

## SECTION B

### CHAPTER IV

#### ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

##### 4.1 Introduction

**4.1.1** In conformity with the 74<sup>th</sup> Constitutional Amendment, the Government of Maharashtra (GOM) amended (December 1994) the existing Mumbai Municipal Corporation (MMC) Act, 1888, the Bombay Provincial Municipal Corporations (BPMC) Act, 1949, the City of Nagpur Corporation (CNC) Act, 1948 and the Maharashtra Municipal Councils (MMC) Act, 1965. All the Municipal Corporations except Municipal Corporation of Greater Mumbai (MCGM) and CNC which had their own Acts are governed by the provisions of amended BPMC Act. There were 22 Municipal Corporations, 222 Municipal Councils and five<sup>29</sup> Nagar Panchayats in Maharashtra. The elections of the various Municipal Corporations had been held from 2007 to 2010.

**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 Municipal 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 MCGM which is in category A, there are two Municipal Corporations<sup>30</sup> in category 'B' and four<sup>31</sup> and 15<sup>32</sup> Municipal Corporations in categories C and D respectively.

**4.2.3** Similarly, 222 Municipal Councils have been created for

<sup>29</sup> Dapoli (Ratnagiri), Kankavali (Sindhudurg), Shirdi (Ahmednagar), Malkapur(Satara) and Kej (Beed)

<sup>30</sup> Nagpur and Pune

<sup>31</sup> Nashik, Navi Mumbai, Pimpri-Chinchwad and Thane

<sup>32</sup> Ahmednagar, Akola, Aurangabad, Amravati, Bhiwandi-Nizampur, Dhule, Jalgaon, Kalyan-Dombivli, Kolhapur, Malegaon, Mira-Bhayandar, Nanded-Waghala, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar.

smaller urban areas and categorised 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. There are five Nagar Panchayats in the state for towns with population between 15000 and 25000.

### **4.3 Organisational Structure**

**4.3.1** The organisational set up of ULBs is depicted in **Appendix VI**. The accountability structure of a Municipal Corporation is as follows:

<b>Name of the Authority</b>	<b>Accountable for</b>
<b>General Body</b>	Policy decisions related to expenditure from the Corporation's Municipal Fund, implementation of various projects, schemes, <i>etc.</i>
<b>Standing Committee</b>	All functions related to approval of budget and sanction for expenditure as per the delegation. (Can delegate its powers to sub Committee/s).
<b>Municipal Commissioner</b>	Administration and execution of all schemes and projects subject to conditions imposed by the General Body.
<b>Municipal Chief Accountant</b>	Preparation of the annual budget and finalisation of accounts and internal audit.
<b>Municipal Chief Auditor</b>	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, CNC Act, 1948 and BPMC Act, 1949. All the moneys received by or on behalf of the Municipal 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 Municipal 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 Central Government 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 Central Government for centrally sponsored schemes and to State Government for State schemes.

**4.4.4** Under the BPMC Act, the MMC Act and the CNC Act, Municipal 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 (February 2010) from the State Government is yet to be received (June 2011). The information regarding the finances of Local Self Government Institutions for the years 2008-09 and 2009-10 was not published in the Economic Survey of Maharashtra 2009-10 and 2010-11 as was done in the previous years as the information was not furnished by the ULBs to the Directorate of Economics and Statistics, Government of Maharashtra. As per the information furnished by the Municipal Corporations for 2008-09 and 2009-10 and the figures adopted from Budget Estimates 2010-11 of MCGM the overall receipts and expenditure of the Municipal Corporations in the State from 2005-06 to 2009-10 is as follows:

(₹ in crore)

Item	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Receipts</b>	12927	16217	18348	23973	28860
<b>Expenditure</b>	12335	14820	16728	24278	28308

As per the information received from all the Municipal Corporations for the year 2009-10, the total receipt and expenditure worked out to ₹ 28860 crore and ₹ 28308 crore respectively, as detailed in the **Appendix VII**. The total receipts and expenditure of MCGM for 2009-10 amounting to ₹ 19035 and ₹ 18973 crore respectively was as stated in the MCGM Budget Estimates for the year 2010-11 (unreconciled figures).

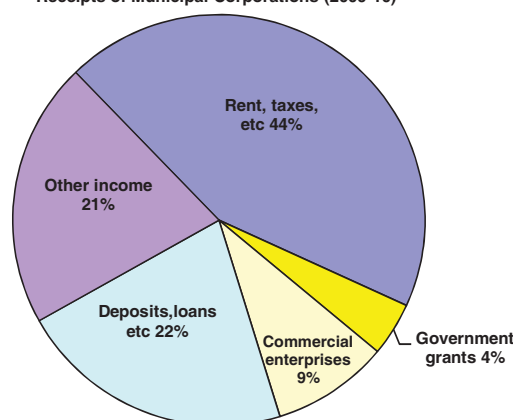
#### **4.4.6 Receipts**

The total receipts of Municipal Corporations from various sources during the last five years ending 31 March 2010 were as follows:

