
CHAPTER-II

AN OVERVIEW

OF THE FUNCTIONING, ACCOUNTABILITY

MECHANISM AND FINANCIAL REPORTING ISSUES OF

URBAN LOCAL BODIES

SECTION B

CHAPTER- II

An Overview of the Functioning, Accountability Mechanism and Financial Reporting Issues of Urban Local Bodies

2.1 Introduction

In conformity with the 74th Constitutional Amendment (1992), the Government of Maharashtra (GoM) amended (December 1994) the existing Mumbai Municipal Corporation (MbMC) Act, 1888; The Bombay Provincial Municipal Corporations Act, 1949; The Nagpur City Municipal Corporation Act, 1948; and The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. All the Municipal Corporations, except the Municipal Corporation of Greater Mumbai (MCGM) which had its own Act, are governed by the provisions of the amended (2011) Maharashtra Municipal Corporation (MMC) Act, 1949. As of February 2018, there were 27 Municipal Corporations and 359 Municipal Councils including 129 Nagar Panchayats (NPs) in Maharashtra.

The demographic and developmental status of the State is given in **Table 2.1.1**.

Table 2.1.1: Important statistics of the State

Population	11,23,74,333
Population density	365 km ²
Gender ratio	929:1000
Urban population	5,08,18,259
Literacy in <i>per cent</i> (Urban)	88.69%
Number of ULBs	386
(i) Municipal Corporations	27
(ii) Municipal Councils	230
(iii) Nagar Panchayats	129
Source: Information furnished by Urban Development Department and Census 2011	

2.2 Organizational Setup of ULBs

2.2.1 The organizational structure of ULBs is depicted in **Appendix –2.1**

2.2.2 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.

Twenty Seven Municipal Corporations in the State have been created for urban agglomerations having a population of more than three lakh.

These 27 Municipal Corporations have been categorised¹ into five categories

¹ Category A+ (population over one crore and per capita income above ₹ 50,000): one; Category A (population between 25 lakh and one crore and per capita income above ₹ 8,000): two; Category B (population between 15 lakh and 25 lakh and per capita income above ₹ 5,000): three; Category C (population between 10 lakh and 15 lakh and per capita income above ₹ 3,000): four; and Category D (population between 03 lakh and 10 lakh): 17

namely, A+, A, B, C and D based on the criteria of population and per capita income. At present, only MCGM falls in category A+, two² in category A, three³ in category B, four⁴ in category C and 17⁵ Municipal Corporations in category D.

Similarly, 359 Municipal Councils including Nagar Panchayats have been created for smaller urban areas and categorised⁶ based on their population. At present, there are 17 'A' class, 72 'B' class and 141 'C' class Municipal Councils and 129 NPs in the State.

2.3 Functioning of Urban Local Bodies

2.3.1 The accountability structure of Municipal Corporations is shown in **Table 2.1.2**.

Table 2.1.2: Accountability structure of Municipal Corporations

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 <i>etc.</i>
2.	Standing Committee	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.	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 to conduct internal audit.
5.	Municipal Chief Auditor	Audit of municipal accounts, preparation and submission of Audit Reports to the Standing Committee.

Source: The Mumbai Municipal Corporation Act, 1888 and The Maharashtra Municipal Corporation Act, 1949

2.3.2 Duties and Powers

To function as an institution of self-government and to carry out the responsibilities conferred upon them, the ULBs exercise their powers and functions in accordance with provision of Section 63 to 72 of the MMC Act, 1949 which provides for various functions to be exercised in the sphere of Public Works, Education, Public Health and Sanitation, Town planning and Administration *etc.*

2.3.3 Devolution of Funds, Functions and Functionaries to Urban Local Bodies

Article 243W inserted through the 74th Constitutional Amendment envisaged devolution of powers and responsibilities to municipalities in respect of 18

² Nagpur and Pune

³ Nashik, Pimpri-Chinchwad and Thane

⁴ Aurangabad, Kalyan-Dombivli, Navi Mumbai and Vasai-Virar

⁵ Ahmednagar, Akola, Amravati, Bhiwandi-Nizampur, Chandrapur, Dhule, Jalgaon, Kolhapur, Latur, Malegaon, Mira-Bhayandar, Nanded-Waghala, Parbhani City, Panvel, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar

⁶ Category A (population between one lakh and three lakh): 17; Category B (population between 40,000 and one lakh): 72; Category C (population between 25,000 and 40,000): 141; and NPs (population between 15,000 and 25,000): 129

subjects mentioned in XII Schedule of the Constitution.

