



सत्यमेव जयते

**Annual Technical Inspection Report on
Local Bodies
for the year ended 31 March 2019**



लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

**Office of the Principal Accountant General
(Audit)-I, Maharashtra, Mumbai**



Government of Maharashtra

**Annual Technical Inspection Report
on
Local Bodies
for the year ended 31 March 2019**

GOVERNMENT OF MAHARASHTRA

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OVERVIEW

OVERVIEW

1. Functioning of Panchayati Raj Institutions

A review of finances of Panchayati Raj Institutions (PRIs) revealed that of the 29 functions referred to in the XI Schedule of the Constitution of India, 14 functions and 15,480 functionaries (being the manpower) were transferred to the PRIs. Of the State Government's total revenue receipts of ₹ 2,03,280 crore during 2018-19 (excluding State's share of Union taxes and duties and Grants-in-aid from GoI), the PRIs were allotted ₹ 21,124 crore (10.39 per cent).

The Director, Local Fund Accounts Audit (DLFA), under the administrative control of Finance Department, Government of Maharashtra is the statutory auditor for all the PRIs in the State. DLFA prepares annually, an Audit Review Report (ARR) containing important audit observations issued during the year to the PRIs. The ARR is placed in the State Legislature through Rural Development & Panchayat Raj Department (RDD).

Audit of PRIs is conducted under Section 14 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The important audit observations arising out of audit of PRIs are processed for inclusion in the cluster based Audit Report of C&AG which is placed before the State Legislature under Article 151(2) of the Constitution of India. Annual Technical Inspection Report (ATIR) on Local Bodies in the State containing an overview of the functioning, accountability mechanism and financial reporting issues of Local bodies is also submitted to Government of Maharashtra for placement in State Legislature as per provisions contained in Government of Maharashtra, Finance Department's Government Resolution (GR) of March 2011. ATIR for the year ended 31 March 2018 was placed in the State Legislature in September 2020.

The Thirteenth Finance Commission (December 2009) recommended that the Comptroller and Auditor General of India (C&AG) should be entrusted with the responsibility of Technical Guidance and Supervision (TGS) over maintenance of accounts and audit of the Panchayati Raj Institutions and the Urban Local Bodies. Accordingly, the Technical Guidance and Supervision (TGS) was entrusted to CAG by the State Government in March 2011. The GR *inter alia* provided for training of officers and employees of DLFA by C&AG, besides commenting on the audit report of DLFA.

As of March 2019, 145 out of 562 complaints pertaining to PRIs received by the Lokayukta during 2018-19 were pending for disposal. The Social Audit Unit of the State conducted social audit of 2,001 Gram Panchayats (GPs) out of the 3,710 GPs to be covered during 2018-19. As of December 2020, 945 Utilisation Certificates (UCs) for grants amounting to ₹ 2,830.50 crore released till March 2018 by RDD were pending submission from the field offices.

In Maharashtra State, there were 34 Zilla Parishads, 351 Panchayat Samitis and 27,868 Gram Panchayats.

Scrutiny of records in 38 out of 1,022 test-checked units during 2018-19, revealed a number of discrepancies such as daily/monthly closing of cash books not done, non-maintenance of separate cash books for various schemes, regular attestation of daily entries by Drawing and Disbursing Officers (DDOs) not done, *etc.* In 58 out of 1,022 test-checked units, reconciliation of balances as per cash book with bank pass book was not done.

Preparation of accounts by Zilla Parishads (ZPs) and certification of these accounts by DLFA was in arrears. As on September 2020, annual accounts of all ZPs for the year 2015-16 were prepared and certified. Annual accounts of one ZP for the year 2016-17, eight ZPs for the year 2017-18 and 23 ZPs for the year 2018-19 were pending certification.

RDD, made it compulsory (October 2013) for all ZPs and GPs to maintain their annual accounts in Model Accounting System (MAS) formats I to VIII as prescribed by the Ministry of Panchayati Raj. The PRIs were maintaining their accounts in MAS format I to III only. The formats IV to VIII were not maintained by any of the ZPs and GPs.

The Ministry of Rural Development in coordination with National Informatics Centre had created a web portal namely Panchayati Raj Institution Accounting Software *i.e.*, 'PRIASoft' for online maintenance of accounts of PRIs. PRIs had to enter the accounting information on regular basis in PRIASoft. As per the online data uploaded in system (September 2020), out of 137 annual accounts prepared and certified during the period 2014-19, only 55 annual accounts (40 *per cent*) were maintained in PRIASoft.

As of December 2020, Detailed Contingent (DC) bills in respect of 87 Abstract Contingent (AC) bills involving ₹ 1.57 crore pertaining to RDD were outstanding.

(Paragraphs 1.3.7, 1.3.8, 1.5.1, 1.5.2, 1.6, 1.8.1, 1.8.2, 1.10, 1.11.4.1, 1.11.4.2, 1.11.5.1, 1.11.5.2, 1.11.5.3 and 1.11.6)

2. Functioning of the Urban Local Bodies

Article 243W inserted through the 74th Constitutional Amendment envisaged devolution of powers and responsibilities to municipalities in respect of 18 functions mentioned in Twelfth Schedule of the Constitution. All the functions were transferred/assigned to the Urban Local Bodies (ULBs) by the year 1994.

Of the State Government's total revenue receipts of ₹ 2,03,280 crore during 2018-19 (excluding State's share of Union taxes and duties and Grants-in-aid from GoI), ULBs were allotted ₹ 28,959 crore (14.25 *per cent*).

The audit of Municipal Councils is done by Director, Local Fund Accounts Audit (DLFA) as per provisions in Section 104 of Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. The audit of all Urban Local Bodies (ULBs) was assigned to DLFA in March 2011.

In Maharashtra State, there were 27 Municipal Corporations classified into five categories based on the criteria of population and per capita income. Similarly, 369 Municipal Councils including Nagar Panchayats have been created for smaller urban areas and classified into three categories based on their population.

As of June 2019, out of 27 Municipal Corporations, audit of two Municipal Corporations (MCs) was pending from the year 2014-15, 21 MCs from the year 2015-16 and four MCs from the year 2016-17 onwards. Audit Review Report on accounts of ULB for the year 2012-13 was placed in State Legislature in July 2019.

Audit of ULBs is conducted under Section 14 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Technical Guidance and Supervision (TGS) is also provided by C&AG to DLFA.

The important audit observations arising out of audit of ULBs are processed for inclusion in the cluster based Audit Report of C&AG which is placed before the State Legislature under Article 151(2) of the Constitution of India.