(₹ in crore)

Item	2005-06	Percentage to total receipts	2006-07	Percentage to total receipts	2007-08	Percentage to total receipts	2008-09	Percentage to total receipts	2009-10	Percentage to total receipts
Rents, taxes etc. including octroi, property tax and water charges	8867	68.59	11147	68.74	12094	65.91	12253	51.11	12712	44.04
Government grants	552	4.27	636	3.92	990	5.40	1084	4.52	1217	4.22
Commercial enterprises	95	0.73	199	1.22	198	1.08	2387	9.96	2650	9.18
Deposits, Loans, etc.	578	4.47	640	3.95	2525	13.76	4111	17.15	6242	21.63
Other Income	2835	21.94	3595	22.17	2541	13.85	4138	17.26	6039	20.93
<b>Total</b>	<b>12927</b>	<b>100</b>	<b>16217</b>	<b>100</b>	<b>18348</b>	<b>100</b>	<b>23973<sup>33</sup></b>	<b>100</b>	<b>28860<sup>34</sup></b>	<b>100</b>

**Receipts of Municipal Corporations (2009-10)**



Overall, the total receipts of the Municipal Corporations showed an increasing trend over the five year period from 2005-06 to 2009-10. The share of Government grants in the total receipts of the Municipal Corporations ranged between 3.92 to 5.40 *per cent* upto 2008-09 and declined to 4.22 *per cent* during 2009-10. The total receipt of all Municipal Corporations in the State during 2009-10 was ₹ 28860 crore which was higher by 20.38 *per cent* over the previous year.

The receipts of the Municipal Corporations by way of tax revenue did not vary much in the previous three years but as compared to the total receipts declined to 44.04 *per cent* during 2009-10. While the income from Commercial enterprises increased by 11.02 *per cent* over the previous year 2008-09, the Deposit and Loans etc., and other income increased by 51.84 *per cent* and 45.94 *per cent* respectively over the previous year 2008-09.

**Arrears in Tax Collection :** Information furnished by the Municipal

<sup>33</sup> Includes MCGM total receipts ₹ 15658 crore (Rent, taxes ₹ 6845 crore, Government grants ₹ 115 crore, Commercial enterprises ₹ 2287 crore, Deposits & Loans ₹ 3385 crore and Other income ₹ 3026 crore) as unreconciled figures appearing in Budget Estimates for the year 2010-11.

<sup>34</sup> Includes MCGM total receipts ₹ 19035 crore (Rent, Rates & taxes ₹ 7250 crore, Government grants ₹ 124 crore, Commercial enterprises ₹ 2576 crore, Deposits & Loans ₹ 5156 crore and other income ₹ 3929 crore) as unreconciled figures appearing in Budget Estimates for the year 2011-12

Corporations revealed that during the year 2009-10 Municipal Corporations recovered property taxes amounting to ₹ 2158.01 crore against total demand of ₹ 7123.11 crore and water tax to the tune of ₹ 2099.49 crore against total demand of ₹ 5453.89 crore. Thus as at the end of March 2010, water tax aggregating to ₹ 3354.40 crore (**Appendix VIII**) and property tax aggregating to ₹ 4965.10 crore (**Appendix IX**) had been outstanding for recovery, resultantly the funds available for providing various services stood curtailed.

#### **4.4.7 Expenditure**

As per the information furnished by the Municipal Corporations for the year 2008-09 and 2009-10, the total item-wise expenditure of all Municipal Corporations put together in the state for the last five years is given in **Appendix X**.

The expenditure on administration increased to ₹ 5585 crore and ₹ 6366 crore during 2008-09 and 2009-10 respectively as compared to ₹ 4937 crore in 2007-08. However, percentage of expenditure on administration to the total expenditure declined by 7.25 *per cent* and 7.76 *per cent* in 2008-09 and 2009-10 respectively as compared to the year 2007-08 due to appointment of agencies for collection of octroi by Municipal Corporations. In the case of MCGM, out of their total expenditure of ₹ 18973 crore for 2009-10, the share of expenditure on administration was ₹ 4826.32 crore<sup>35</sup> which constituted 25.44 *per cent*. Sizable portion of expenditure of Municipal Corporations thus, is committed towards meeting firm liabilities and to that extent, money for providing various services is restricted.