Of the 18 functions referred to in the XII Schedule of the Constitution of India, 12 functions were assigned to the Urban Local Bodies (ULBs) under Sections 61 and 63 of the MbMC Act, 1888 and Section 63 of the Bombay Provincial Municipal Corporation Act, 1949, prior to the 74th amendment. The remaining six functions were also transferred/assigned to the ULBs after 1994.

Of the State Government's total revenue receipts of ₹ 1,49,326 crore during 2016-17 (excluding State's share of Union taxes and duties and Grants-in-aid from Government of India), ULBs were allocated ₹ 13,850 crore (9.27 per cent).

2.4 Formation of various Committees

2.4.1 District Planning Committee

Article 243 ZD of the Constitution of India envisages formation of District Planning Committee (DPC) at district level in every State. The tenure of DPC is five years and it is required to meet at least once in three months. DPCs are constitutionally responsible to consolidate the plans prepared by local self government institutions in the district and to prepare a Draft Development Plan (DDP) for the district as a whole for onward transmission to the Government. The DPC is to monitor the quantitative and qualitative progress, especially its physical and financial achievements during the implementation of the approved DDP. The State Government, while preparing the State plan, considers the proposals and priorities included in DDPs prepared for each district by the DPC.

The status of formation of DPC in 36 districts of the State was awaited from the Urban Development Department (Department) as of February 2018.

2.4.2 Formation of Committees in Urban Local Bodies

The MMC Act, 1949 provides that there shall be two mandatory Committees in each Municipal Corporation *i.e.* Standing Committee and Transport Committee. It also provides that the Corporation may from time to time appoint out of its own body, special Committees which shall conform to any instructions that the Corporation may from time to time give them.

The UDD stated that (January 2018) the Standing Committee has been constituted in all the MCs in State except Thane MC.

The Transport Committee has been constituted in nine⁷ MCs, the constitution of Transport Committee is in progress in two MCs *viz.*, Mira Bhayandar and Parbhani MC and the Transport Committee has not been constituted in 16⁸ MCs.

⁷ Greater Mumbai, Thane, Ulhasnagar, Vasai-Virar, Kalyan-Dombivali, Navi Mumbai, Solapur, Kolhapur and Nagpur

⁸ Bhiwandi-Nizampur, Panvel, Pimpri-Chinchwad, Pune, Sangli-Miraj-Kupwad, Nashik, Jalgaon, Ahmednagar, Malegaon, Dhule, Latur, Aurangabad, Chandrapur, Akola, Amravati and Nanded

2.5 Audit Arrangement

2.5.1 Primary Auditor

Director, Local Fund Audit (DLFA) is the primary auditor of the accounts of local bodies and discharges duties and responsibilities as per the provisions of The Maharashtra Local Fund Act, 1930.

Placing of Audit Review Report of DLFA

As per Government Resolution of March 2011, DLFA shall audit the accounts of PRIs and ULBs and submit annually a consolidated report of the accounts to the Legislative Assembly. Accordingly, the Audit Review Report on ULBs for the year **2011-12** was placed in the State Legislature in **April 2015** while that of **2012-13** was under preparation.

Arrears in Audit/Certification by DLFA

As per information furnished to audit (February 2018), certification of none of the Municipal Corporations was done by DLFA for any of the years from 2011-12 to 2016-17 due to delayed/incomplete/ non-submission of approved accounts by the Municipal Corporations.

Further, DLFA, due to shortage of manpower, has requested Government (March 2017, August 2017 and February 2018) to appoint Chartered Accountants for certification of annual accounts of Municipal Corporations, Government approval in this regards is awaited.

Compliance audit of, 18⁹ Corporations up to 2013-14 and 12¹⁰ Corporations up to 2014-15 was completed by DLFA. The audit for 2015-16 and 2016-17 is in arrears for all 27 Corporations.

Thus, there were significant arrears in audit and certification of annual accounts of Municipal Corporations.

