

SECTION B

CHAPTER IV

ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

4.1 Introduction

4.1.1 In keeping with the 74th Constitutional Amendment, the Government of Maharashtra amended (December 1994) the existing Acts i.e. the Bombay Municipal Corporation (BMC) Act, 1888, the Bombay Provincial Municipal Corporation (BPMC) Act, 1949, the city of Nagpur Municipal Corporation Act 1948 (NMC) and the Maharashtra Municipal Councils Act (MMC) 1965. All the corporations except Brihan Mumbai Municipal Corporation (BMC) and Nagpur Municipal Corporation (NMC) which have enacted their own acts, were governed by the provisions of BPMC Act. As on 31 March 2006, there were 22 corporations and 222 municipal councils in Maharashtra.

4.1.2 In accordance with Article 243 ZA of the Constitution, the State Election Commission was set up in April 1994. Under the aegis of the Election Commission, elections for all Municipal Corporations are being held as and when due.

4.1.3 Article 243 W of the Constitution envisaged that the State Legislature would endow such powers, authority and responsibilities to the municipalities so as to enable them to function as institutions of self government, for performance of such functions as entrusted to them, including matters enlisted in the Twelfth Schedule of the Constitution.

4.1.4 Out of the 18 functions referred to in the Twelfth Schedule, 12 functions had already been assigned to the ULBs under Sections 61 and 63 of the BMC Act and Section 63 of the BPMC Act, prior to the 74th amendment. The remaining six functions were transferred/assigned to the ULBs after the amendment.

4.2 Organisational set up

4.2.1 As per the census of 2001, 42 *per cent* of the total population of Maharashtra (9.69 crore) was from urban areas. There were 40 cities/urban agglomerations having a population of over one lakh.

4.2.2 The 22 Municipal Corporations in the state have been created for urban agglomerations having a population of more than 3 lakh. These 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 the Brihan Mumbai Municipal Corporation which is in category A, there are two Corporations³⁸ in category 'B' and four³⁹ and 15⁴⁰ Corporations in categories C and D respectively.

4.2.3 The 222 Municipal Councils which have been created for smaller urban areas have been categorized based on their population as shown below:

- (i) 'A' class : small urban areas with population of more than 1,00,000.
- (ii) 'B' class : small urban areas with population of more than 40,000 but less than 1,00,000.
- (iii) 'C' class : small urban areas with population of 40,000 or less.

At present, there are 19 'A' class, 62 'B' class and 141 'C' class Municipal Councils.

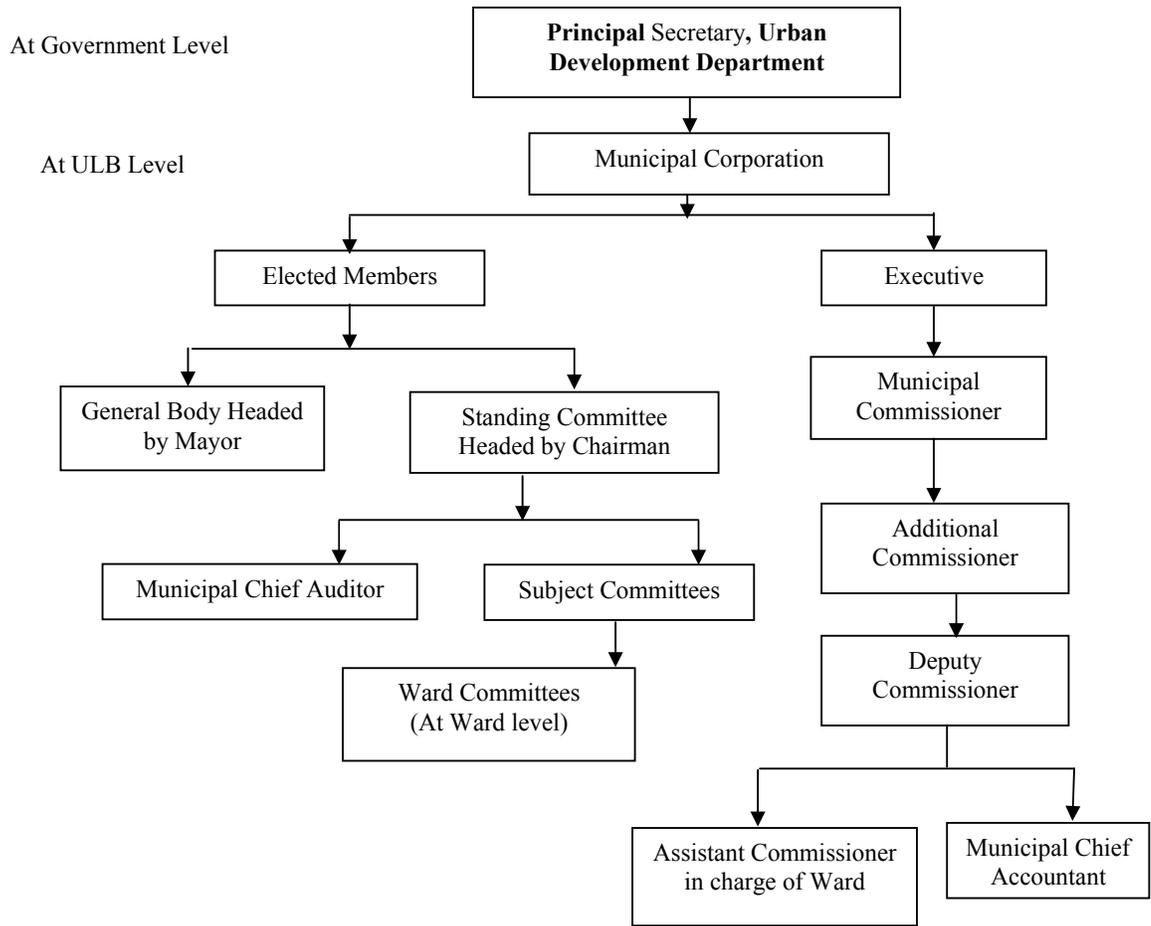
4.3 Organisational structure of Municipal Corporations

