

SECTION B

CHAPTER IV

4 ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

4.1 Introduction

4.1.1 In keeping with the 74th Constitutional Amendment, the Government of Maharashtra (GOM) amended in December 1994, the existing Bombay Municipal Corporation Act, 1888, the Bombay Provincial Municipal Corporation (BPMC) Act, 1949, the Nagpur Municipal Corporation (NMC) Act 1948 and the Maharashtra Municipal Councils Act (MMC) 1965. All the corporations except Brihanmumbai Municipal Corporation (BMC) and the NMC which had enacted their own Acts, were governed by the provisions of amended BPMC Act. As on 31 March 2007, there were 22 Corporations and 222 Municipal Councils in Maharashtra.

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 BMC Act and Section 63 of the BPMC Act, prior to the 74th amendment. The remaining six functions were transferred/assigned to the ULBs from 1994.

4.2 Organizational 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 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 the BMC which is in category A, there are two Corporations²⁸ in category 'B' and four²⁹ and 15³⁰ Corporations in categories C and D respectively.

²⁸ Nagpur and Pune

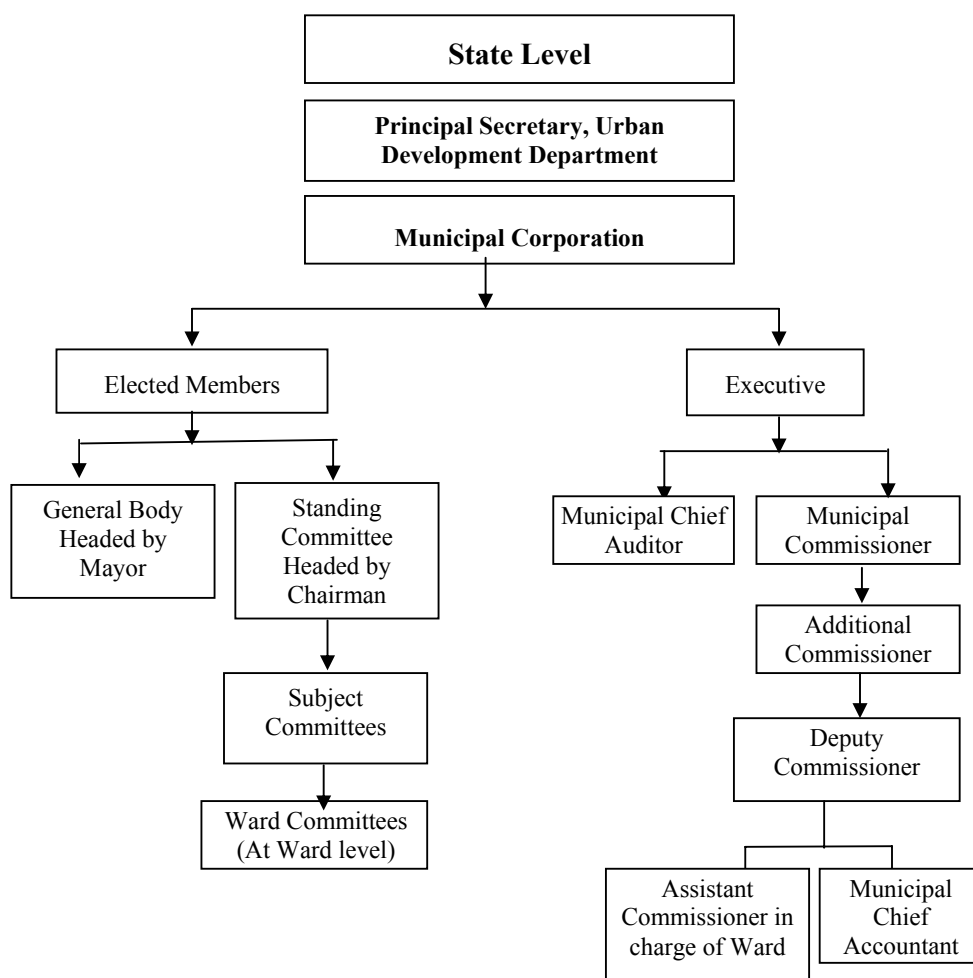
²⁹ Nashik, Navi Mumbai, Pimpri-Chinchwad and Thane

³⁰ Ahmednagar, Akola, Aurangabad, Amravati, Bhiwandi-Nizampur, Dhule, Jalgaon, Kalyan-Dombivli, Kolhapur, Malegaon, Mira-Bhayander, Nanded-Waghala, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar.