Of all 359 Municipal Councils including Nagar Panchayats, Certification of annual accounts was done only of eight¹¹ Municipal Councils/Nagar Panchayats for 2012-13, one¹² Nagar Panchayat for 2013-14, six¹³ Municipal Councils/Nagar Panchayats for 2014-15 and five¹⁴ Municipal Councils/Nagar Panchayats for 2015-16 and 2016-17. The arrears in audit and certification were due to non-submission / delay in submission of accounts to DLFA.

The DLFA has completed compliance audit of 232 Councils/Panchayats for 2013-14, 236 Councils / Panchayats for 2014-15, 183 Councils / Panchayats for 2015-16 and 101 Councils/Panchayats for 2016-17.

⁹ Mumbai, Kalyan-Dombivli, Bhiwandi-Nijampur, Ulhasnagar, Sangli-Miraj-Kupwad, Vasai-Virar, Mira-Bhayandar, Pune, Nashik, Jalgaon, Latur, Parbhani, Akola, Aurangabad, Ahmednagar, Chandrapur, Nanded and Malegaon

¹⁰ Mumbai, Ulhasnagar, Vasai-Virar, Mira-Bhayandar, Pune, Nashik, Latur, Parbhani, Akola, Ahmednagar, Chandrapur and Nanded

¹¹ Murgud, Kagal, Gadhinglaj, Panhala, Malkapur (Kolhapur), Vadgaon, Kurundvad and Ichalkaranji

¹² Kankavli

¹³ Buldhana, Khamgaon, Shegaon, Lonar, Jalgaon-Jamod and Chikhali

¹⁴ Malkapur (Buldhana), Mehakar, Sindhkhed Raja, Devulgaon Raja and Nandura

2.5.2 Audit by the Comptroller and Auditor General of India

The GoM entrusted (October 2002) audit of Municipal Corporations to the Comptroller and Auditor General of India under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The audit of Municipal Councils and NPs 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 State Government for action.

The Audit Report (Local Bodies) of the Comptroller and Auditor General of India for the year ended 31 March 2016 was placed in the State Legislature in **August 2017** and the Audit Report for the year ended 31 March 2014 has been taken up for discussion by Public Accounts Committee (PAC) along with paragraphs from previous reports pending for discussion.

2.6 Response to Audit Observations

2.6.1 Outstanding Inspection Reports and Paragraphs of ULBs audited by Accountant General

As of June 2017, 927 Inspection Reports and 5,024 paragraphs of ULBs audited by Principal Accountant General/Accountant General, Maharashtra up to March 2017 were outstanding as shown in the **Table 2.1.3**.

Table 2.1.3: Position of outstanding inspection reports and paragraphs

Year	Inspection Reports	Paragraphs
Up to 2012-13	625	2602
2013-14	78	421
2014-15	57	396
2015-16	110	895
2016-17	57	710
Total	927	5024

Source: Information compiled in the offices of the Principal Accountant General/Accountant General, Maharashtra (Mumbai and Nagpur)

2.6.2 Paragraphs Appeared in Audit Reports but Pending for Discussion by PAC

As of February 2018, of the 40 paragraphs pertaining to ULBs that appeared in Audit Reports from 2011-12 to 2015-16, 10 paragraphs were discussed in PAC while 30 paragraphs were pending discussion as shown in the **Table 2.1.4**.

Table 2.1.4: Paragraphs appeared in Audit Report but pending for discussion by PAC

Year of Audit Report	Number of paragraphs in Audit Report	Number of paragraphs discussed in PAC	Paragraphs pending for discussion in PAC
2011-12	09	08	01
2012-13	11	00	11
2013-14	06	02	04
2014-15	04	00	04
2015-16	10	00	10
Total	40	10	30

Source: Information compiled in the offices of the Principal Accountant General/Accountant General, Maharashtra (Mumbai and Nagpur)

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

2.7 Lokayukta

The State of Maharashtra has established the institution of Lokayukta in Maharashtra on 25 October 1972 based on the concept of Ombudsman in accordance with The Maharashtra Lokayukta and Upa-Lokayukta Act, 1971.