4.3.1 The following organogram depicts the organizational setup of Municipal Corporations in Maharashtra :

³⁸ Nagpur and Pune

³⁹ Nashik, Navi Mumbai, Pimpri-Chinchwad and Thane

⁴⁰ Ahmednagar, Akola, Aurangabad, Amravati, Bhiwandi-Nizampur, Dhule, Jalgaon, Kalyan-Dombivli, Kolhapur, Malegaon, Mira-Bhayander, Nanded-Waghala, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar.



4.3.2 The accountability structure in a Municipal Corporation is given below :

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, including approval of budget and sanction for expenditure as per the delegation. (Empowered to delegate its powers to sub Committee/s).
3	Municipal Commissioner	Administration of the Municipal Fund, subject to conditions imposed by the General Body and execution of all schemes and projects.
4	Municipal Chief Accountant	Preparation of the annual budget and finalization of accounts
5	Municipal Chief Auditor	Audit of municipal accounts and 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 BMC Act 1888 and BPMC Act 1949. All the moneys received by or on behalf of the Corporations under the provisions of the respective acts, all moneys raised by way of taxes, fees and fines and penalties, all moneys received by or on behalf of the Corporation 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.

4.4.2 The State Government and the Government of India 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 the Central Government for centrally sponsored schemes and to the State Government for state schemes.

4.4.4 Under the BPMC Act and the BMC Act, 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 Funds 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 total receipts from various sources during the last five years in respect of all the Corporations are shown as follows:

(Rupees in crore)

Sr. No.	Head of Receipt	2000-01		2001-02		2002-03		2003-04		2004-05 (Provisional)	
		Amount	% to Total Receipts	Amount	% to Total Receipts						
1	Property Tax	468.48	7.71	544.57	8.41	601.46	8.06	645.06	8.05	767.65	8.10
2	Octroi	2895.10	47.62	2864.82	44.23	3527.52	47.25	3830.05	47.77	4407.20	46.53
3	Other Taxes	326.16	5.36	378.54	5.85	447.38	5.99	494.46	6.17	552.53	5.83
4	Government grants	113.49	1.87	140.74	2.17	137.37	1.84	130.03	1.62	238.44	2.52
5	Loans and Advances	5.42	0.09	4.57	0.07	1.66	0.02	0.80	0.01	2.04	0.02
6	Miscellaneous	222.04	3.65	271.04	4.18	304.22	4.08	296.62	3.70	546.07	5.77
7	Others ⁴¹	2048.72	33.70	2273.03	35.09	2445.74	32.76	2619.96	32.68	2958.66	31.23
	Total	6079.41		6477.31		7465.35		8016.98		9472.59	

Source: Third State Finance Commission Report (not yet tabled)