4.2.3 Similarly, 222 Municipal Councils have been created for smaller urban areas and categorized based on their population. At present, there are 19 A class, 62 B class and 141 C class Municipal Councils.

4.3 Organisational Structure

4.3.1 The organisational set up of Municipal Corporations is depicted below:



4.3.2 The accountability structure of a Municipal Corporation is as follows.

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, etc.
2	Standing Committee	All functions related to approval of budget and sanction for expenditure as per the delegation. (Can delegate its powers to sub Committee/s).

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 internal audit.
5	Municipal Chief Auditor	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 BMC Act 1888 and BPMC Act, 1949. All the moneys received by or on behalf of the 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 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 the Government of India 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 the Central Government for centrally sponsored schemes and to the State Government for state schemes.

4.4.4 Under the BPMC Act and the BMC Act, Corporations are required to constitute special purpose funds *eg.* 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 (April 2008) from the State Government is yet to be received. As per the Annual Reports published by GOM, Directorate of Economics and Statistics under the heading Economic Survey of Maharashtra for the years 2006-07 and 2007-08, the overall receipts and expenditure of the Corporations in the state from 2004-05 to 2006-07 is as follows:

(Rupees in crore)

Item	2004-05	2005-06	2006-07
Receipts ³¹	11083	12927	16217
Expenditure	10883	12335	14820

4.4.6 Receipts

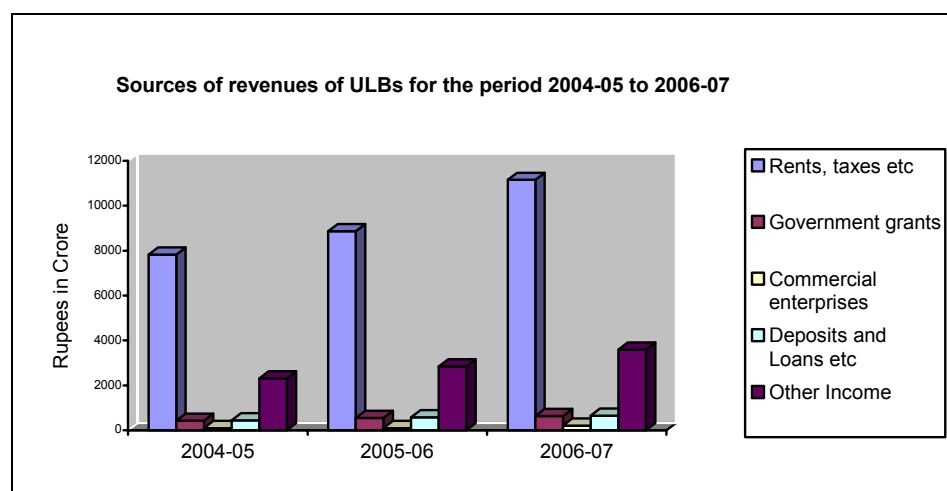
As per the Economic Survey of Maharashtra for the year 2006-07 and 2007-08, the total receipts from various sources during the last three years in respect of all the Corporations were as follows.

