

## SECTION B

### CHAPTER IV

#### ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

##### 4.1 Introduction

**4.1.1** In keeping with the 74<sup>th</sup> Constitutional Amendment, the Government of Maharashtra (GOM) amended in December 1994, the existing Mumbai Municipal Corporation (MMC) Act, 1888, the Bombay Provincial Municipal Corporation (BPMC) Act, 1949, the Nagpur Municipal Corporation (NMC) Act, 1948 and the Maharashtra Municipal Councils (MMC) Act, 1965. All the Corporations except Brihanmumbai Municipal Corporation (BMC) and the NMC which had enacted their own Acts are governed by the provisions of amended BPMC Act. As on 31 March 2008, there were 22 Municipal Corporations and 222 Municipal Councils in Maharashtra.

**4.1.2** Out of the 18 functions referred to in the Twelfth Schedule of the Constitution, 12 functions were assigned to the Urban Local Bodies (ULBs) under Sections 61 and 63 of the MMC Act and Section 63 of the BPMC Act, prior to the 74<sup>th</sup> amendment. The remaining six functions were also transferred/assigned to the ULBs after 1994.

##### 4.2 Organisational set up

**4.2.1** As per the Census of 2001, the total population of Maharashtra was 9.69 crore, of which 42.42 *per cent* was from urban areas. The state has 40 cities/urban agglomerations having a population of over one lakh.

**4.2.2** Twenty two Municipal Corporations in the state have been created for urban agglomerations having a population of more than three 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 BMC which is in category A, there are two Corporations<sup>43</sup> in category 'B' and four<sup>44</sup> and 15<sup>45</sup> Corporations in categories C and D respectively.

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<sup>43</sup> Nagpur and Pune

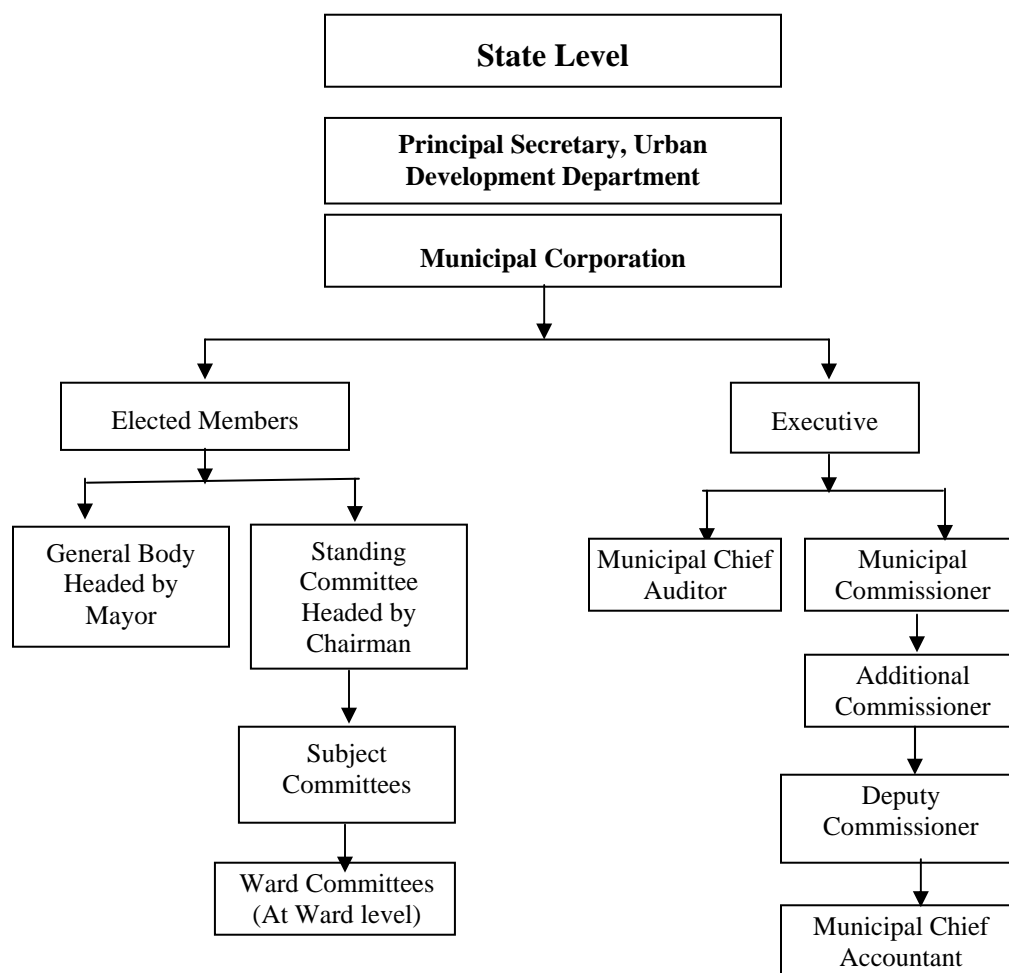
<sup>44</sup> Nashik, Navi Mumbai, Pimpri-Chinchwad and Thane