As of March 2019, 105 out of 607 complaints pertaining to ULBs received by the Lokayukta were pending for disposal. As of December 2020, 1,045 UCs for grants amounting to ₹ 3,732.50 crore released till March 2018 by UDD were pending submission from the field offices.

Scrutiny of records in 17 out of 237 test-checked units during 2018-19, revealed that in five units cash book was not maintained and in the remaining 12 units, discrepancies such as improper maintenance of cash book and incomplete cash books were observed. In seven out of 237 test-checked units, reconciliation of balances as per cash books with bank pass books was not done.

The Urban Development Department, (UDD) Government of Maharashtra adopted (July 2005) National Municipal Accounts Manual for implementation of accrual based accounting system by ULBs from 2005-06. As per the information furnished by 26 out of the 27 MCs, the system of maintaining the accounts on accrual basis was implemented in 22 MCs while four MCs were yet to implement the same. All the Municipal Councils had prepared their accounts on accrual basis. The Nagar Panchayats (NPs) have commenced the work of accrual-based accounting system.

There was arrears in preparation of annual accounts by MCs and Municipal Councils/(NPs). Out of 27 MCs, 16 MCs had prepared their annual accounts till 2018-19 while there was arrears in preparation of annual accounts in respect of the remaining 11 MCs for the period 2015-19. As per the information furnished by 232 Municipal Councils and 120 NPs, there was arrears in preparation of annual accounts in respect of 42 Municipal Councils and 43 NPs for the period 2015-19.

As of December 2020, only eight DC bills amounting to ₹9.83 lakh pertaining to UDD were pending.

(Paragraphs 2.3.3, 2.5.1, 2.5.2, 2.8.1, 2.9, 2.11.4.1, 2.11.4.2, 2.11.5, 2.11.5.1 and 2.11.6)

CHAPTER-I
AN OVERVIEW
OF THE FUNCTIONING, ACCOUNTABILITY
MECHANISM AND FINANCIAL REPORTING ISSUES OF
PANCHAYATI RAJ INSTITUTIONS

CHAPTER- I

An Overview of the Functioning, Accountability Mechanism and Financial Reporting Issues of Panchayati Raj Institutions

1.1 Introduction

The 73rd amendment (1992) to the Constitution accorded constitutional status to Panchayati Raj Institutions (PRIs) and established a system of uniform structure, regular election, regular flow of funds through the Finance Commission, *etc.* As a follow-up, the State Governments were required to entrust the PRIs with powers, functions and responsibilities to enable them to function as institutions of local self-government.

Accordingly, the Government of Maharashtra amended (1994) The Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 (ZP&PS Act) and The Maharashtra Village Panchayats Act, 1958 (VP Act).

1.1.1 State Profile

As per the census of 2011, out of the total population of 11.24 crore in the State, 6.16 crore (55 *per cent*) was in rural areas. The demographic and developmental status of the State as per the census of 2011 is given in **Table 1.1.1**.

Table 1.1.1: Important statistics of the State

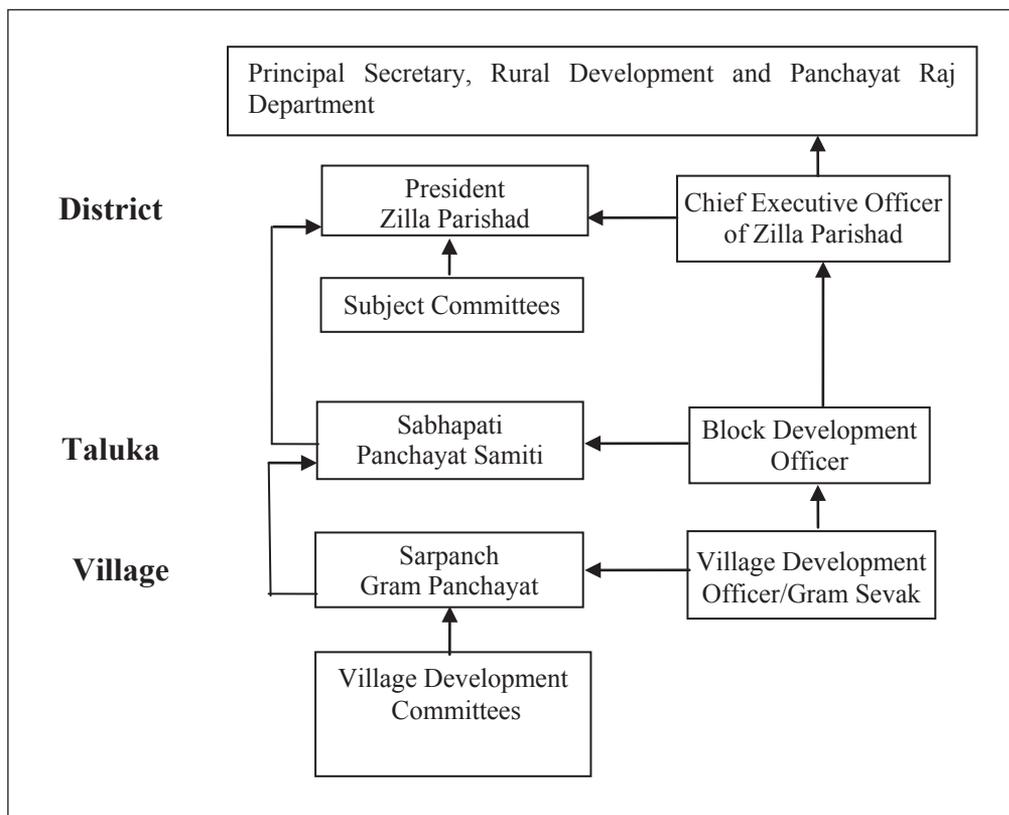
Indicator	Data
Population	11.24 crore
Population density	365/km ²
Gender ratio (Rural) female: male	952:1000
Rural population	6.16 crore
Literacy in <i>per cent</i> (Rural)	77.00
Number of PRIs	28,253
(i) District Panchayats (Zilla Parishads)	34
(ii) Block Panchayats (Panchayat Samitis)	351
(iii) Village Panchayats (Gram Panchayats)	27,868

Source: Information furnished by the Rural Development and Panchayat Raj Department in January 2020 and Census 2011

1.2 Organisational Setup of PRIs

The PRIs comprise three tiers *viz.*, Zilla Parishads (ZPs) at the district level, Panchayat Samitis (PSs) at the block level and Gram Panchayats (GPs) at the village level. The organisational setup of PRIs in Maharashtra is depicted in **chart 1**:

Chart 1: Organisational setup of PRIs



The Rural Development and Panchayat Raj Department, Government of Maharashtra (RDD), is the nodal department for PRIs at the State level. The Chief Executive Officer (CEO) in the ZP, the Block Development Officer (BDO) in the PS and the Village Development Officer (VDO)/ Gram Sevak in the GP, report functionally to the respective elected bodies and administratively to their next superior authority in the hierarchy of the State Government.