As of March 2017, of the 911 complaints pertaining to ULBs were received. Of these 703 Complaints were disposed by the Lokayukta and 208 complaints were pending for disposal as shown in the **Table 2.1.5**. Majority of complaints pertains to grievances for non-receipt of pensionary benefits, compensation *etc.*

Table 2.1.5: Position of disposal of complaints by Lokayukta

Particulars	Complaints received from Municipal Corporation	Complaints received from Municipal Councils	Total
Complaints receipt during 01.04.2016 to 31.03.2017	734	177	911
Complaints disposal during 01.04.2016 to 31.03.2017	596	107	703
Complaints pending as on 31.03.2017	138	70	208

Source : Information furnished by Office of the Lokayukta and Upa-Lokayukta, Maharashtra State, Mumbai

2.8 Social Audit

Social audit is a continuous and ongoing process which includes verification of quantity and quality of works at different stages of implementation to ensure transparency and public accountability in the implementation of projects, laws and policies and its results by the community with active involvement of primary stakeholders.

Information regarding social audit of ULBs was awaited from the Department (February 2018).

2.9 Property Tax Board

The 13th FC recommended setting up of a State Level Property Tax Board to assist the ULBs to put in place an independent and transparent procedure for assessing property tax. The FC also recommended that the Board shall enumerate, or cause to enumerate, all properties in the ULBs in the State and develop a database, review the property tax system and suggest suitable basis for valuation of properties, design and formulate transparent procedure for valuation of properties *etc.*

Reply of the Department regarding formation of Property Tax Board was awaited (February 2018).

2.10 Service Level Benchmarks

As per 13th FC recommendations, State Governments must notify or cause all the Municipal Corporations and Municipalities to notify the service standards for four service sectors *viz.*, water supply, sewage, storm water drainage and solid waste management proposed to be achieved by them by the end of the succeeding fiscal year.

The Department had notified service level benchmarks up to 2017-18.

2.11 Fire Hazard Response

As per 13th FC recommendations, all Municipal Corporations with a population of more than one million as per 2001 census must put in place a fire hazard response and mitigation plan for their respective jurisdictions.

Reply of the department in this regard is awaited (February 2018).

2.12 Submission of Utilisation Certificates

The Bombay Financial Rules, 1959 provide that for the grants provided for specific purposes, utilisation certificates (UCs) should be obtained by the departmental officers from the grantee institutions and after verification, the UCs should be forwarded to the concerned accounting offices *i.e.* Accountant General (Accounts and Entitlements), Maharashtra within 12 months from the dates of their sanction.

As of March 2017, a total 2,509 UCs involving ₹ 28,952.31 crore were outstanding in UDD.

2.13 Internal Audit and Internal Control System of ULBs

An effective Internal Control System and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities, and helps to protect resources against loss due to waste, abuse and mismanagement.

Section 105 of MMC Act, 1949 and Section 135 of the MbMC Act, 1888 provide that the Municipal Chief Auditor (MCA) should audit the municipal accounts and submit a report thereon to the Standing Committee of the Municipal Corporation. 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 MbMC Act, 1888 further provides that the MCA shall examine and audit the statement of accounts and shall

certify and report upon these accounts.

Information received from two of the 27 Municipal Corporations revealed that the audit of annual accounts up to year 2015-16 was completed by MCA in Nagpur Municipal Corporations and up to year 2016-17 in Malegaon Municipal Corporation.

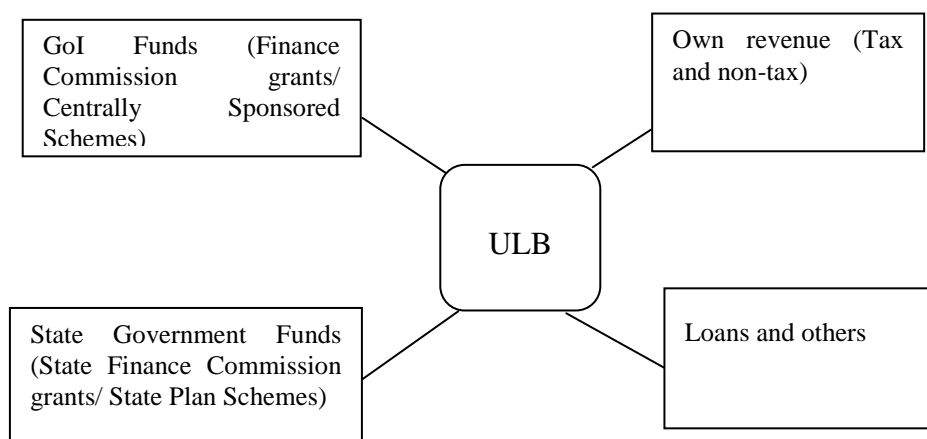
The arrears in certification and audit of the accounts of Municipal Corporations by MCA indicated weak internal controls in the Municipal Corporations.