<sup>45</sup> Ahmednagar, Akola, Aurangabad, Amravati, Bhiwandi-Nizampur, Dhule, Jalgaon, Kalyan-Dombivli, Kolhapur, Malegaon, Mira-Bhayander, Nanded-Waghala, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar.

**4.2.3** Similarly, 222 Municipal Councils have been created for smaller urban areas and categorized based on their population. At present, there are 18 ‘A’ class (having population more than one lakh), 62 ‘B’ class (having population more than 40,000 but not more than one lakh) and 142 ‘C’ class (having population of 40,000 or less) Municipal Councils.

**4.3 Organisational Structure**

**4.3.1** The organisational set up of Municipal Corporations is depicted below:



**4.3.2** The accountability structure of a Municipal Corporation is as follows :

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, etc.
2	Standing Committee	All functions related to approval of budget and sanction for expenditure as per the delegation. (Can delegate its

		powers to sub Committee/s).
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 internal audit.
5	Municipal Chief Auditor	Audit of municipal accounts, 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 MMC 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, fines and penalties, all moneys received by or on behalf of 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 MMC 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 Fund 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 consolidated position of receipts and expenditure of ULBs are not maintained at the State level. This information although called for (July 2009) from the State Government is yet to be received. As per the Annual Reports published by GOM, Directorate of Economics and Statistics under the heading Economic Survey of Maharashtra for the years 2007-08 and 2008-09 and the figures furnished by BMC for 2007-08, the overall receipts and expenditure of the Corporations in the State from 2005-06 to 2007-08 is as follows:

**(Rupees in crore)**

<b>Item</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08<sup>46</sup></b>
Receipts <sup>47</sup>	12927	16217	18348
Expenditure	12335	14820	16728

However, based on the information received from the all the Corporations for the year 2007-08, the total receipts worked out to Rs 19581 crore and expenditure Rs 16779 crore as detailed in the **Appendix VII**. Further, the above figures for 2007-08 includes total receipts and expenditure of BMC for 2007-08 amounting to Rs 10075 and Rs 7528 crore respectively which were furnished by BMC in September 2009 as unreconciled figures. BMC is yet to reconcile and finalize the receipts and expenditure figures for 2007-08 inspite of lapse of one and a half years.