There were 27,868 GPs for 44,146 villages in Maharashtra as of March 2019. The VDO/ Gram Sevak, a village level functionary, functions as Secretary to the GP and is also responsible for maintenance of accounts and records at the GP level.

As against 27,868 GPs in the State, the sanctioned strength of VDOs/ Gram Sevaks was 22,820 only. The persons-in-position was 20,954 (92 per cent) with a shortage of 1,866 (eight per cent) VDOs/ Gram Sevaks as of March 2019.

1.3 Functioning of PRIs

1.3.1 There are 34 ZPs in the State out of 36 districts in Maharashtra. (two districts viz. Mumbai city and Mumbai Suburban do not have rural areas). The ZPs have their own Departments for education, public works, health, minor irrigation, rural water supply, social welfare, animal husbandry, agriculture, women and child welfare, finance, general administration, village panchayat, etc.

1.3.2 The ZPs are required to prepare a budget for the planned development of the districts and utilisation of the resources. The Government of India (GoI) schemes funded through the District Rural Development Agency (DRDA) and the State Government Schemes are also implemented by the ZPs. The ZPs are empowered to impose water tax, pilgrim tax and special tax on land and buildings, *etc.*

1.3.3 The intermediate tier of Panchayat at the Taluka level in Maharashtra is called the PS. There were 351 PSs in the State. The PSs do not have substantial own source of revenue and are fully dependent on the grants received from ZPs. The PSs undertake developmental works at the Block level.

1.3.4 The VP Act provides for the constitution of Gram Sabha, a body consisting of persons registered in the electoral rolls of the villages within the GP area. The GPs are empowered to levy tax on buildings, betterment charges, pilgrim tax, taxes on fairs/festivals/entertainment, taxes on bicycles, vehicles, shops, hotels, *etc.*

1.3.5 Gram Sabhas are required to meet periodically. They select beneficiaries for the Central/ State Government schemes, prepare and approve development plans and projects to be implemented by the GPs and grant permission for incurring expenditure by GPs on developmental schemes. They also convey their views on the proposals for acquisition of land by GPs.

1.3.6 The broad accountability structure in PRIs is shown in **Table 1.1.2**.

Table 1.1.2: Accountability structure in PRIs

PRIs	Functions assigned
CEO, Zilla Parishad	<ol style="list-style-type: none"> 1. Drawal and disbursal of fund 2. Preparation of annual budget and accounts 3. Supervision and control of officers of the ZP 4. Finalisation of contracts 5. Publishing statement of accounts of ZPs in the Government gazette
Chief Accounts and Finance Officer, Zilla Parishad	<ol style="list-style-type: none"> 1. Compilation of the accounts of ZP 2. Providing financial advice
Heads of Departments in ZPs	<ol style="list-style-type: none"> 1. According technical sanctions to the works and implement development schemes 2. Supervising the work of Class II officers
Block Development Officer, Panchayat Samiti	<ol style="list-style-type: none"> 1. Drawal and disbursal of funds 2. Execution and monitoring of schemes and maintenance of accounts and records
Gram Sevak, Gram Panchayat	<ol style="list-style-type: none"> 1. Secretarial function as Secretary to the Gram Sabha 2. Execution and monitoring of schemes and maintenance of accounts and records
Source: The Maharashtra Zilla Parishads and Panchayats Samitis Act, 1961 and The Maharashtra Village Panchayats Act, 1958	

1.3.7 Article 243G inserted through the 73rd Constitutional Amendment Act, 1992 envisaged devolution of powers and responsibilities upon Panchayats at the appropriate level in respect of 29 subjects mentioned in XI Schedule of the Constitution of India.

Of the 29 functions referred to in the XI Schedule of the Constitution of India to be devolved to PRIs, 14 functions¹ and 15,480 functionaries (being the manpower) were transferred to the PRIs. However, the remaining 15 functions which *inter alia* covered agriculture, fisheries, social forestry, education, family welfare functions were pending transfer to PRIs (March 2020).

Further, out of the 14 functions transferred, there was overlap in the discharge of these functions as the Government departments and parastatal agencies were also responsible for discharge of these functions apart from PRIs. The PRIs have limited role in discharging their functions and it was not consistent with the spirit of devolution.

1.3.8 The PRIs were allotted ₹ 21,124 crore (10.39 *per cent*) out of the State Government's total revenue receipts of ₹ 2,03,280 crore during 2018-19 (excluding State's share of Union taxes and duties and Grants-in-aid from GoI).

1.4 Formation of Various Committees

Article 243 ZD of the Constitution of India envisages formation of District Planning Committee (DPC) at district level in every State. The ZP&PS Act provides for formation of various committees *viz.*, Standing Committee, Finance Committee, Works Committee, Agriculture Committee, Social Welfare Committee, Education Committee, Health Committee, Animal Husbandry and Dairy Committee, Water Management and Sanitation Committee, *etc.* in every ZP.

The DPC at the district level and other committees at ZPs were duly constituted in the State.

1.5 Audit Arrangements

1.5.1 Audit by the primary auditor

The Director, Local Fund Accounts Audit (DLFA), under the administrative control of Finance Department, Government of Maharashtra is the statutory auditor for all the PRIs in the State. DLFA conducts audit of each department in ZPs apart from audit of PSs and GPs.

On completion of audit, DLFA prepares audit report in the format stipulated in Section 9 of Bombay Local Fund Act, 1930 (BLFA) and issues to the audited unit. DLFA also prepares annually, an Audit Review Report (ARR) containing important audit observations issued during the year to the PRIs. The ARR is placed in the State Legislature through RDD.

- DLFA had completed audit of all ZPs, PSs and 6,220 GPs out of 27,868 GPs during the year 2018-19 as of June 2020.

