

## **Comptroller and Auditor General of India**

New Delhi  
Dated: 18<sup>th</sup> September, 2025

### **Talking Points | Inaugural Address of the CAG of India Sh. K. Sanjay Murthy at Rajkot on Financial Management of ULGs**

#### *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. 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, including China that is fast moving towards it, have done so through the economic growth generated in and by cities, catalysed in turn by strong local governments.
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 percent<sup>1</sup>. 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 is largely modelled on the National Municipal Accounts Manual (NMAM) which was drafted in 2004, but its implementation is patchy.
6. It brought in the principles of double-entry accrual accounting and sought to build transparency into the way municipal finances were reported. Several states drew upon that manual and used it to improve their systems.

#### *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.

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

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. 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.
10. 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.
11. The National Urban Digital Mission's UPYOG stack is an important step towards progress.
12. 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*

13. Reform itself should not be the end goal. The end goal is to improve quality of life for citizens. 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.

14. 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 1lakh population as well as the metro with 1cr 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, like Charts of Accounts?
  - c. How can we start with digital first approach so that all transactions are digitised within 5 years?

### *The Role of This Workshop*

15. 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.
16. I urge all of you 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.
17. I also wish to emphasise that today's deliberations will not remain on paper. The inputs from this workshop will feed directly into the drafting of NMAM 2.0. The collective wisdom in this room; drawn from decades of experience in government, policy, finance, and technology; will shape reforms that can guide municipal finance and urban development at least for the next 2 decades.



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CAG of India, Shri K. Sanjay Murthy addressing the National Workshop on Strengthening Financial Management in Urban Local Governments

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