#### **4.4.6 Receipts**

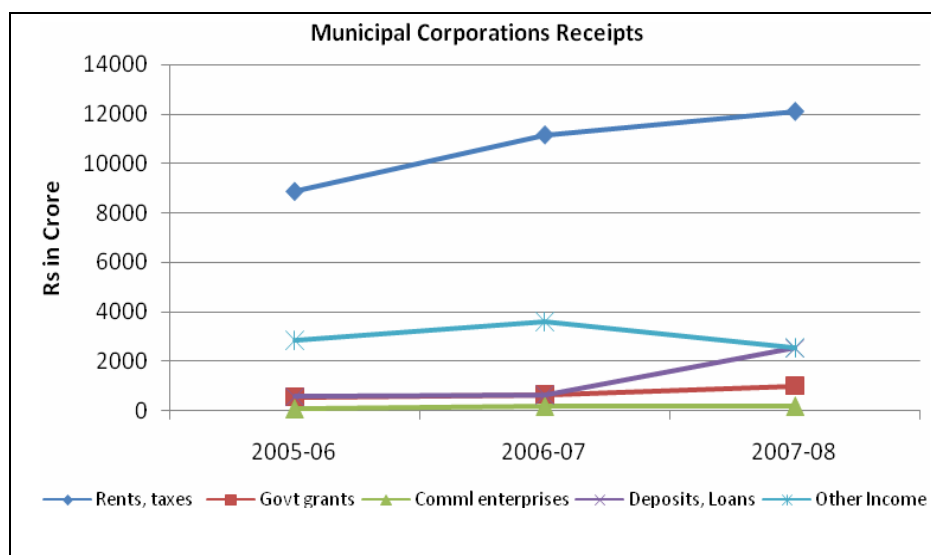
As per the Economic Survey of Maharashtra for the year 2007-08 and 2008-09, and information furnished by BMC, the total receipts from various sources during the last three years in respect of all the Corporations were as follows.

(Rupees in crore)

Items	2005-06	Percentage to total receipts	2006-07	Percentage to total receipts	2007-08			Percentage to total receipts
					Other than BMC	BMC	Total	
Rents, taxes etc. including octroi, property tax and water charges	8867	68.59	11147	68.74	5751	6343	12094	65.91
Government grants	552	4.27	636	3.92	881	109	990	5.40
Commercial enterprises	95	0.73	199	1.22	120	78	198	1.08
Deposits and Loans, etc.	578	4.47	640	3.95	1045	1480	2525	13.76
Other Income	2835	21.94	3595	22.17	476	2065	2541	13.85
<b>Total Receipts</b>	<b>12927</b>	<b>100.00</b>	<b>16217</b>	<b>100.00</b>	<b>8273</b>	<b>10075</b>	<b>18348</b>	<b>100.00</b>

<sup>46</sup> Includes the unreconciled figures furnished (September 2009) by BMC

<sup>47</sup> Excluding opening balance



Total receipt of all Municipal Corporations in the State during 2007-08 was Rs 18348 crore which was higher by 13.14 *per cent* over previous year. The receipts on account of rent, taxes *etc.* to total receipts reduced from 68.74 *per cent* in 2006-07 to 65.91 *per cent* in 2007-08.

**Arrears in Tax collection:** A scrutiny of records furnished by the Corporations revealed that water tax aggregating to Rs 1229.39 crore (**Appendix VIII**) and Property tax aggregating to Rs 4222.40 crore (**Appendix IX**) had been outstanding for recovery as at the end of March 2008 which requires proper monitoring and effective action.

#### 4.4.7 Expenditure

As per the Economic Survey of Maharashtra for the year 2007-08 and 2008-09 the total item-wise expenditure of all Municipal Corporations put together in the state for the last three year are as follows:

**(Rupees in crore)**

Municipal Corporation Item	2005-06		2006-07		2007-08			
		Percentage to total expenditure		Percentage to total expenditure	Other than BMC	BMC	Total	Percentage to total expenditure
1. Administration								
(a) Establishment	4677	37.92	4265	28.78	1748	2993	4937	29.51
(b) Others	235	1.91	209	1.41	196	-	-	-
2. Recovery of taxes	37	0.30	45	0.30	20	6515	11791	70.49
3. Street lighting	205	1.66	274	1.85	235			
4. Water Supply	1232	9.99	1410	9.51	921			
5. Public Security	29	0.24	42	0.28	114			
6. Public Health	503	4.08	651	4.39	109			
7. Drainage and sewerage	465	3.77	1047	7.07	462			
8. Construction works	932	7.56	1462	9.87	1560			
9. Transport	247	2.00	439	2.96	30			
10. Education	183	1.48	289	1.95	94			
11. Expenditure on weaker sections	26	0.21	58	0.39	50			
12. Extraordinary expenditure and loans extended	590	4.78	871	5.88	542			
13. Other expenditure	2974	24.10	3758	25.36	1139			
<b>Total Col 2 to 13</b>	<b>7423</b>	<b>60.17</b>	<b>10346</b>	<b>69.81</b>	<b>5276</b>			
<b>Total expenditure</b>	<b>12335</b>	<b>100.00</b>	<b>14820</b>	<b>100.00</b>	<b>7220</b>	<b>9508</b>	<b>16728</b>	<b>100.00</b>

