwad, Sangli-Miraj-Kupwad
2021-22	03	Bhiwandi-Nizampur, Vasai-Virar, Ulhasnagar
Total	15	
Information not furnished by remaining 12 MCs viz; MCGM, Kalyan-Dombivli, Nashik, Jalgaon, Dhule, Ahmednagar, Aurangabad, Nanded-Waghala, Parbhani, Pune, Solapur and Nagpur)		

As per the information furnished (September 2022) by 245 Municipal Councils and 140 NPs, the arrears in the preparation of annual accounts is shown in **Table 2.1.9** and details given in **Appendix 2.4**.

Table 2.1.9: Arrears in preparation of annual accounts by Municipal Councils and NPs

Arrears from the year	Number of Municipal Councils	Number of Nagar Panchayats
2015-16	0	02
2016-17	01	0
2017-18	06	01
2018-19	0	01
2019-20	06	03
2020-21	23	17
2021-22	144	71
Total	180	95

2.14.6 Issues related to Abstract Contingent and Detailed Contingent Bills

As per the Maharashtra Treasury Rules, 1968, the drawing and disbursing officers were required to submit Detailed Contingent (DC) bills (comprising vouchers in support of final expenditure) drawn against Abstract Contingent (AC) bills, within 30 days to the office of the Accountant General (Accounts and Entitlements), Maharashtra. As of December 2022, no DC bills pertaining to UDD were pending.

**MUMBAI
THE 29 MAY 2025**



**Principal Accountant General (Audit)-I,
Maharashtra, Mumbai**