¹ 1. Minor irrigation, water management and watershed development 2. Animal husbandry, dairy and poultry 3. Rural housing 4. Drinking water 5. Roads, culverts, bridges, ferries, waterways and other means of communication 6. Non-conventional energy sources 7. Poverty alleviation programme 8. Adult and non-formal education 9. Libraries 10. Cultural activities 11. Health and sanitation, including hospitals, primary health centres and dispensaries 12. Women and child development 13. Social welfare, including welfare of the handicapped and mentally retarded 14. Public distribution system.

- As per Section 8 of the BLFA, DLFA was required to issue the audit report to the audited unit within three months from the last date of audit. Out of 860 audit reports of ZPs and PSs issued by DLFA during the year 2018-19 (July to June), 725 (84 *per cent*) audit reports were issued within the stipulated time. Similarly, out of 18,297 audit reports of GPs issued during the year 2018-19 (July to June), 15,946 (87 *per cent*) audit reports were issued within time.
- As of June 2019, 1,543 audit objections related to misappropriations, frauds, embezzlements involving money value of ₹ 88.83 crore were outstanding in ZPs/PSs for audits completed upto the year 2018-19. Similarly, in GPs, 33,944 audit objections involving money value of ₹ 343.06 crore were outstanding as of June 2019.
- The ARR is discussed by Panchayat Raj Committee constituted by State Legislature. The Panchayat Raj Committee has discussed ARR upto the year 2013-14. The ARR of PRIs for the year 2016-17 and 2017-18 submitted by DLFA to RDD in January 2019 and March 2020 respectively were yet to be presented to the State Legislature (September 2020).

1.5.2 Audit by the Comptroller and Auditor General of India

Audit of PRIs is conducted under Section 14 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Technical Guidance and Supervision (TGS) is also provided by Comptroller and Auditor General (C&AG) to DLFA.

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 PRIs and departmental authorities through Inspection Reports. Audit observations outstanding for over six months are also brought to the notice of State Government for action.

The important audit observations arising out of audit of PRIs are processed for inclusion in the cluster based Audit Report of C&AG which is placed before the State Legislature under Article 151(2) of the Constitution of India.

Annual Technical Inspection Report (ATIR) on Local Bodies in the State containing an overview of the functioning, accountability mechanism and financial reporting issues of Local bodies is also submitted to Government of Maharashtra for placement in State Legislature as per provisions contained in Government of Maharashtra, Finance Department's Government Resolution (GR) dated 31 March 2011. ATIR for the year ended 31 March 2018 was placed in the State Legislature in September 2020.

1.6 Technical Guidance and Supervision by C&AG

Para 10.67 of the Thirteenth Finance Commission (December 2009) recommended that the C&AG should be entrusted with the responsibility of Technical Guidance and Supervision over maintenance of accounts and audit of the PRIs and the Urban Local Bodies. Accordingly, Finance Department vide GR of March 2011, entrusted TGS to C&AG. The GR *inter alia* provided for training of officers and employees of DLFA by C&AG, besides commenting on the audit report of DLFA.

As part of the technical guidance and supervision responsibility entrusted with C&AG, the officials of Accountant General in the State provide regular training to the officials of DLFA on double entry accounting system, maintenance of accounts in Model Accounting System, audit checks, e-Governance in Local Bodies, etc. The deficiencies in the audit reports noticed on test-check of the audit reports issued to PRIs and the ARR were brought to the notice of DLFA for improving the quality of reports. As part of TGS function, clubbing of paragraphs based on the similarity of the objections in the ARR, considering materiality of the objections for inclusion in the ARR, etc. was recommended (September 2019) to DLFA apart from comments made on the test-checked audit reports of DLFA for improving the quality of audit reports. The DLFA stated (October 2019) that the recommendations on ARR would be considered while preparing the next ARR.

1.7 Response to Audit Observations

1.7.1 Outstanding Inspection Reports of PRIs audited by Accountant General

As of December 2019, a total of 3,435 Inspection Reports (12,625 paragraphs) of PRIs audited by Accountant General were outstanding as shown in the **Table 1.1.3**.

Table 1.1.3: Status of outstanding inspection reports and paragraphs

Year	Inspection Reports	Paragraphs
Upto 2014-15	1775	4762
2015-16	286	1140
2016-17	157	674
2017-18	195	1327
2018-19	1022	4722
Total	3435	12625

1.7.2 Audit paragraphs included in Audit Reports/Annual Technical Inspection Report but pending for discussion by Public Accounts Committee

As of December 2019, of the 11 audit paragraphs pertaining to PRIs that appeared in Audit Reports of Local Bodies from 2012-13 to 2015-16, five paragraphs and one paragraph included in Annual Technical Inspection Report for the year 2016-17 were pending discussion by the Public Accounts Committee (PAC) as shown in the **Table 1.1.4**.

Table 1.1.4: Status of audit paragraphs pending for discussion by PAC

Year of Report	Number of audit paragraphs in the Report	Number of audit paragraphs discussed by PAC	Number of audit paragraphs pending for discussion by PAC
2012-13	01	00	01
2013-14	04	03	01
2014-15	02	01	01
2015-16	04	02	02
2016-17	01	00	01
Total	12	06	06

Accountability Mechanism and Financial reporting issues

1.8 Accountability Mechanism

1.8.1 Lokayukta

The Government of Maharashtra had established (October 1972) the institution of Lokayukta in Maharashtra based on the concept of Ombudsman in accordance with The Maharashtra Lokayukta and Upa-Lokayukta Act, 1971. The Lokayukta is an independent statutory functionary to investigate and make recommendation on complaints of allegations involving abuse of position and corruption against public servant.

As of March 2019, 562 complaints pertaining to PRIs were received by the Lokayukta. Of these, 417 complaints were disposed of by the Lokayukta while 145 complaints were pending for disposal. Majority of complaints pertained to grievances for non-receipt of pensionary benefits, compensation, etc.

1.8.2 Social Audit

As per Section 15(5)(d) of the National Rural Employment Guarantee Act, 2005 (NREGA), Social Audit of all works in the jurisdiction of GP is to be carried out by the Gram Sabha and prompt action has to be taken on the objections raised during Social Audit.

The Planning Department established (September 2013) Social Audit Unit (SAU) in Maharashtra. The SAU is headed by the Director who is assisted by one Assistant Director and three State Coordinators. Further, as per the guidelines of Ministry of Rural Development, the State Government established (January 2018) the Maharashtra State Society for Social Audit and Transparency (MS-SSAT) under Society's Registration Act, 1860. Both the Directorate and the Society are functioning pending transfer of activities of SAU to MS-SSAT by the State Government.