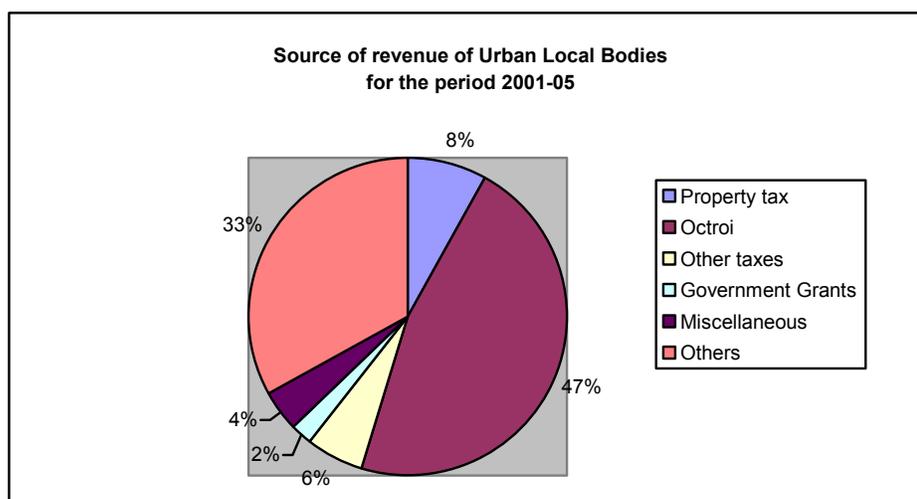
⁴¹ Includes rental income from municipal properties, development charges, receipt on account of public health services, water charges, sewerage tax, plan grants

4.4.6 Overall, the total receipts of the Corporations showed an increasing trend over the five year period of 2000-01 to 2004-05. Octroi receipts continued to be the major source of revenue with their share ranging from 44.23 *per cent* of the total receipts in 2001-02 to 47.77 *per cent* during 2003-04.

4.4.7 The next major source of revenue was property tax receipt at less than 10 *per cent* of the total receipts. With the likelihood of octroi being abolished in the near future as part of the tax reforms movement, property tax needs to be developed as a major source of revenue of Corporations. The low contribution of property tax towards the total revenue of the Corporations was indicative of inefficiencies in tax collections, properties remaining unassessed and irrational computation of rateable values as highlighted in subsequent paragraphs and the IT review on property tax application in Navi Mumbai Municipal Corporation. This points towards an immediate need for initiating property tax reforms.

4.4.8 The share of Government grants in the total receipts of the Corporations ranged between 1.62 to 2.52 *per cent*, indicating that the Corporations were largely able to generate revenues from their own resources.

A pie chart showing the sources of income is depicted below :



4.4.9 Sections 127 to 129 of the Bombay Provincial Municipal Corporation Act, 1949, authorise the Corporations to levy and collect property tax on buildings under their jurisdiction. As of March 2005, property tax of approximately Rs 169.40 crore remained unrecovered in respect of nine⁴² corporations test checked in audit. The yearwise breakup of outstanding property taxes was not available.

⁴² Akola-Rs.452.85, Aurangabad-Rs.3224.00, Jalgaon-Rs.451.24, Kolhapur-Rs.623.89, Kalyan-Dombivli-Rs.2972.81, Nanded-Waghala-Rs.941.54, Nashik-Rs.1488.03, Navi Mumbai-Rs.6025.75, Solapur-Rs.759.41,

4.4.10 As per Government directives, taxes on large residential premises were leviable with effect from 1 January 1990. The Municipal Corporations of Nanded-Waghala and Aurangabad had not levied and recovered taxes amounting to Rs 4.67 crore in respect of 12520 properties under their jurisdiction.

4.4.11 As per the directives of the Government, the Corporations are required to manage water supply schemes from their own sources of funds on no profit no loss basis.

4.4.12 During a test check of records in seven⁴³ Corporations, it was noticed that during the period from 1997-98 to 2004-05, a loss of Rs. 224 crore due to non revision of water rates was met from the municipal funds.

4.4.13 Thus, non revision of water charges forced the Corporations to divert their own funds to make up for the loss instead of utilising these funds for developmental works. From the subsequent paragraph it would be evident that the overall percentage of expenditure on water supply was the highest ranging from 17.59 to 17.79 *per cent* during 2000-01 to 2004-05 for all the Corporations taken together. As water supply was one of the most important components of expenditure of Corporations, there was an urgent need to revise the rates of water charges to overcome the losses.

4.5 Application of funds

4.5.1 The table below shows the details of expenditure on various statutory functions in respect of all the Corporations during the period 2000-01 to 2004-05.

