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*CHAPTER II*

*ACCOUNTS AND FINANCES OF  
URBAN LOCAL BODIES*

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## SECTION B

### CHAPTER II ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

#### 2.1 Introduction

**2.1.1** In conformity with the 74<sup>th</sup> Constitutional Amendment (1992), the Government of Maharashtra (GoM) amended (December 1994) the existing Mumbai Municipal Corporation (MMC) Act, 1888; the Bombay Provincial Municipal Corporation (BPMC) Act, 1949; the Nagpur City Municipal Corporation (NCMC) Act, 1948; and the Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. All the Municipal Corporations, except Municipal Corporation of Greater Mumbai (MCGM) and NCMC which had their own Acts, are governed by the provisions of amended BPMC Act. There were 26 Municipal Corporations and 233 Municipal Councils including 13 Nagar Panchayats<sup>1</sup> (NP) in Maharashtra. The elections of the Municipal Corporations were held between 2008 and 2013.

**2.1.2** Of the 18 functions referred to in the XII 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.

#### 2.2 Organisational set up

**2.2.1** As per the Census of 2011, the total population of Maharashtra was 11.24 crore of which, 45 *per cent* were in the urban areas. The state has 45 cities/urban agglomerations having a population of over one lakh.

**2.2.2** Twenty Six 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 falls in category A, there are two Municipal Corporations<sup>2</sup> in category B and four<sup>3</sup> and 19<sup>4</sup> Municipal Corporations in categories C and D respectively.

**2.2.3** Similarly, 233 Municipal Councils have been created for smaller urban areas and categorised based on their population. At present, there are 12 'A' class (having population more than one lakh), 61 'B' class (having population more than 40,000 but not more than one lakh) and 160 'C'

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<sup>1</sup> Dapoli, Devrukh, Guhagar, Lanja (Ratnagire), Kankawali (Sindhudurga), Shirdi (Ahmadnagar), Malkapur (Satara), Kej (Beed), Ardhapur, Mahur (Nanded), Shindkheda (Dhule), Madhula and Moodha (Nagpur)

<sup>2</sup> Nagpur and Pune

<sup>3</sup> Nashik, Navi Mumbai, Pimpri-Chinchwad and Thane

<sup>4</sup> Ahmednagar, Akola, Amravati, Aurangabad, Bhiwandi-Nizampur, Dhule, Jalgaon, Kalyan-Dombivli, Kolhapur, Malegaon, Mira-Bhayander, Nanded-Waghala, Sangli-Miraj-Kupwad, Solapur, Ulhasnagar, Vasai-Virar, Parbhani City, Latur and Chandrapur

class (having population of 40,000 or less) Municipal Councils including 13 NPs in the State for towns with population between 15,000 and 25,000.

### **2.3 Organisational structure**

**2.3.1** The organisational structure of ULBs is depicted in **Appendix IV**.

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

<b>Sr. No.</b>	<b>Name of the Authority</b>	<b>Accountable for</b>
1.	<b>General Body</b>	Policy decisions related to expenditure from the Corporation's Municipal Fund, implementation of various projects, schemes <i>etc.</i>
2.	<b>Standing Committee</b>	All functions related to approval of budget and sanction for expenditure as per the delegation. (It can delegate powers to Sub-Committee/Sub-committees).
3.	<b>Municipal Commissioner</b>	Administration and execution of all schemes and projects subject to conditions imposed by the General Body.
4.	<b>Municipal Chief Accountant</b>	Preparation of the annual budget and finalisation of accounts and to conduct internal audit.
5.	<b>Municipal Chief Auditor</b>	Audit of municipal accounts, preparation and submission of Audit Reports to the Standing Committee.

### **2.4 Financial profile**

**2.4.1** Municipal Funds are constituted under the provisions contained in the MMC Act, 1888, NCMC Act, 1948, BPMC Act, 1949 and Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. All the money received by or on behalf of the Municipal Corporations and Municipal Councils under the provisions of the respective Acts, all money raised by way of taxes, fees, fines and penalties, all money received by or on behalf of Municipal Corporation and Municipal Councils 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.

**2.4.2** The State Government and Central Government release grants to the Municipal Corporations and Municipal Councils 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 development works.

**2.4.3** 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.

**2.4.4** Under the BPMC Act, the MMC Act and the NCMC 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.

**2.4.5** The consolidated position of receipts and expenditure of ULBs are not maintained at the State level. As per the information furnished by Municipal Corporations, the overall receipts and expenditure of the Municipal Corporations in the State from 2008-09 to 2012-13 was as under:

(₹ in crore)

Items	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Receipts</b>	23,973	28,860	30,137	32,235	37,046
<b>Expenditure</b>	24,278	28,308	27,558	28,647	34,568

The total receipts and expenditure of all the 26 Municipal Corporations during 2012-13 was ₹ 37,046 crore and ₹ 34,568 crore respectively which includes the total receipts (₹ 22,461 crore) and expenditure (₹ 21,275 crore) of MCGM, as indicated in **Appendix V**.