(Rupees in crore)

Items	2004-05	Percentage to total receipts	2005-06	Percentage to total receipts	2006-07	Percentage to total receipts
Rents, taxes etc. including octroi, property tax and water charges	7818	70.54	8867	68.59	11147	68.74
Government grants	424	3.83	552	4.27	636	3.92
Commercial enterprises	92	0.83	95	0.73	199	1.22
Deposits and Loans, etc.	447	4.03	578	4.47	640	3.95
Other Income	2302	20.77	2835	21.94	3595	22.17
Total Receipts	11083	100	12927	100	16217	100

During 2006-07, the major contribution in receipts was from octroi collection (40 per cent), water charges (7 per cent) and property tax (6 per cent). This along with other receipts on account of rent, taxes accounted for 68.74 per cent of the total receipts in 2006-07.

A chart depicting the receipts of ULB for the year 2006-07 is as follows:



³¹ Excluding opening balance

The total receipts of all Municipal Corporations in the state put together during 2006-07 were Rs 16217 crore and were higher by 25 per cent over total receipts of previous year.

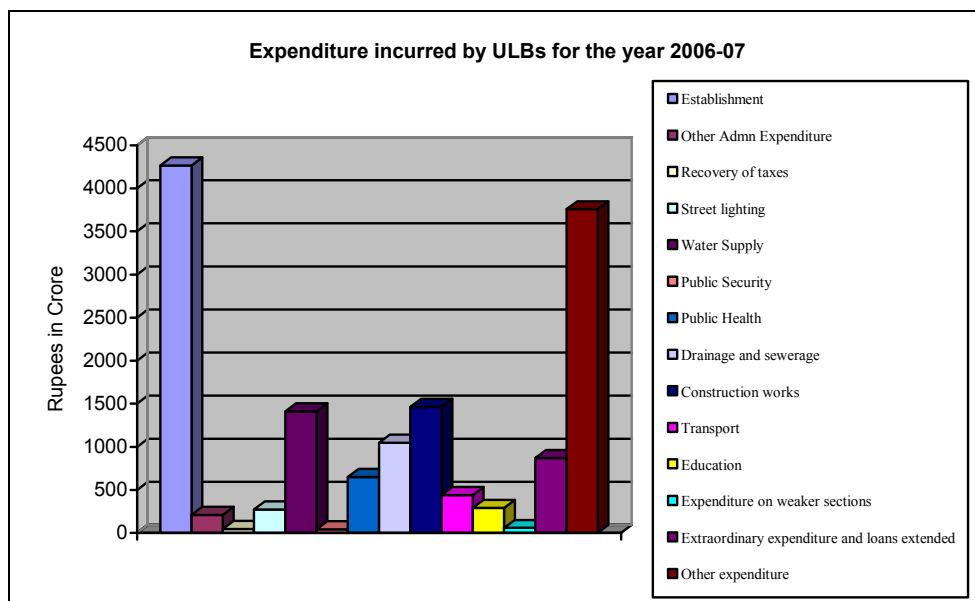
4.4.7 Expenditure

As per the Economic Survey of Maharashtra for the year 2006-07 and 2007-08 the total item-wise expenditure of all Municipal Corporations put together in the state for the last three year are as follows:

(Rupees in crore)

Municipal Corporation	2004-05	Percentage to total expenditure	2005-06	Percentage to total expenditure	2006-07	Percentage to total expenditure
Item	(1)		(2)		(3)	
1. Administration						
(a) Establishment ³²	3703	34.03	4677	37.92	4265	28.78
(b) Others	164	1.51	235	1.91	209	1.41
2. Recovery of taxes	28	0.26	37	0.30	45	0.30
3. Street lighting	206	1.89	205	1.66	274	1.85
4. Water Supply	1054	9.68	1232	9.99	1410	9.51
5. Public Security	21	0.19	29	0.24	42	0.28
6. Public Health	393	3.61	503	4.08	651	4.39
7. Drainage and sewerage	413	3.79	465	3.77	1047	7.07
8. Construction works	735	6.75	932	7.56	1462	9.87
9. Transport	306	2.81	247	2.00	439	2.96
10. Education	189	1.74	183	1.48	289	1.95
11. Expenditure on weaker sections	38	0.35	26	0.21	58	0.39
12. Extraordinary expenditure and loans extended	578	5.31	590	4.78	871	5.88
13. Other expenditure	3055	28.08	2974	24.10	3758	25.36
Total expenditure	10883	100	12335	100	14820	100