The Social Audit of Mahatma Gandhi National Rural Employment Guarantee Scheme is carried out with the help of Block and Village Resource Persons hired by SAU. The Social Audit Report of village is discussed in the Gram Sabha and submitted to the District Programme Coordinator (District Collector) for necessary action. The District Programme Coordinator is required to submit Action Taken Report (ATR) to SAU within one month of holding of Gram Sabha.

During 2018-19, social audit of 3,710 GPs was planned out of which audit of only 2,001 GPs was completed due to shortage of resource personnel and funds. As per the information furnished by SAU, ATRs from 10 districts in 2017-18, 16 districts in 2018-19 and 11 districts in 2019-20 (till September 2019) were pending from District Programme Coordinator.

The SAU should ensure that action is taken on findings expeditiously so that the utility of social audit as a tool to ensure accountability, is not undermined by lack of action on audit findings.

1.9 Internal Audit and Internal Control System in PRIs

An effective Internal Control System and strict adherence to statutes, codes and manuals minimises the risk of errors and irregularities and also helps to protect resources against loss due to waste, abuse and mismanagement.

The internal controls in PRIs were inadequate in view of non-reconciliation of cash book with pass book, daily/monthly closing of cash books not being done, non-attestation of entries in cash book by Drawing and Disbursing Officers, non-maintenance of separate cash books for various schemes, non-maintenance of accounts in the online portal, delay in preparation of annual accounts as discussed in paragraphs 1.11.4 and 1.11.5.

1.10 Submission of Utilisation Certificates

The Bombay Financial Rules, 1959 stipulates that utilisation certificates (UCs) for grants provided for specific purposes 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 date of their sanction unless specified otherwise.

As of December 2020, 945 UCs for grants amounting to ₹ 2,830.50 crore released till March 2018 by RDD were pending submission from the field offices. Out of the 945 pending UCs, 723 UCs amounting to ₹ 2,385.68 crore (84 *per cent*) were pending between one to two years, 74 UCs amounting to ₹ 246.67 crore (nine *per cent*) were pending between three to five years and 148 UCs amounting to ₹ 198.15 crore (seven *per cent*) were pending for more than five years.

1.11 Financial Reporting Issues

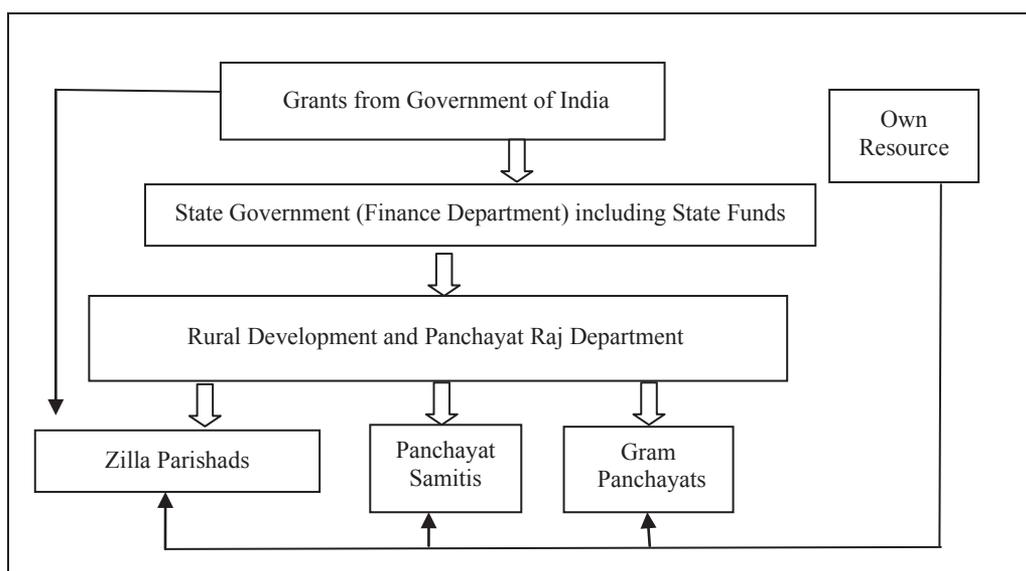
Financial Profile

1.11.1 Source of Funds

In addition to their own sources from tax and non-tax revenue *i.e.* fair tax, building tax, fees, rent from land and building, water charges, *etc.* and capital receipts from sale of land, the PRIs also receive funds from the State Government and GoI in the form of grants-in-aid/loans for general administration, implementation of developmental schemes/works, creation of infrastructure in rural areas, *etc.* Funds are also provided on the recommendations of the Central/ State Finance Commissions.

The fund flow mechanism is as shown in **Chart 2**.

Chart 2: Source of Funds



The receipts and expenditure of PRIs for the period 2014-15 to 2018-19 is shown in **Table 1.1.5**.

Table 1.1.5: Receipts and expenditure of PRIs during 2014-15 to 2018-19

(₹ in crore)

Description	2014-15	2015-16	2016-17	2017-18	2018-19
Own revenue	2239.92	2199.69	2453.59	2223.45	2780.44
Grants received from GoM	28472.39	31817.55	32348.81	32197.43	34989.69 ²
Finance Commission grants	1589.89	1501.84	1831.59	1523.92	1444.08
Other Central Grants	662.42	643.12	819.93	1113.47	474.74
Total receipts	32964.62	36162.20	37453.92	37063.27	39688.95
Total expenditure	31869.42	32822.49	34399.08	33071.07 ³	35415.51

Source: Information furnished by the RDD in January 2020

1.11.2 Recommendations 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 constituted in February 2011 submitted its report along with the recommendations to Finance Department, GoM (October 2017).

Out of 118 recommendations, one recommendation⁴ having a direct financial burden was fully accepted (March 2018) while six recommendations (direct financial burden: three, indirect financial burden: one and administrative reforms: two) were partially accepted. The remaining 111 recommendations were rejected by the GoM.

The action taken by RDD on the accepted recommendations of the Finance

² The difference in the figures of grants furnished by RDD and the figures reflected in State Finance was pending reconciliation.

³ The difference in figures of revenue and expenditure for the year 2014-18 furnished during the year vis-à-vis the figures furnished during previous years was pending reconciliation.

⁴ Share of 50 per cent of the amount collected as Profession Tax to be devolved on the respective Local Bodies.

Commission was awaited (December 2020).

The Fifth SFC for the period 2020-25 constituted in March 2018 submitted its report along with the recommendations to Government in August 2019 which was placed in the State Legislature in December 2020.

