

Comptroller and Auditor General of India

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CAG of India, Shri K. Sanjay Murthy addresses the National Workshop on Strengthening Financial Management in Urban Local Governments through National Municipal Accounts Manual 2.0

CAG urged to diagnose the systematic challenges of ULBs and frame solutions that are ambitious yet grounded in practical realities

The International Centre for Audit of Local Governance (iCAL) of the Comptroller and Auditor General (CAG) of India, in partnership with the Janaagraha Centre for Citizenship and Democracy (JCCD), convened a National Workshop on Strengthening Financial Management in Urban Local Governments (ULGs) through National Municipal Accounts Manual (NMAM) 2.0.

Presided over by Sh. K Sanjay Murthy, CAG of India, the day-long workshop saw active participation from over 50 senior stakeholders representing senior officials from the CAG, Ministry of Housing & Urban Affairs, 16th Finance Commission, World Bank, Principal Accountant Generals, municipal finance officers, public finance experts/practitioners and senior officials of CAG.

The workshop marked the formal launch of efforts of strengthening municipal financial management framework through revision of National Municipal Accounting Manual. Sh. Murthy set the stage for the day's deliberations with his opening remarks, stating, "*Fifteen cities contribute thirty per cent of the GDP of India*. India's economic progress is increasingly tied to urbanisation. Urban areas, though home to one-third of the population, contribute over two-thirds of the country's GDP, expected to rise to 75% by 2030. However, if we are to reap the full economic potential of urbanisation and achieve Viksit Bharat by 2047, we need to address the inadequate and poor quality of urban infrastructure and services. Most economies that have graduated to developed status have done so through

the economic growth generated in and by cities, catalysed in turn by strong local governments.”

ULGs are the first-mile providers of essential services and enablers of economic development. The ULGs manage a resource envelope of INR 5.5 to 6 lakh crore and robust accounting systems are essential to ensure effective management to ensure the delivery of services and provision of infrastructure in India’s cities.

Urban context

1. India’s urban footprint is expanding rapidly. We have almost 5,000 urban local governments hosting about 35% of the country’s population. As per UN’s World Urbanisation Prospects, this is expected to rise to 41% by 2031.
2. The opportunity for reform has never been greater, and it speaks directly to India’s larger journey of governance and economic transformation. Digital platforms such as the Public Financial Management System (PFMS), eKuber and Integrated Financial Management Information Systems (IFMIS), have improved the PFM landscape in the states and the centre.
3. There has been a significant rise in funding for cities through centrally sponsored schemes, with a 500% increase in allocations between 2009-10 to 2020-21. budget of the Ministry of Housing and Urban Affairs has increased over nine-fold since 2009-10, growing at a compounded annual growth rate of more than 16 percent¹. Moreover, new sources of financing in form of commercial borrowing and municipal bonds are opening up.
4. Despite the significant increase in funding for cities, challenges of flooding, sanitation, water supply, public transport, etc. continue to cripple our cities. World Bank estimates that India’s cities need to invest \$840 billion or 1.2% of GDP per annum by 2036 to meet the urban infrastructure requirements.

Status of financial management

5. Current accounting systems for urban local bodies is largely modelled on the National Municipal Accounts Manual (NMAM) which was drafted in 2004, but its implementation is patchy.
6. Sh. Srikanth Viswanathan, CEO, Janaagraha shared, *“Reforms to public finance management in India’s cities is a key enabler of ease of living and ease of doing business. At its heart is timely, credible, standardised financial and performance reporting. While www.cityfinance.in has achieved historic success in publishing audited annual accounts of over 4,000 cities, much more needs to be done for data-driven decision making. This workshop with CAG of India, MoHUA, 16th Finance Commission, ICAI, World Bank and others is the first step in a time bound effort to usher in a fully digital, place-based financial management policy for India’s cities.”*

¹ <https://www.janaagraha.org/wp-content/uploads/2024/12/A-Roadmap-for-Indias-City-Systems-Reforms.pdf>

The Challenge of Implementation

7. But, as with any first attempt, the adoption of NMAM 2004 was uneven. Some states moved quickly, others struggled. Full utilisation of possibilities due to advancement in digital technologies remained limited.
8. With more than 95% of ULGs now publishing their audited financial statements on CityFinance due to Fifteenth Finance Commission recommendation, availability of audited financial statements is no longer an issue. However, availability comes with a lag of 2 years and quality remains far from desirable, and they have not reached the timeliness standards of even the State accounts. The budgeting systems are even weaker. Financial reporting is focusing on form over function, and is not contemporaneous and does not drive evidence based decision making by ULGs, states, investors, citizens, etc.