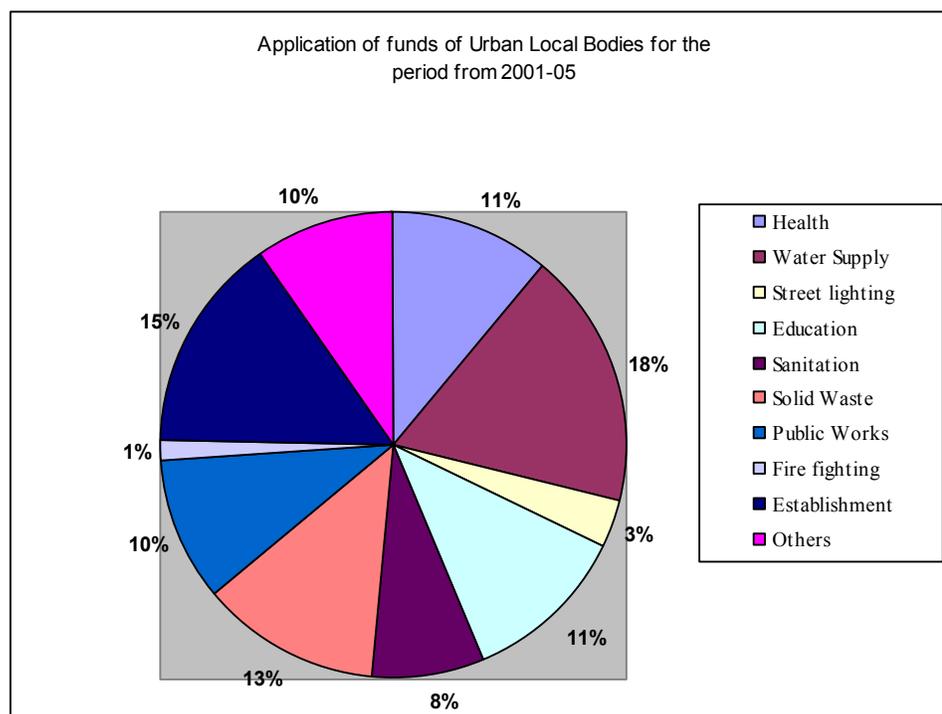
(Rupees in crore)

Function	2000-01	Percentage to total	2001-02	Percentage to total	2002-03	Percentage to total	2003-04	Percentage to total	2004-05 (Prov.)	Percentage to total
Health	540.69	12.30	557.17	11.76	591.01	11.22	616.63	10.82	663.12	10.39
Education	510.41	11.61	525.67	11.09	607.39	11.53	680.53	11.94	689.97	10.81
Water Supply	773.17	17.59	829.96	17.51	890.37	16.91	1021.80	17.92	1135.67	17.79
Street Lighting	164.65	3.75	172.98	3.65	164.67	3.12	186.06	3.26	208.80	3.27
Sanitation	331.67	7.55	333.68	7.04	391.26	7.43	431.14	7.56	557.48	8.74
Solid Waste Management	583.02	13.27	591.63	12.49	656.69	12.47	718.67	12.60	818.66	12.83
Fire Fighting	55.55	1.27	60.27	1.27	64.91	1.23	68.41	1.20	75.38	1.18
Public Works	416.32	9.47	498.35	10.52	524.65	9.96	628.04	11.01	582.76	9.13
Establishment	640.62	14.57	724.48	15.29	835.92	15.87	839.50	14.72	984.08	15.42
Other Expenses	378.53	8.62	444.46	9.38	540.78	10.26	511.13	8.96	665.94	10.43
Total	4394.63		4738.65		5267.65		5701.91		6381.86	

Source: Third State Finance Commission Report (not yet tabled)

⁴³ Akola, Aurangabad, Jalgaon, Kalyan-Dombivli, Nanded-Waghala, Nashik, Navi Mumbai,

A pie chart showing the application of funds is depicted below :



4.5.2 An analysis of the expenditure profile of the Corporations over a period of five years between 2000-01 and 2004-05 revealed that the expenditure on water supply schemes ranged between 17 and 18 *per cent*. Expenditure on solid waste management was 12 -13 *per cent*, while the expenditure on sanitation was less than 10 *per cent* of the total expenditure during the same period. The expenditure on social sector schemes like health and education ranged between 10 and 12 *per cent*. Expenditure on public utilities like street lighting and fire fighting was 1-4 *per cent* of the total expenditure.