2.14 Financial Reporting Issues

2.14.1 Source of Funds

The resource base of ULBs consists of own revenues, assigned revenues, Central/State grants and loans as depicted in the **Chart 1**:

Chart 1: Source of Funds



Information regarding receipts and expenditure for the period 2012-17 was awaited from the Department (February 2018).

2.14.2 Recommendation of the State Finance Commission

Article 243 (I) of the Constitution of India requires that the State Finance Commission (SFC) be appointed at the expiry of every fifth year.

The Fourth SFC was constituted in February 2011 and was to submit its report to the State Government by September 2012 for implementation of its recommendations during 2011-12 to 2015-16. However, the date for submission of report was extended by the State Government up to December 2014. The report was printed (November 2017) and the recommendations have been submitted to the GoM for its approval (October 2017).

2.14.3 Recommendation of the Fourteenth Finance Commission Utilisation of the Fourteenth Finance Commission Grants in ULBs

The 14th FC was constituted by the President on January 2, 2013 to give recommendations on specified aspects of Centre-State fiscal relations during 2015-20. The 14th FC has recommended assured transfers to the Local Bodies for planning and delivering of basic services smoothly and effectively within

the functions assigned to them under relevant legislations. The basic services include Water supply, Sanitation including septic management, Sewage and Solid waste management, Storm water drainage, Maintenance of Community Assets, Maintenance of roads, Footpaths, Street-lighting, Burial and cremation grounds and any other basic services/amenities within the functions assigned to ULBs under relevant legislations.

The Performance grants are designed to serve the purpose of ensuring reliable audited accounts and data of receipts and expenditure and improvements in its own revenues.

As per Government of Maharashtra Resolution dated 03.08.2015, a minimum of fifty percent of grants received under 14th FC shall be utilized on solid waste collection, treatment and transportation, Municipality's share for construction of private and Public Toilets under Swachh Bharat Abhiyan and Urban afforestation. The unspent balance shall, after providing all aforesaid facilities be utilized for repayment of loans from Government, HUDCO, LIC etc. for projects providing basic facilities, Municipality's share/ Popular contribution for project approved by Central/ state Government and payment of water tax and electricity Bills (excluding penalty).

The 14th FC recommended grants of ₹ 3,327.55 crore to the Urban Local Bodies (ULBs) of Maharashtra during the years 2015-17. The position of yearly allocation by 14th FC, actual release by Government of India (GoI) to GoM, subsequent release to ULBs and actual utilization up to the period ending March 2017 is shown in **Table 2.1.6:**

Table: 2.1.6 Release and utilisation of 14th FC grants

(₹ in crore)

Year	Recommendations of 14 th FC	Actual grants released by GoI	Grants released by GoM to ULBs	Actual Utilisation of grants by ULBs	Balance to be utilised
2015-16	1191.24	1191.24	1191.24	1191.24	0
2016-17	2136.31	2136.31	2136.31	1649.49	486.82
Total	3327.55	3327.55	3327.55	2840.73	486.82

Source: Information furnished by the Department

It may be seen from the above table that under the 14th FC during 2015-17, the GoM released the entire received grants of ₹ 3,327.55 crore to the ULBs. However, the ULBs utilised only ₹ 2,840.73 crore leaving an unspent balance of ₹ 486.82 crore at the end of March 2017.

Scope of Audit

The records of Finance Department and Urban Development Department along with two Municipal Corporations and two Municipal Councils were test checked between December 2017 and January 2018. Further for the years 2016-17 and 2017-18, four Municipal Corporations and eighteen Municipal Councils compliance audit was done to ascertain whether the releases and utilisation of the grants were as per the 14th FC guidelines. The findings are given in the succeeding paragraphs.

2.14.3.1 Delay in release of Grants

As per GoI 14th FC guidelines of October 2015, the States should release the grants to the ULBs within fifteen days of it being credited to their account by the GOI. In cases of delayed disbursement of the grants, the State Government must release the instalment along with interest at the bank rate of Reserve Bank of India paid from its own funds and a certification to this effect is to be reflected in the Utilisation Certificate (UC) to be furnished by the State Government.