³² Expenditure on staff establishment under various sections has been clubbed in 1(a)



During 2006-07, the total expenditure of all Municipal corporations increased by 20 *per cent* over the expenditure of previous year. Although expenditure on establishment increased from Rs 3703 crore (34 *per cent*) in 2004-05 to Rs 4677 crore (38 *per cent*) in 2005-06, it decreased to Rs 4265 crore (29 *per cent*) in 2006-07. This was in accordance with the State Government instructions (May 2006) to reduce/control the expenditure on account of establishment charges and ensure that it does not exceed 35 *per cent* of their revenue.

The share of expenditure incurred on the main functions of Water Supply, Public health, Drainage and Sewerage, Construction works, Education, Transport and Street lighting increased from 31 *per cent* in 2005-06 to 38 *per cent* in 2006-07.

4.5 Twelfth Finance Commission grants

4.5.1 The Twelfth Finance Commission(TFC) allocated funds of Rs 791 crores to the ULBs in Maharashtra for the period 2005-10, payable at Rs 158.20 crore every year to be utilised for development of civic services and basic amenities in the urban areas. Against the total grant of Rs 316.40 crore received during 2005-06 and 2006-07, the expenditure was Rs 229.68 crore only, leaving a balance of Rs 86.72 crore (June 2008). Detailed audit findings on TFC grants are included in Chapter VI of this Report.

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 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 (C&AG) 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 C&AG had prescribed 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 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 ULB. Five corporations *viz* BMC, Bhiwandi-Nizampur, Navi Mumbai, Sangli-Miraj-Kupwad and Solapur have implemented accrual system of accounting from April 2008.

4.7 Audit Arrangement

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 BPMC Act, 1949. The pay and allowances of the MCA is borne on the establishment expenditure of the respective Corporation.

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 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 It was noticed that except for BMC and Solapur Municipal Corporation, no such audit was conducted during the period 2000-01 to 2006-07 and no reports were submitted to the Standing Committees.

Audit also observes that entrustment of audit of accounts of the Corporations to a person who is under the administrative control of the Corporation dilutes the independency of the auditor.

4.7.4 In accordance with the recommendations of EFC, the State Government issued orders entrusting the audit of Municipal Corporations to the C&AG of India. The C&AG conducts audit of Municipal Corporations under Section 14 of the CAGs Duties, Powers and Conditions of Services

(DPC) Act, 1971. The audit of Municipal Councils has not been entrusted by the State Government to C&AG.

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 huge outstanding Audit Inspection reports and paras issued by Accountant General, Maharashtra to the Corporations, as detailed below, is a reflection of inadequate internal control.

Year	Inspection Report	Paragraphs
2000-01	2	9
2001-02	45	244
2002-03	17	91
2003-04	14	213
2004-05	65	408
2005-06	63	362
2006-07	105	479
Total	311	1806

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

4.9 Conclusion

During 2006-07, the total expenditure of all the corporations put together increased by 20 *per cent* over the expenditure of the previous year. The increase in income during the same period was 25 *per cent*. Octroi receipts continued to be the major source of revenue of ULBs. Although the State adopted (July 2005) the NMAM for implementation from 2005-06, the ULBs (except five) had not implemented the same so far. Arrears in audit of Municipal Corporations by MCAs indicate weak internal control. Further, the

entrustment of audit of accounts of the Corporations to MCA, who is under the administrative control of the respective Corporation was against the principles of independence of auditors.

4.10 Recommendations

- The State Government should consider early implementation of National Accounting Manual by all ULBs.
- Government should consider effective audit of the annual accounts and transactions of all Municipal Corporations by MCA. The State Government should also consider to appoint an independent auditor for audit of accounts of Corporations.
- ULBs should ensure timely clearance of the Audit observations specially on financial irregularities for overcoming the deficiencies in the working of the ULBs.