4.6 Allocation of funds as per the recommendations of Eleventh Finance Commission

4.6.1 The State was allocated Rs 316.25 crore as Government of India grants based on the recommendations of the Eleventh Finance Commission (EFC) for disbursement to urban local bodies (ULBs) for development of civic services and basic amenities in the urban areas. As against this, the State Government released Rs 379.52 crore (including its share) during 2000-01 to 2004-05 to the ULBs. An amount of Rs 19.46 lakh was earmarked for creation of a data base relating to finances of ULBs. Out of this, the State Government had utilized an amount of Rs 19.00 lakh on pay and allowances, traveling allowances, furniture and purchase of computers for

setting up a computer cell for developing the double entry system of accounting for Municipal Councils and Corporations. However, the database of finances had not been created so far. Audit also noticed instances of diversion of EFC grants for payment of electricity bills and water charges, which have been commented upon in Chapter IV of this Report.

4.7 Budget and budgetary control

4.7.1 Under the respective Acts, the Commissioners are required to prepare estimates of income and expenditure of the Corporations in January for the next official year and present them to the respective Standing Committees. The Standing Committees, after due consideration, are required to finalise the budget proposals. The budget estimates prepared by Standing Committees are to be approved in the annual general body meetings of the Corporations. In case the budget estimates are not finally adopted by the general bodies on or before the 31 March, the estimates recommended by the Standing Committees should be deemed to be the budget estimates finally adopted by the Corporations until the estimates are so adopted.

4.7.2 Details of budget estimates, actual receipts and expenditure of nine⁴⁴ Corporations for the years 2002-03 to 2004-05 are detailed in **Appendix X**. Shortfalls in actual receipts against the budget estimates during the three years ranged between 2.31 and 61.19 *per cent*. Similarly, actual expenditure was less than the budget estimates, ranging between 0.13 per cent and 64.26 *per cent* during the same period.

Shortfalls in actual receipts and expenditure against budget estimates indicated unrealistic preparation of budget estimates.

4.8 Accounting arrangements

4.8.1 Section 93 of the BPMC Act, 1949 and Section 123 of BMC Act, 1888 provide that the accounts of the Corporations should be maintained in the prescribed formats. In pursuance of the EFC recommendations, C&AG has prescribed an accrual based accounting system for ULBs in the National Municipal Accounts Manual (NMAM).

4.8.2 The Government of Maharashtra adopted (July 2005) the NMAM from the financial year 2005-06. The State Accounting Manual, in conformity with the NMAM was under preparation. Until the finalization of the Manual, all Corporations were directed to maintain their accounts on accrual basis from the year 2005-06, by following the NMAM guidelines.

⁴⁴ Akola, Aurangabad, Jalgaon, Kalyan-Dombivli, Kolhapur, Nashik, Navi Mumbai, Nanded-Waghala, Solapur,

4.9 Audit arrangements

4.9.1 Municipal Chief Auditors (MCA) are appointed under Section 78(a) of the BMC Act 1888 or Section 45(i) of the BPMC Act, 1949, as applicable.

4.9.2 Section 105 of the BPMC Act 1949 and Section 135 of the BMC Act, 1888 provide that an MCA should audit the municipal accounts and submit a report thereon to the Standing Committee. This report should comment on 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 Corporation. However, a test check of seven⁴⁵ Corporations revealed that except for BMC and the Solapur Municipal Corporation, no such audit was conducted during 2000-01 to 2004-05 and no reports were submitted to the Standing Committees of these Corporations. The other Corporations stated that the MCAs were doing the pre-audit of bills and vouchers.

4.9.3 The State Government entrusted (December 2003) audit of the accounts of all the Municipal Corporations in the State to the Comptroller and Auditor General of India (CAG) under Section 14 of the CAG's (Duties, Power and Conditions of Service) Act, 1971.

4.10 Internal control

4.10.1 Internal controls refer to those processes in an organization through which it governs its activities effectively to achieve its objectives. A strong internal control system and strict adherence to statutes, codes and manuals minimize the risk of errors and irregularities and help to protect resources against loss due to waste, abuse and mismanagement.

4.10.2 The following irregularities noticed during test check of records of various Corporations revealed inadequate internal control prevailing in their administration.

▪ Diversion of funds

Scrutiny of records of Kolhapur Municipal Corporation revealed that the Corporation had utilised Rs 14.06 crore from their Development Fund and Depreciation Fund along with interest received thereon for capital works during 2002-03 to 2004-05. Similarly, in the Nashik Municipal Corporation, Audit observed that it had diverted Rs 3.05 crore from the Depreciation Fund for incurring revenue expenditure in 2002-03, defeating the very purpose for which the fund had been created.