Audit observed that the 1st instalment of General basic grant of ₹ 595.62 crore was released to the ULBs with a delay ranging from 35 to 87 days for which UDD paid (November 2015) an interest of ₹ 5.83 crore to the ULBs.

2.14.3.2 Unspent Grants of 14th FC

As per GoI guidelines of 14th FC, the GoI shall release the instalments of grants after receipt of the utilization certificate for the previous instalment.

Scrutiny of records of 14th FC grants revealed that six Municipal Councils¹⁵ did not spend ₹ 76.87 crore received during 2015-17 which was lying (July 2017) in their bank account. Of these, two Municipal councils¹⁶ had invested the 14th FC grants ₹ 20.87 crore in term deposits of banks as of January 2018.

2.14.3.3 Diversion of Funds

As per Government of Maharashtra Resolution dated 03.08.2015, a minimum of fifty *per cent* of grants received under 14th FC shall be utilized on solid waste collection, treatment and transportation, Municipality's share for construction of private and Public Toilets under Swachh Bharat Abhiyan and Urban afforestation. The unspent balance shall, after providing all aforesaid facilities be utilized for repayment of loans from Government, HUDCO, LIC etc. for projects providing basic facilities, Municipality's share/ Popular contribution for project approved by Central/ State Government and payment of water tax and electricity Bills (excluding penalty).

Scrutiny of passbook and vouchers relating to 14th FC grants in Bhiwandi-Nizampur Municipal Corporation revealed that the grant of ₹ 19.03 crore received in October 2015 for the purpose of purchase of Fire-brigade vehicle, purchase of pipe lines for water supply, repairs of roads, *etc.* was invested in Fixed Deposit Account of Central Bank which was required to be credited to 14th FC account on Maturity or Pre-maturity withdrawal terms. However, only ₹ 6.42 crore (₹ 4.98 + ₹ 0.99 + ₹ 0.43) and ₹ 10 crore were withdrawn from Fixed deposit Account and deposited to 14th FC account and Suvarna Jayanti Nagarothan Scheme respectively. The balance funds of ₹ 3.41 crore (October 2015) were deposited to Escrow Account¹⁷ of the Corporation, which amounted to temporary diversion of funds made from the Fixed deposit Account to the Escrow account of the Municipal Corporation.

¹⁵ Kulgaon-Badlapur (₹ 12.55 crore), Ambernath (₹ 21.77 crore), Saswad (₹ 4.12 crore), Ichalkaranji (₹ 26.59 crore), Talegaon-Dabhade (₹ 9.77 crore) and Alandi (₹ 2.07 crore)

¹⁶ Kulgaon-Badlapur (₹ 5.87 crore) and Ambernath (₹ 15 crore)

¹⁷ An Escrow Account is a temporary account operated until the completion of a project period

In reply department stated (December 2017) that ₹ three crore was deposited to FC account from Escrow account in February 2016 and balance of ₹ 0.41 crore from Sewage account was also deposited in 14th FC account.

The fact remains that there was temporary diversion of funds to the Escrow Account, which is in nature of a general fund account.

2.14.3.4 Irregular acceptance of Tender

Audit scrutiny of records relating to expenditure from 14th Finance Commission revealed that the tenders for collection and transportation of solid waste related to all the ten zones of Kulgaon-Badlapur Municipal Council (KBMC) were floated for each zone separately. Three bidders bid for each zone and tender of all the bidders was accepted for zone 1 to zone 10 for a period of three years with effect from 16 December 2015. The work of collection and transportation of solid waste was awarded to the above bidders even though two of these bidders did not have either capacity to execute the work or valid labour license to execute the work or both and third bidder did not have any contractor license to execute the work or furnish any documentary evidence showing the capacity to execute the work or valid labour licence. A payment of ₹ 4.64 crore was made to these contractors during the year 2016-17. Despite these contractors not having sufficient financial capacity, award of work to these contractors lacked justification. The details of works awarded are shown in **Table 2.1.7** below.