Thus, out of total expenditure of Rs 16728 crore during 2007-08, the share of expenditure on the main functions was on Administration (29.51 per cent), and other works and services (70.49 per cent) as in the case of 2006-07. In the case of BMC, the total expenditure Rs 9508 crore for 2007-08 comprised the following.

Expenditure	Rupees in crore	Percentage to total expenditure
Establishment expenses	2860	30.08
Administrative Expenses	133	1.40
Operation and maintenance	1415	14.88
Interest and Finance Expenses	393	4.13
Programme Expenses	50	0.53
Revenue Grants, Contribution	2486	26.15
Provision and Write off	67	0.71
Depreciation	124	1.30
Capital Expenditure	1980	20.82
<b>Total</b>	<b>9508</b>	<b>100.00</b>

<sup>48</sup> Includes Capital Expenditure of Rs 1980 crore. BMC could not furnish the figure of expenditure for 2007-08, under the caption mentioned above and so total expenditure (other than administration and establishment) has been clubbed.

#### 4.5 Twelfth Finance Commission grants

**4.5.1** As stated in Para 6.11 of Report of C&AG for the year 2006-07 (Local Bodies–Government of Maharashtra), the Twelfth Finance Commission (TFC) recommended grant of Rs 791 crore to the ULBs in Maharashtra State for the years 2005-06 to 2009-10, payable at Rs 158.20 crore every year to be utilised for development of civic services and basic amenities in the urban areas. Out of this, Rs 316.40 crore had been received during the period upto 2007-08. Subsequently during 2008-09, the State received TFC grants of Rs 237.30 crore for ULBs. The position of receipt and expenditure of TFC grant for ULBs is as follows.

(Rupees in crore)

Installments	Period of receipt	Amount received	Amount spent		
			Up to	Amount	Percentage
I to V	2005-06 to 2007-08	316.40	June 08	229.68	73
VI to VII	2008-09	237.30	Sept 09	57.70	24
<b>Total I to VII</b>	<b>2005-09</b>	<b>553.70</b>		<b>287.38</b>	<b>52</b>

The TFC grants received upto 2007-08 had been audited and cases of delay in utilization and diversion *etc* of TFC grants had been given in the para 6.11 of Report of C&AG for the year 2006-07. However, out of Rs 553.70 crore of the total TFC grants, the Corporations had utilized Rs 287.38 crore (September 2009) only.

#### 4.6 Accounting arrangements

**4.6.1** Section 93 of the BPMC Act, 1949 and Section 123 of MMC Act, 1888 provide that the accounts of the Corporations should be maintained in the formats prescribed by the Standing Committees. In pursuance of the Eleventh Finance Commission (EFC) recommendations, the Task Force constituted by the CAG had prescribed an accrual based accounting system for ULBs. In accordance with the Task Force recommendations (2002), the Ministry of Urban Development, Government of India in consultation with C&AG had prescribed the National Municipal Accounts Manual (NMAM) for implementation of accrual based accounting system by ULBs.

**4.6.2** The GOM adopted (July 2005) the NMAM for implementation from 2005-06. The State Accounting Manual in conformity with the NMAM was under preparation. Till finalisation of the Manual, all Corporations were directed to maintain their accounts on accrual basis from the year 2005-06, as

per the NMAM guidelines. The Steering Committee constituted by the State Government also recommended (January 2007) the implementation of accrual system of accounting in the ULBs. Six Corporations viz Akola, Bhiwandi, Dhule, Jalgaon, Mira-Bhayander and Solapur were yet to maintain their accounts on accrual basis as per the NMAM guidelines and these Municipal Corporations stated that the work is in progress for implementing accrual system. GOM informed (August 2008) that 25 Municipal Councils have also adopted accrual based accounting system.