1.11.3 Utilisation of the Central Finance Commission Grants

The Fourteenth Finance Commission (FFC) recommended grants of ₹ 15,035.68 crore to the PRIs in the State during 2015-16 to 2019-20. The grant included two components viz., General Basic Grant⁵ (GBG) and General Performance Grant (GPG)⁶. For receiving grants under GPG⁷, the GPs were required to fulfill conditions stipulated in GR issued (July 2015) by RDD.

The grants received by GoM under FFC and disbursed to the PRIs during the period 2018-19 is given in **Table 1.1.6**.

Table 1.1.6: Details of grants received and utilised in 2018-19

(₹ in crore)

Category of grants	Recommendations of FFC grants	Grants released by GoI	Grants released by GoM to PRIs	Grants utilized by PRIs as per UCs furnished	Balance grants to be utilised
Basic	3004.37	3004.37	3004.37	Information not furnished	Information not furnished
Performance	378.81	-	-	-	-
Source: Information furnished by RDD					

GoI did not release the performance grants during 2018-19 due to non-submission of list of eligible GPs by the RDD. This deprived the GPs from receiving the General Performance Grant amounting to ₹ 378.81 crore which could have been utilized for implementing welfare and development schemes of the Gram Panchayat.

1.11.4 Maintenance of Records

1.11.4.1 Cash Book

As per Rule 98(2)(ii) of 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. The cash book should be closed regularly and completely checked. During audit of PRIs by the Accountant General in 2018-19, cash books of 38 out of 1,022 (**Appendix 1.1**) test-checked units revealed a number of discrepancies such as daily/monthly closing of cash books not done, non-maintenance of separate cash books for various schemes, regular attestation of daily entries by Drawing and Disbursing Officers (DDOs) not done, etc.

⁵ The share of each Gram Panchayat under Basic Grant was required to be distributed with a weightage in the ratio of 90:10 for population (Census 2011) and area respectively.

⁶ GBG: ₹ 13,532.12 crore and GPG: ₹ 1,503.56 crore.

⁷ (i) Updated accounts of Gram Panchayats should be kept and should have been audited till 2014-15, further, it should show income/expenditure distinctly; and (ii) there must be an increase in revenue from its own sources from previous year.

1.11.4.2 Reconciliation of balances as per cash book with bank pass book

As per Rule 57 of Maharashtra ZPs and Panchayat Samitis Account Code, 1968, cash book was to be closed on the last working day of the month and the balances were to be reconciled with the bank pass book. During 2018-19, in 58 out of 1,022 (**Appendix 1.2**) test-checked units, reconciliation of balances as per cash book with bank pass book was not done.

1.11.5 Maintenance of Accounts by PRIs

The annual accounts of ZPs are inclusive of accounts of Panchayat Samitis within its jurisdiction. The annual accounts are required to be prepared on or before 10 July of the following financial year to which the accounts relate. The annual accounts approved by the ZPs is certified by DLFA. The certified annual accounts were also required to be placed before the State Legislature.

Each GP prepares independent annual accounts which is required to be submitted to Panchayat Samiti on or before 1st June of next year after certification. The accounts are also placed before Gram Sabha for approval and orders given by Gram Sabha are to be recorded and followed by Sarpanch and Secretary of Gram Panchayat.

1.11.5.1 Arrears in preparation of Annual Accounts

As on September 2020, annual accounts of all ZPs for the year 2015-16 were prepared and certified. Annual accounts of one ZP⁸ for the year 2016-17, eight ZPs⁹ for the year 2017-18 and 23 ZPs¹⁰ for the year 2018-19 were pending certification.

The certified annual accounts of all ZPs for the year 2014-15 were placed in the State Legislature in June 2019. Certified annual accounts for the year 2015-16 was in the process of submission to State Legislature while annual accounts for the year 2016-17 and 2017-18 were not placed pending receipt of annual accounts of all the ZPs.

1.11.5.2 Format of Accounts

RDD, made it compulsory (October 2013) for all ZPs and GPs to maintain their annual accounts in Model Accounting System (MAS) formats I to VIII as prescribed by the Ministry of Panchayati Raj.

The PRIs were maintaining their accounts in MAS format I to III only *i.e.*, format for Receipts and Payments (MAS-I), Major Head wise consolidated abstract (MAS-II) and Monthly Reconciliation Statement (MAS-III). The formats IV to VIII which dealt with 'Receivables & Payables', 'Immovable Properties', 'Movable Properties', 'Stock & Inventories' and 'Demand, Collection & Balances' were not maintained by any of the ZPs and GPs.

⁸ Palghar.

⁹ Aurangabad, Beed, Buldhana, Dhule, Gondia, Latur, Nagpur, Yavatmal.

¹⁰ Ahmednagar, Akola, Amravati, Aurangabad, Beed, Bhandara, Buldana, Dhule, Gadchiroli, Gondia, Hingoli, Jalna, Latur, Nagpur, Nanded, Nashik, Osmanabad, Palghar, Parbhani, Raigad, Ratnagiri, Washim, Yavatmal.

1.11.5.3 Non-maintenance of annual accounts in PRIASoft

The Ministry of Rural Development in coordination with National Informatics Centre had created a web portal namely Panchayati Raj Institution Accounting Software *i.e.*, 'PRIASoft' for online maintenance of accounts of PRIs. PRIs had to enter the accounting information on regular basis in PRIASoft. The overall responsibility for ensuring that the PRIs entered the data in PRIASoft rested with the Chief Executive Officer of ZP.

As per the online data uploaded in system (September 2020), annual accounts of all ZPs were maintained in PRIASoft for the year 2014-15. The status of maintenance of annual accounts in PRIASoft is given in **Table 1.1.7**.

Table 1.1.7: Maintenance of annual accounts in PRIASoft

Year of accounts	Number of ZPs whose accounts were prepared and certified	Number of ZPs which maintained accounts in PRIASoft
2014-15	33	33
2015-16	34	18
2016-17	33	3
2017-18	26	1
2018-19	11	0
Total	137	55

Source: Information compiled from online system

Thus, out of 137 annual accounts prepared and certified, only 55 annual accounts (40 *per cent*) were maintained in PRIASoft.