Table 2.1.7 – Details showing works awarded (₹ in lakh)

Sr No	Name of bidder	Name of Zone for which bid submitted	Name of Zone for which bid was accepted	Estimated cost	Accepted Cost	% above	Financial Capacity	Labour license
1	M/s Nitin Bansode, Mulund, Mumbai	All Zone	2	40.80	44.48	9.99	50.00	Invalid
			9	66.05	71.99	9	50.00	Invalid
2	M/s Panchal Majoor Kamgar Co-operative Society Ltd, Kulgaon	All Zone	1	68.27	75.02	9.99	15.00	Invalid
			5	58.89	64.77	9.99	15.00	Invalid
			7	60.02	65.96	9.99	15.00	Invalid
			8	70.99	78.09	9.99	15.00	Invalid
3	M/s Durga Construction and Transport Services, Kulgaon	All Zone	3	63.87	70.19	9.99	Not given	Not given
			4	40.03	43.99	9.99	Not given	Not given
			6	60.98	67.02	9.99	Not given	Not given
			10	68.31	75.08	9.91	Not given	Not given

Source : Tender documents

It was also noticed that the contractor, M/s Panchal Majoor Kamgar Co-operative Society Ltd, Kulgaon failed to pay the salaries of labourers between December 2015 and August 2016 due to financial incapacity for which notice was issued to him. Irregular acceptance of tender by the KBMC has resulted in irregular expenditure of ₹ 4.64 crore from 14th FC funds.

2.14.3.5 Excess Loading of Insurance

As per General notes to Schedule of rates for the year 2010-11 to 2014-15, provision for insurance @ one *per cent* is considered in rate analysis of current schedule rate during the year 2010-11 to 2015-16. Further, as per GR dated 19 August 1998, the contractor has to submit government insurance policy before starting the work, failing which an amount equivalent to one *per cent* of the tendered cost will be recovered from the first RA bill of the work.

Audit scrutiny of records revealed that there was excess loading of insurance as detailed below in **Table:2.1.8.**

Table 2.1.8-Details showing excess loading of insurance

(₹ in crore)								
Sr No	Name of the work	Name of contractor	Period of insurance	Accepted cost of tender	Insurance Loaded @1%	Insurance premium paid	Excess loading	Proportionate Excess loading on FC grants
1	Augmentation of water supply schemes MBMC (grant utilised from 14 th FC ₹ 30.29 crore)	M/s SMC Infrastructure (P) Ltd	03.12.15 to 16.10.18	131.15	1.30	0.02	1.28	0.29
		M/s Koya & company Construction Ltd	18.02.16 to 16.10.18	29.46	0.29	0.04	0.25	
		M/s R B Krishnani	18.02.16 to 16.04.19	26.21	0.26	0.03	0.23	
				186.82	1.85	0.09	1.76	0.29¹⁸
2	Under Ground Sewage Project (UGSP) costing ₹ 259.41 crore was sanctioned under Suvarna Jayanti Nagarotthan Schemes for BNCMC (grant utilised from 14 th FC ₹ 43.30 crore)	M/s Eagle Infra India Ltd.	06.07.15 to 05.07.17	403.93	3.89	24.08	3.65	0.39
				403.93	3.89	24.08	3.65	0.39¹⁹
TOTAL								0.68
Source : Records of civil works								

The reply received from Mira-Bhayandar Municipal Corporation stated that the tender is based on MJP DSR and the rates in MJP DSR are inclusive of one *per cent* insurance charges. It was further stated that the department has not paid any amount directly to the contractor and hence there was no excess payment of insurance charges.

The reply is not tenable as the insurance charges were being reimbursed to the contractors through the RA bills and hence need to be recovered to the extent they are not actually paid for by the contractor.

2.14.4 Maintenance of Records

2.14.4.1 Cash Book

As per Rule 98 (2) (ii) of The Maharashtra Treasury Rules, 1968, all monetary transactions should be entered in the cash book as soon as they occur and attested by the head of the office in token of check.

¹⁸ 16.21%(30.29*186/100) Insurance charges reimbursed to the contractor=(1.76*16.21%) 29 lakh

¹⁹ 10.71%(43.30*403.93/100) Insurance charges reimbursed to the contractor = (3.65*10.71%) 39 lakh

During local audit of ULBs in 2016-17, cash books in 11²⁰ of 57 test-checked units showed a number of discrepancies such as, non maintenance of cash books improper maintenance of cash book, incomplete cash books, non maintenance of separate cash books for various Schemes, etc.