⁴⁵ Brihan Mumbai Municipal Corporation, Jalgaon, Kalyan-Dombivli, Kolhapur, Nashik, Navi Mumbai, Solapur

▪ **Non Reconciliation**

During a test check of six⁴⁶ Corporations, Audit noticed that there was a total unreconciled difference of Rs 16.26 crore as of March 2004. In Kolhapur Municipal Corporation it was seen that no reconciliation had been done in respect of 22 different bank accounts maintained by the Corporation resulting in a total unreconciled difference of Rs 2.92 crore. In the Kalyan-Dombivli Municipal Corporation, Audit noticed that cheques amounting to Rs 28.68 lakh issued to various parties between June 1999 to March 2005 remained unencashed as of February 2006.

These cheques were not written back in the cash book as required under Rule 49 of the MMA code, resulting in incorrect depiction of accounts.

▪ **Unutilised grants**

Grants received from the State/Central Government under various schemes are required to be utilised within the same financial year or within one year from the date of release.

Test check of records of three⁴⁷ Corporations revealed that the funds received by them had not been utilised within the prescribed period, resulting in accumulation of unutilised grants amounting to Rs 12.42 crore as on March 2005. The details are shown in **Appendix XI**.

In Nashik Municipal Corporation and Navi Mumbai Municipal Corporation, no expenditure was incurred on the Dalit Basti Sudhar Yojana during 2002-05 and 2003-05 respectively and grants of Rs 54.51 lakh and Rs 1.20 crore respectively remained unutilized as of March 2005. Similarly, in Kolhapur Municipal Corporation, grants of Rs 22.25 lakh received under the Tenth Finance Commission's recommendations remained unutilised at the end of March 2005.

Reasons for the grants remaining unutilised had not been received from the respective Corporations.

▪ **Unclaimed deposits**

As per Rule 190(3) of the Maharashtra Municipal Account Code, 1971, deposits remaining unclaimed for more than three years are required to be credited to the Municipal Fund account under the head - "Miscellaneous Other Items - 'Lapsed deposits'".

⁴⁶ Aurangabad, Akola, Kalyan-Dombivli, Nanded-Waghala,, Navi Mumbai, Solapur

⁴⁷ Kolhapur Municipal Corporation, Nashik Municipal Corporation, Navi Mumbai Municipal Corporation

It was observed that in four Corporations,⁴⁸ unclaimed deposits of Rs 45.78 crore pertaining to the period from 1997-98 to 2004-05 were not credited to the respective Municipal Fund accounts of the respective Corporations.

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

4.10.4 At the end of 2005-06, 186 Inspection Reports were issued including 1031 paras covering the period upto 2004-05. Out of these, 183 Inspection Reports and 971 paras remained to be settled as of February 2007. The yearwise breakup is as follows:

Year	Inspection Reports	Paragraphs
2000-01	1	4
2001-02	41	213
2002-03	16	74
2003-04	13	74
2004-05	61	306
2005-06	51	300
	183	971

4.11 Conclusion

4.11.1 An overview of the functioning of Municipal Corporations in the State revealed that octroi receipts continued to be their major source of revenue. Huge arrears were noticed in the collection of property tax. Due to non revision of water charges the Corporations were forced to divert funds meant for developmental works towards meeting losses incurred on account of water supplies. Shortfalls in receipt and expenditure against budget estimates highlighted unrealistic budgeting. Further, the absence of audit by MCAs proved to be a weak link in the financial control in these Corporations. Instances of non reconciliation of cash book, unencashed cheques and large number of outstanding audit paragraphs reflected weak internal controls.

⁴⁸ Kalyan-Dombivli Municipal Corporation (Rs. 23.18 crore), Kolhapur Municipal Corporation (Rs. 1.66 crore), Nasik Municipal Corporation (Rs. 18.01 crore) and Navi Mumbai Municipal Corporation (Rs. 2.93 crore)

4.12 Recommendations

4.12.1 Government may consider :

- Introduction of property tax reforms to broaden the source of direct tax revenue for the Corporations. The tax collection system should be streamlined to facilitate prompt collection and accountal.
- Recommending revision of water charges to the Corporations for running water supply schemes efficiently.
- Institutionalisation of the mechanism of compulsory audit of Municipal Corporations by Municipal Chief Auditor and publication of Audit Reports in the Government Gazzette.

The matter was referred to Government in April 2007; reply had not been received (December 2007).