1.11.6 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 December 2020, DC bills in respect of 87 AC bills involving ₹ 1.57 crore pertaining to the RDD were outstanding. Out of 87 pending DC bills, 72 DC bills amounting to ₹ 0.96 crore (61 *per cent*) were pending between one to two years, 13 DC bills amounting to ₹ 0.55 crore (35 *per cent*) were pending between three to five years and two DC bills amounting to ₹ 0.06 crore (four *per cent*) were pending between six to 23 years.

CHAPTER-II

AN OVERVIEW

OF THE FUNCTIONING, ACCOUNTABILITY

MECHANISM AND FINANCIAL REPORTING ISSUES OF

URBAN LOCAL BODIES

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 Act (1992), the Government of Maharashtra (GoM) amended (December 1994) the existing Mumbai Municipal Corporation (MbMC) Act, 1888; The Maharashtra Municipal Corporations (MMC) Act, 1949; The Nagpur City Municipal Corporation Act, 1948; and The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships (MMCNP & IT) 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.

2.1.1 State Profile

As per the Census of 2011, out of the total population of 11.24 crore in the State, 5.08 crore (45 *per cent*) was in the urban areas. The demographic and developmental status of the State as per census of 2011 is given in **Table 2.1.1**.

Table 2.1.1: Important statistics of the State

Indicator	Data
Population	11.24 crore
Population density	365/ km ²
Gender ratio (Urban) female: male	903 : 1000
Urban population	5,08,18,259
Literacy in <i>per cent</i> (Urban)	88.69
Number of Urban Local Bodies (ULBs)	396
(i) Municipal Corporations (MCs)	27
(ii) Municipal Councils	241
(iii) Nagar Panchayats (NPs)	128

Source: Information furnished by Urban Development Department, ULBs & Census 2011

2.2 Organisational Setup of ULBs

2.2.1 The organisational setup of ULBs is depicted in **Appendix 2.1**. The Urban Development Department, Government of Maharashtra (UDD) is the nodal department for ULBs at the State level. The Municipal Commissioner in MCs and the Chief Officer in Municipal Council/NP report functionally to the respective elected bodies and administratively to their next superior authority in the hierarchy of the State Government.

2.2.2 Twenty-seven Municipal Corporations in the State have been created for urban agglomerations having a population of more than three lakh. These 27 MCs have been classified¹ into five categories viz; A+, A, B, C and D based on the criteria of population and per capita income. At present, only

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 3 lakh and 10 lakh): 17.

MCGM falls in category A+ while there are two² MCs in category A, three³ MCs in category B, four⁴ MCs in category C and 17⁵ MCs in category D.

Similarly, 369 Municipal Councils including Nagar Panchayats have been created for smaller urban areas and categorized⁶ based on their population. At present, there are 17 'A' class, 73 'B' class and 151 'C' class Municipal Councils and 128 NPs in the State.

2.3 Functioning of Urban Local Bodies

2.3.1 The broad accountability structure of MCs and Municipal Councils/NPs is shown in **Table 2.1.2** and **Table 2.1.3**.

Table 2.1.2: Accountability structure of Municipal Corporations

Sr. No.	Name of the Authority	Functions assigned
1.	General Body	Taking 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.
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 annual budget, finalisation of accounts.
5.	Municipal Chief Auditor	Functions as the internal auditor of MC, audit of MC 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

Table 2.1.3: Accountability Structure of Municipal Councils/NPs

Sr. No.	Name of the Authority	Functions assigned
1.	Council	Taking policy decisions related to expenditure from the 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.
3.	Chief Officer	Preparation of budget estimates and submission to the Standing Committee, supervise the financial and executive administration of the Council.
4.	Accounts Officer/Head of Accounts	Preparation of financial statements of the Municipal Council annually.
5.	Municipal Auditor	Audit of accounts of Municipal Councils/NPs, preparation and submission of Audit Reports to the Chief Officer. Conducts internal audit.

Source: The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965 and Maharashtra Municipal Account Code 2013

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, 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): 73; Category C (population between 25,000 and 40,000): 151; and Nagar Panchayats (population between 10,000 and 25,000): 128.

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 of the MMC Act, 1949, Section 61 to 68 of the MbMC Act, 1888 and Section 49 of the MMCNP & IT Act, 1965 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 Act envisaged devolution of powers and responsibilities to municipalities in respect of 18 subjects mentioned in Twelfth Schedule of the Constitution. All the 18 functions were assigned to the Urban Local Bodies (ULBs) under Sections 61 to 68 of the MbMC Act, 1888, Section 63 of the MMC Act, 1949 and Section 49 of the MMCNP & IT Act, 1965.

However, there was overlap in the discharge of these functions as the Government departments and parastatal agencies were also responsible for discharge of these functions apart from ULBs.

The ULBs were allocated ₹ 28,958.48 crore (14.25 per cent) out of the State Government's total revenue receipts of ₹ 2,03,280 crore during 2018-19 (excluding State's share of Union taxes and duties and Grants-in-aid from Government of India).

2.4 Formation of Various Committees

Article 243 ZD of the Constitution of India envisages formation of District Planning Committee (DPC) at district level in every State. The MbMC Act, 1888 and MMC Act, 1949 provides that there shall be two mandatory committees in each Municipal Corporation *i.e.*, the Standing Committee and the Transport Committee. The Act also provides that the Corporation may from time to time appoint special committees which shall conform to any instructions that the Corporation may give. Section 62 of MMCNP & IT Act, 1965 provides for constitution of various committees such as Standing Committee, Planning and Development Committee, Public works Committee, etc. in each Municipal Council.

The DPC at the district level and other committees in Municipal Corporations and Municipal Councils/NPs were duly constituted in the State.

2.5 Audit Arrangements

2.5.1 Audit by the primary auditor

The audit of Municipal Councils is done by Director, Local Fund Accounts Audit (DLFA) as per provisions in Section 104 of Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965.

The audit of all Urban Local Bodies was assigned to DLFA by the State Government in March 2011. The audit of Municipal Corporations is done by a Joint Director functioning under DLFA. The Joint Director is assisted by three Deputy Directors in the discharge of audit function.

DLFA prepares audit report in the format stipulated in Section 9 of Bombay Local Fund Act, 1930 (BLFA) and issues to the auditee unit. DLFA also prepares annually an Audit Review Report (ARR) containing important audit observations included in its audit reports issued during the year to the ULBs. The ARR is placed in the State Legislature through UDD.