#### **4.5 Twelfth Finance Commission grants**

The Twelfth Finance Commission (TFC) recommended grant of ₹ 791 crore to the ULBs in Maharashtra State for the years 2005-06 to 2009-10, payable at the rate of ₹ 158.20 crore every year which was required to be utilised for development of civic services and basic amenities in the urban areas. The delay in utilisation and diversion *etc* of TFC grants received upto 2007-08 were commented in the Para 6.11 of the Report of the Comptroller and Auditor General of India (Local Bodies) Government of Maharashtra for the year ended 31 March 2007. The State received TFC grants of ₹ 772.20 crore for ULBs upto March 2010. The position of receipt and utilisation of TFC grant by ULBs (September 2010) is as follows:

Subject	Amount (₹ in crore)
1. Grants released by GOM to ULBs	772.20
2. Utilisation of grants by ULBs	453.20 (59 <i>per cent</i> )

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<sup>35</sup> as per MCGM budget 2011-12 (Administration and Establishment expenses)

Though ₹ 772.20 crore under TFC grants have been allocated to ULBs (May 2010) for utilisation within next six months, ₹ 319 crore is still remaining to be utilised by various ULBs (September 2010). However, information regarding final utilisation is awaited from Government (June 2011). Thus, Government failed to ensure the utilisation of TFC grants for the purpose of development of civic services and basic amenities in the urban areas as envisaged in the guidelines of TFC.

#### **4.6 Accounting arrangements**

**4.6.1** Section 93 of the BMC Act, 1949 and Section 123 of MMC Act, 1888 provide that the accounts of the Municipal 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 Comptroller and Auditor General of India 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 Comptroller and Auditor General of India had finalised 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 Municipal 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. The draft State Account Code for ULBs prepared by Project Management Consultant appointed by Director Municipal Administration (DMA) was submitted to Steering Committee in February 2008. The revised Account Code has not been adopted so far (March 2011). Seven Municipal Corporations viz Ahmednagar, Akola, Aurangabad, Amravati, Bhiwandi-Nizampur, Dhule and Jalgaon were yet to maintain their accounts on accrual basis and these Municipal Corporations stated (September/December 2010) that the work was in progress. DMA intimated (March 2011) that all Municipal Councils have adopted accrual based accounting system. However, the non-adoption of State Account Code through State Legislation resulted in non-implementation of recommendation of EFC.

#### **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 BMC Act, 1949 except CNC where audit is entrusted to Chief Auditor, Local Fund Account. The pay and allowances of the MCA is borne on the establishment expenditure of the respective

Corporation, as such independence of audit could not be ensured.

**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 Municipal 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** Based on the information furnished by the Municipal Corporations, only in eight Municipal Corporations, audit of annual accounts by MCA has been completed upto 2009-10 and reports submitted to Standing Committee. Seven<sup>36</sup> Municipal Corporations have not furnished information. In the balance seven Municipal Corporations the arrears in finalisation of accounts and audit by MCA ranged from years 2001-02 to 2009-10.

**4.7.4** The State Government entrusted (October 2002) the audit of Municipal Corporations to the Comptroller and Auditor General of India under Section 14(2) of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Services) (DPC) Act, 1971. The audit of Municipal Councils and Nagar Panchayats has been entrusted (March 2011) by GOM under Technical Guidance and Supervision (TGS).

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 outstanding 382 Inspection Reports and 1995 Paras issued by Accountant General, Maharashtra to the Corporations, as detailed in the following statement, is a reflection of inadequate internal control.

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<sup>36</sup> Ahmednagar, Akola, Dhule, Jalgaon, Nashik, Pimpri-Chinchwad and Thane

Year	Inspection Reports			Paragraphs		
	Mumbai	Nagpur	Total	Mumbai	Nagpur	Total
Upto 2005-06	99	13	112	241	322	563
2006-07	65	5	70	158	129	287
2007-08	45	5	50	152	138	290
2008-09	80	4	84	387	111	498
2009-10	64	2	66	301	56	357
<b>Total</b>	<b>353</b>	<b>29</b>	<b>382</b>	<b>1239</b>	<b>756</b>	<b>1995</b>

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

#### **4.9 Conclusion**

- Mounting arrears in collection of taxes indicate lack of internal control and improper monitoring which ultimately can affect the financial position of the Municipal Corporation and hamper the development activities ;
- TFC grants were utilised only to the extent of 59 *per cent* which affects adversely the development of civic services and basic amenities ;
- although the GOM adopted (July 2005) the NMAM for implementation from 2005-06, all the ULBs had not implemented the same so far ;
- arrears in audit of Municipal Corporations by MCAs and outstanding audit paragraphs of Accountant General's audit indicate weak internal control ;
- the entrustment of audit of accounts of the Municipal Corporations to MCA, who is under the administrative control of the respective Municipal Corporations, dilutes the principle of independence of the auditors.

#### **4.10 Recommendations**

- In order to ensure maintenance of accounts by the ULBs in accrual based accounting system, the State Government should finalise the State Accounting Manual.
- The system for monitoring of compliance to the audit observations issued by MCA and Accountant General needs to be streamlined on urgent basis, so that cases of recurring and persistent deficiencies which have been highlighted get rectified in a timely manner.
- In view of the mounting arrears in collection of the main revenues



of ULBs *i.e.* property tax and water charges, comprehensive system for their timely recovery including liquidation of arrears with effective arrangements for regular cycle of billing, needs to be introduced on a priority basis.

The matter was referred to Government (January 2011). Reply has not been received (June 2011).