2.14.4.2 Reconciliation of Balances as per Cash Book with Bank Pass Book

As per Rule 24 of The Maharashtra Municipal Account Code, 1971, the balances in bank accounts at the end of each month were required to be reconciled with the balances as per cash books. During audit of ULBs in 2016-17, reconciliation of balances as per cash books with bank pass books was not done in six²¹ units.

2.14.5 Maintenance of Accounts by ULBs

Section 93 of The Maharashtra Municipal Corporation Act, 1949 and Section 123 of the Mumbai Municipal Corporation 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 11th FC 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) in November 2004 for implementation of accrual based accounting system by ULBs.

The GoM adopted (July 2005) the NMAM for implementation from 2005-06. As per the NMAM guidelines, all Municipal Corporations were to maintain their accounts on accrual basis from 2005-06. The Steering Committee constituted by the GoM also recommended (January 2007) implementation of accrual system of accounting in the ULBs. However, the GoM published (January 2013) the Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements for the Municipal Councils only. No such Account Code was prepared by the Director, Municipal Administration (DMA) for the Municipal Corporations even after 11 years of adoption of NMAM for implementation from 2005-06. Further, the notification for the implementation of Maharashtra Municipal Account Code, 2013 was issued by GoM in November 2014 *i.e.* after a delay of nearly two years.

Further information regarding maintenance of accounts in double entry system as per Maharashtra Municipal Account Code, 2013 was awaited from the

²⁰ (i) The Dy Commissioner, Local Body Tax Department, Ulhasnagar Municipal Corporation; (ii) Chief Officer, Sinner Municipal Council; (iii) Chief Officer, Kurduwadi Municipal Council; (iv) Chairman & Managing Director, PMPML, Pune; (v) Administration Officer, Municipal School Board, Sangli Miraj Municipal Corporation; (vi) Chief Accountant Kolhapur Municipal Corporation; (vii) Chief Officer, Municipal Council Worud (viii) Chief Officer, Mhopa Municipal Council; (ix) Chief Officer, Khapa Municipal Council; (x) Chief Officer, Gangakhed Municipal Council; and (xi) Chief Officer, Digras Municipal Council

²¹ (i) The General Manager, BEST; (ii) Chief Officer, Sinner Municipal Council; (iii) Chief Officer, Kopargaon Municipal Council; (iv) Chief Officer, Bhusaval Municipal Council; (v) Chief Account Officer, Vasai-Virar Municipal Corporation; and (vi) Chief Officer, Ramtek Municipal Council

Department (February 2018).

Information furnished by 16 Municipal Corporations revealed that approval of annual accounts was in arrears as given in Table 2.1.9 below.

Table: 2.1.9 Approval of accounts by Standing Committee of respective Corporations

Year up to which accounts are approved by Standing Committee	Number of Corporations	Name of Corporations
2011-12	2	Mumbai and Dhule
2012-13	2	Ahmednagar and Pune
2013-14	1	Jalgaon
2014-15	1	Thane
2015-16	5	Kalyan-Dombivli, Navi-Mumbai, Solapur, Pimpri-Chinchwad and Vasai-Virar
2016-17	5	Kolhapur, Malegaon, Mira-Bhayandar, Nashik, and Ulhasnagar
Total	16	

In respect of 359 Municipal Councils including Nagar Panchayats, the information of only 74 councils/panchayats was made available of which only five Municipal Councils/Nagar Panchayats have prepared their accounts till 2016-17. Position regarding the rest is given in **Appendix 2.2**

It is recommended that the Department may ensure that all ULBs finalise their accounts as per the prescribed time schedule so that the certification of accounts is done in time. The Department may put suitable system in place for monitoring the preparation/ approvals of accounts by ULBs.

2.14.6 Issues related to Abstract Contingent and Detailed Contingent Bills

As per the Maharashtra Treasury Rules, 1968, the Drawing and Disbursing Officers were required to submit Detailed Contingent (DC) bills (comprising vouchers in support of final expenditure) drawn against Abstract Contingent (AC) bills, within 30 days to the office of the Accountant General (Accounts and Entitlements), Maharashtra.

As of March 2017, DC bills in respect of five AC bills involving ₹ 0.05 crore pertaining to the Department were outstanding.