#### **2.4.6 Receipts**

The total receipts of the Municipal Corporations from various sources during the last five years ending 31 March 2013 were as follows:

(₹ in crore)

Item	2008-09	Percentage to total receipts	2009-10	Percentage to total receipts	2010-11	Percentage to total receipts	2011-12	Percentage to total receipts	2012-13	Percentage to total receipts
Rents, taxes etc. including octroi, property tax and water charges	12,253	51.11	12,712	44.04	15,989	53.05	17,800	55.22	19,233	51.92
Government grants	1,084	4.52	1,217	4.22	972	3.23	1,198	3.72	1,867	5.04
Commercial enterprises	2,387	9.96	2,650	9.18	13	0.04	82	0.25	17	0.05
Deposits, Loans, etc.	4,111	17.15	6,242	21.63	1,280	4.25	1,853	5.75	496	1.33
Other Income	4,138	17.26	6,039	20.93	11,883	39.43	11,302	35.06	15,433	41.66
<b>Total receipts</b>	<b>23,973</b>	<b>100</b>	<b>28,860</b>	<b>100</b>	<b>30,137</b>	<b>100</b>	<b>32,235</b>	<b>100</b>	<b>37,046</b>	<b>100</b>

Overall, the total receipts of the Municipal Corporations showed an increasing trend over the five year period from ₹ 23,973 crore in 2008-09 to ₹ 37,046 crore in 2012-13. The share of Government grants in the total receipts of the Municipal Corporations ranged between 3.23 per cent and 5.04 per cent during the period 2008-13.

The tax revenue increased by ₹ 1,433 crore during 2012-13 which was 8.05 per cent more than the previous year (2011-12) whereas, the total receipts increased by ₹ 4,811 crore which was 14.92 per cent more than the previous year (2011-12).

#### **Arrears in tax collection**

**Property Tax:** Information furnished by all the Municipal Corporations revealed that during the year 2012-13, Municipal Corporations recovered 25.12 per cent of property taxes amounting to ₹ 4,259 crore against total demand of ₹ 16,956 crore (**Appendix VI**).

**Water charges:** Information furnished by 23 out of 26 Municipal Corporations revealed that during the year 2012-13, Municipal Corporations recovered 41.87 *per cent* of water charges amounting to ₹ 1,183 crore against total demand of ₹ 2,826 crore (**Appendix VII**).

#### **2.4.7 Expenditure**

As per information furnished by the Municipal Corporations, the total item-wise expenditure of all the Municipal Corporations in the State during last five years (2008-13) was as indicated in **Appendix VIII**.

The expenditure on administration increased to ₹ 10,487 crore during 2012-13 as compared to ₹ 7,929 crore in 2011-12. In the case of MCGM, out of total expenditure of ₹ 21,275 crore incurred during 2012-13, the share of expenditure on administration was ₹ 7,392 crore and constituted 34.75 *per cent* of the total expenditure. In respect of five<sup>5</sup> other Municipal Corporations, the share of expenditure on administration to total expenditure exceeded 35 *per cent* and ranged between 35.88 and 55.81 *per cent*. High establishment cost restricted availability of funds for other services to be provided by the Municipal Corporations.

#### **2.4.8 Receipt and expenditure of Municipal Councils**

During 2012-13, 217 out of 233 Municipal Councils incurred an expenditure of ₹ 3,297 crore against total receipts of ₹ 3,702 crore. Further, 215 out of 233 Municipal Councils had arrears of property taxes of ₹ 157 crore against total demands of ₹ 411 crore. Similarly, 209 out of 233 Municipal Councils had arrears of water charges of ₹ 92 crore against total demands of ₹ 216 crore (**Appendix IX**).

### **2.5 Thirteenth Finance Commission grants**

On the recommendation of the Thirteenth Finance Commission, Basic Grant of ₹ 421.29 crore and Performance Grant of ₹ 248.42 crore was released to various Municipal Corporations, Municipal Councils and Nagar Panchayats of which ₹ 144.59 crore (34.32 *per cent*) and ₹ 41.78 crore (16.82 *per cent*) respectively were utilized (November 2013).