The Opportunity Before Us

9. Successive Central Finance Commissions, beginning with the Twelfth, have emphasised that strong and transparent urban finances are not optional, they are central to India's growth story.
10. The National Urban Digital Mission's UPYOG stack is an important step towards progress. UPYOG is a digital platform developed by the Ministry of Housing and Urban Affairs (MoHUA) and the National Institute of Urban Affairs (NIUA) to provide seamless access to various government services for citizens. Here's what you need to know about UPYOG and its connection to MoHUA. UPYOG offers a range of services, including Property Tax Assessment and Payments, Trade License Issuance and Payment, Municipal Grievance Redressal, Online Building Plan Approval and Birth and Death Certificates.
11. But its potential will only be realised if municipal accounting systems keep pace. Hence NMAM 2.0 is urgent. Without robust and digital accounting, neither the rising expectations nor the quality of spending can be met with credibility or confidence.

The Vision for Reform

12. We must ensure that whatever we propose should lead to efficiency and effectiveness of spending for better outcomes for citizens. Some guiding questions to frame your thinking today:
 - a. How do we improve financial management in cities so they fully contribute to goal of Viksit Bharat?
 - b. How role accounting can play? What are other things that need to be strengthened? How can we make it happen?
 - c. What are the challenges faced and how do we overcome those?
 - d. How do we enable cities producing a reliable set of accounts that capture information on a standard & comparable set of metrics, including those that inform on service delivery?

These are the questions we want to collectively answer through this workshop.

13. To guide our responses, there are certain principles that we should reflect on.
 - a. How do we make it easy to adopt for the smaller cities with 1 lakh population as well as the metro with 1 cr population, yet solve the problems highlighted earlier?

- b. How can we achieve the desired quality of financial management with minimum disruption to the existing systems?
- c. How can we start with digital first approach so that all transactions are digitised within 3 to 5 years?

The Role of This Workshop

14. Today's discussions are a crucial step in shaping a public finance management reform that can have a lasting impact on our cities and our citizens. The exercise of revision of NMAM is not just an accounting reform. It has the potential to shape how we plan and spend for our cities and enable decision making through credible and granular financial data.

The discussion at the workshop emphasized that success of the exercise would be to taking the provisions out of the manual and into the field; through state-level engagement, pilot implementation and the steady building of local ownership. Only then will financial statements become living management tools for city leadership, supporting routine decisions on urban services, costs and performance.

CAG has urged all to engage with both candour and rigour. Diagnose the systemic challenges honestly. Frame solutions that are ambitious, yet grounded in practical realities. Identify the essential principles that NMAM 2.0 must enshrine. And help us define a clear roadmap so that the transition from drafting to adoption and implementation is both swift and effective.

About iCAL

The International Centre for Audit of Local Governance (iCAL) was inaugurated in July 2024 at Rajkot to build global capacity in auditing local governance. As a Centre of Excellence, it trains elected representatives, executive officials, and auditors from SAIs and subordinate formations, functioning as a knowledge hub and think-tank aligned with INTOSAI's mission. iCAL fosters collaboration through bilateral exchanges and ITEC programmes, while its training programmes focus on leadership, ethics, problem-solving, and emerging governance challenges. Its vision is to promote good governance, inclusive development, and sustainable community outcomes through empowered and skilled local government auditors and officials.

About Janaagraha

Janaagraha is a Bengaluru-based not-for-profit institution working to transform the quality of life in India's cities and towns. It defines quality of life as comprising quality of infrastructure and services, and quality of citizenship. To achieve its

mission, Janaagraha works with councillors and citizens to catalyse active citizenship in city neighbourhoods, and with governments to institute reforms to city-systems. Janaagraha has worked extensively on urban policy and governance reforms for over two decades including on JnNURM, and with the XIII, XIV, XV Finance Commissions, and the Comptroller and Auditor General of India. Janaagraha's current portfolio of work includes engagements with the XVI Finance Commission, the Ministry of Housing and Urban Affairs (MoHUA), NITI Aayog, the Capacity Building Commission, the state governments of Odisha, Assam and Uttar Pradesh, and the 5th State Finance Commission of Karnataka



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