#### **4.7 Audit Arrangements**

**4.7.1** Municipal Chief Auditor (MCA) is appointed by the respective Corporation under Section 78(a) of the MMC Act, 1888 and Section 45(i) of the BPMC Act, 1949. The pay and allowances of the MCA is borne on the establishment expenditure of the respective Corporation.

**4.7.2** Section 105 of the BPMC Act, 1949 and Section 135 of the MMC Act, 1888 provide that the MCA should audit the Municipal accounts and submit a report thereon to the Standing Committee. 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 Corporation. Section 136 of the MMC Act, 1888 further provides that the MCA shall examine and audit the statement of accounts and shall certify and report upon these accounts.

**4.7.3** It was noticed that in respect of Nagpur, Nasik, Navi Mumbai, Pimpri-Chinchwad and Sangli-Miraj Kupwad Municipal Corporations, audit of the annual accounts by MCA is in arrears for the period ranging from 2001-02 to 2007-08 and no reports were submitted to the Standing Committees.

The entrustment of audit of accounts of the Corporations to a person who is under the administrative control of the Corporation dilutes the independency of the auditor.

**4.7.4** The State Government issued orders in October 2002 entrusting the audit of Municipal Corporations to the C&AG of India. The C&AG conducts audit of Municipal Corporations under Section 14(2) of the C&AG's Duties, Powers and Conditions of Services (DPC) Act, 1971. The audit of Municipal Councils has not been entrusted by the State Government to C&AG.

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 Government for action.



## 4.8 Internal Control

**4.8.1** The Commissioners, Officers and the elected bodies/standing committees are mainly responsible for the internal control. For efficient implementation of the functions transferred to the ULBs, all deficiencies pointed out by the Accountant General's audit were required to be complied with as early as possible and this would ultimately be helpful in achieving the objective of service to the urban population. However, the position of huge outstanding Audit Inspection reports and paras issued by Accountant General, Maharashtra to the Corporations, as detailed below, is a reflection of inadequate internal control.

Year	Inspection Reports			Paragraphs		
	Mumbai	Nagpur	Total	Mumbai	Nagpur	Total
Upto 2002-03	52	1	53	213	12	225
2003-04	16	1	17	59	32	91
2004-05	57	5	62	234	229	463
2005-06	45	2	47	190	63	253
2006-07	89	5	94	392	157	549
2007-08	45	5	50	276	169	445
<b>Total</b>	<b>304</b>	<b>19</b>	<b>323</b>	<b>1364</b>	<b>662</b>	<b>2026</b>

The arrears in audit of the Corporations by MCA as already pointed out in Para 4.7.3 also indicates weaknesses in the internal control of the Corporations.

## 4.9 Conclusion

Octroi receipts continued to be the major source of revenue of ULBs. Next to that property tax and water tax also was the major source of revenue to the Corporation. However, large scale arrears in collection of water tax and property tax indicates lack of internal control and improper monitoring which ultimately can affect the financial position of the Corporation and hamper the development activities. TFC grants were utilised to the extent of 52 per cent affecting the development of civic services and basic amenities.

Although the GOM adopted (July 2005) the NMAM for implementation from 2005-06, the ULBs had not implemented the same so far. Arrears in audit of Municipal Corporations by MCAs indicate weak internal control. Further, the entrustment of audit of accounts of the Corporations to MCA, who is under the administrative control of the respective Corporation was against the principles of independence of auditors.

#### **4.10 Recommendations**

- The State Government should consider early implementation of National Accounting Manual by all ULBs.
- Government should consider effective audit of the annual accounts and transactions of all Municipal Corporations by MCA.
- ULBs should ensure timely compliance to the Audit observations especially on financial irregularities for overcoming the deficiencies in the working of the ULBs.
- Steps should be taken for recovery of water and property tax.
- Steps to be taken for expediting utilization of TFC grants
- BMC has to ensure timely compilation and audit of its annual accounts.