### **2.6 Accounting arrangements**

**2.6.1** Section 93 of the BPMC Act, 1949 and Section 123 of the 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 recommendations, the Ministry of Urban Development, GOI in consultation with the Comptroller and Auditor General of India had finalised the National Municipal Accounts Manual (NMAM) for implementation of accrual based accounting system by ULBs in November 2004.

**2.6.2** The GoM adopted (July 2005) the NMAM for implementation from the year 2005-06. The State Accounting Manual in conformity with the NMAM was under preparation. Till finalisation of the Manual, all Municipal

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<sup>5</sup> Ahmednagar (35.94 *per cent*) Amravati (55.81 *per cent*), Aurangabad (35.88 *per cent*), Bhiwandi Nizampur (38.28 *per cent*) and Sangli-Miraj-Kupwad (41.65 *per cent*)

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 GoM also recommended (January 2007) the implementation of the accrual system of accounting in the ULBs. The draft State Account Code for ULBs prepared by the Project Management Consultant appointed by the Director, Municipal Administration (DMA) was submitted to the Steering Committee in February 2008. The GoM published (January 2013) the Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements of all the Municipal Councils. However, the same is not being followed (February 2014).

## **2.7 Audit Arrangements**

**2.7.1** A Municipal Chief Auditor (MCA) is appointed by each Corporation under Section 78 (a) of the MMC Act, 1888 and Section 45 (i) of the BPMC Act, 1949 except for NCMC where audit is entrusted to the DLFA. The GoM, as per the recommendation of the 13<sup>th</sup> Finance Commission, entrusted (March 2011) the audit of all ULBs to the DLFA. The certification of accounts of all Local Self Institutions was also to be conducted by the DLFA. The DLFA stated (March 2014) that audit of 23 Municipal Corporations for the year 2011-12 has been completed and certification of annual accounts would be done after submission of accounts by the Corporations. In respect of Municipal Councils, DLFA stated that no separate certification is done by it.

**2.7.2** 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.

**2.7.3** As per information furnished by 17 out of 26 Municipal Corporations which have prepared their annual accounts, audit by MCA has been completed up to 2012-13 in four<sup>6</sup> Municipal Corporations and up to 2011-12 in three<sup>7</sup> Municipal Corporations and reports submitted to the respective Standing Committees. In the remaining 10<sup>8</sup> Municipal Corporations, there were arrears in audit by MCA ranging between two and 10 years.

The arrears in audit by MCA indicated weak internal controls existing in the Municipal Corporations.

**2.7.4** The GoM issued orders in October 2002 entrusting the audit of Municipal Corporations to the Comptroller and Auditor General of India under Section 14 (2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971. The audit of Municipal Councils and NPs

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<sup>6</sup> Kolhapur, Malegaon, Mira Bhayander and Ulhasnagar

<sup>7</sup> Ahmednagar, Bhiwandi-Nizampur, and Vasai-Virar

<sup>8</sup> Dhule, Jalgaon, Kalyan Dombivali, MCGM, Nasik, Navi Mumbai, Pimpri Chinchwad, Pune, Sangli Miraj Kupwad and Solapur.

was entrusted (March 2011) to the Comptroller and Auditor General of India by GoM under Technical Guidance and Supervision.

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.

## **2.8 Lack of response to audit observations**

The Municipal Commissioners, Chief Officers and the elected bodies/Standing Committees are mainly responsible for the system of internal controls in the Municipal Corporations. For efficient implementation of the functions transferred to the ULBs, all deficiencies pointed out in audit by the Principal Accountant General/Accountant General are required to be complied with as early as possible as this would ultimately be helpful in efficient service delivery to the urban population. However, as of March 2013, there were large pendency in Inspection Reports and Paragraphs issued by the Principal Accountant General/Accountant General, Maharashtra to the Corporations, which was a reflection of inadequate internal controls.

<b>Year</b>	<b>Inspection Reports</b>	<b>Paragraphs</b>
Up to 2009-10	355	1396
2010-11	128	598
2011-12	152	1052
2012-13	98	613
<b>Total</b>	<b>733</b>	<b>3659</b>

## **2.9 Conclusion**

The functioning of ULB in the State revealed the following:

- Utilisation of Basic Grants and Performance Grants released by the Thirteenth Finance Commission to the Municipal Corporations, Municipal Councils and Nagar Panchayats was only to the extent of 34.32 *per cent* and 16.82 *per cent* respectively.
- The GoM published (January 2013) the Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements of all the Municipal Councils. However, the same is not being followed.
- There were arrears in preparation of accounts of Municipal Corporations and their audit by Municipal Chief Auditor.
- Response to Inspection Reports and Paragraphs issued by Principal Accountant General/Accountant General, Maharashtra was not adequate.

The matter was referred to the Government in April 2014; their reply was awaited.