- As of June 2019, out of 27 MCs, audit of two⁷ MCs was pending from the year 2014-15, 21⁸ MCs from the year 2015-16 and four⁹ MCs from the year 2016-17 onwards.
- As per Section 8 of the BLFA, DLFA was required to issue the audit report to the audited unit within three months from the last date of audit. Out of 21 audit reports of Municipal Corporation issued during 2018-19 (July to June), five (24 *per cent*) audit reports were issued within the stipulated time frame, while remaining 16 (76 *per cent*) audit reports were issued beyond the time limit.
- In Municipal Councils/NPs, out of 357 audit reports issued during 2018-19 (July to June), 321 (90 *per cent*) audit reports were issued within the time limit whereas 36 (10 *per cent*) audit reports were issued beyond the time limit.
- As of June 2019, 2,258 audit objections related to misappropriations, frauds, embezzlements involving money value of ₹ 29.08 crore were outstanding in Municipal Councils/NPs. Similarly, 34 audit objections related to fraud and embezzlement involving money value of ₹ 1.24 crore were outstanding in MCs.
- DLFA had submitted Audit Review Report of ULBs for the year 2012-13 to UDD in November 2017 for placement in State Legislature. However, the ARR was placed in State Legislature belatedly in July 2019.
- Though, Panchayat Raj Committee was constituted by the State Legislature to discuss the ARR of PRIs, no committee was constituted to discuss the ARR of ULBs.

2.5.2 Audit by the Comptroller and Auditor General of India

Audit of ULBs is conducted under Section 14 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Technical Guidance and Supervision (TGS) is also provided by C&AG to DLFA.

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. Audit observations outstanding for over six months are also brought to the notice of State Government for action.

The important audit observations arising out of audit of ULBs are processed

⁷ Bhiwandi-Nizampur and Sangli-Miraj-Kupwad.

⁸ Akola, Amravati, Aurangabad, Chandrapur, Dhule, Greater Mumbai, Jalgaon, Kalyan-Dombivli, Kolhapur, Malegaon, Mira-Bhayandar, Nagpur, Nanded-Waghala, Nashik, Navi-Mumbai, Parbhani, Pimpri-Chinchwad, Pune, Solapur, Thane and Vasai-Virar.

⁹ Ahmednagar, Latur, Panvel and Ulhasnagar.

for inclusion in the cluster based Audit Report of C&AG which is placed before the State Legislature under Article 151(2) of the Constitution of India.

2.6 Technical Guidance and Supervision by C&AG

Para 10.67 of the Thirteenth Finance Commission (December 2009) recommended that the C&AG should be entrusted with the responsibility of Technical Guidance and Supervision over maintenance of accounts and audit of the PRIs and the Urban Local Bodies. Accordingly, Finance Department, Government of Maharashtra vide Government Resolution (GR) of March 2011, entrusted TGS to C&AG. The GR *inter alia* provided for training of officers and employees of DLFA by C&AG, besides commenting on the audit report of DLFA.

As part of the technical guidance and supervision responsibility entrusted with C&AG, the officials of Accountant General in the State provide regular training to the officials of DLFA on double entry accounting system, maintenance of accounts in Model Accounting System, audit checks, e-Governance in Local Bodies, etc.

2.7 Response to Audit Observations

2.7.1 Outstanding Inspection Reports of ULBs audited by Accountant General

As of December 2019, 1,051 Inspection Reports (7,905 paragraphs) of ULBs audited by Accountant General up to March 2019 were outstanding as shown in the Table 2.1.4.

Table 2.1.4: Position of outstanding inspection reports and paragraphs

Year	Inspection Reports	Paragraphs
Up to 2014-15	518	2815
2015-16	114	683
2016-17	66	644
2017-18	116	1157
2018-19	237	2606
Total	1051	7905

2.7.2 Audit paragraphs included in Audit Reports/Annual Technical Inspection Report but pending for discussion by Public Accounts Committee

As of December 2019, 15 out of 31 paragraphs included in Audit Reports from 2012-13 to 2015-16 and 18 paragraphs included in Annual Technical Inspection Report for the year 2016-17 were pending discussion as shown in the Table 2.1.5.

Table 2.1.5: Status of audit paragraphs pending for discussion by PAC

Year of Audit Report	Number of paragraphs in Report	Number of paragraphs discussed in PAC	Paragraphs pending for discussion in PAC
2012-13	11	05	06
2013-14	06	02	04
2014-15	04	03	01
2015-16	10	06	04
2016-17	18	00	18
Total	49	16	33

Accountability Mechanism and Financial Reporting Issues

2.8 Accountability Mechanism

2.8.1 Lokayukta

The Government of Maharashtra had established (October 1972) the institution of Lokayukta in Maharashtra based on the concept of Ombudsman in accordance with The Maharashtra Lokayukta and Upa-Lokayukta Act, 1971. The Lokayukta is an independent statutory functionary to investigate and make recommendations on complaints of allegations involving abuse of position and corruption against public servants.

As of March 2019, 607 complaints pertaining to ULBs were received by the Lokayukta. Of these, 502 complaints were disposed of by the Lokayukta and 105 complaints were pending for disposal. Majority of complaints pertained to grievances for non-receipt of pensionary benefits and compensation.

2.8.2 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.

Though, Planning Department had set-up a Social Audit Unit for conducting social audit of Mahatma Gandhi National Rural Employment Guarantee Scheme in GPs, such a set-up was not in existence for ULBs.

2.8.3 Property Tax Board

The Thirteenth Finance Commission (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 State Legislature enacted (March 2011) the Maharashtra Municipal Property Tax Board Act, 2011. Though the State Legislature enacted the Maharashtra Municipal Property Tax Board Act, 2011, the Board has not been constituted so far (February 2020).

2.8.4 Service Level Benchmarks

As per the Thirteenth FC recommendations, State Governments had to notify or cause all the Municipal Corporations and Municipal Council/NPs 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 the end of the succeeding fiscal year.

The UDD had notified service level benchmarks up to 2019-20.

2.8.5 Fire Hazard Response

As per the Thirteenth 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.

Accordingly, the UDD formulated fire hazard response and mitigation plan for the MCs.

2.9 Submission of Utilisation Certificates

The Bombay Financial Rules, 1959 stipulates that utilisation certificates (UCs) for grants provided for specific purposes 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 date of their sanction unless specified otherwise.

As of December 2020, 1,045 UCs for grants amounting to ₹ 3,732.50 crore released till March 2018 by UDD were pending submission from the field offices. Out of the 1,045 pending UCs, 360 UCs amounting to ₹ 2,379.35 crore (64 *per cent*) were pending between one to two years, 345 UCs amounting to ₹ 1,035.15 crore (28 *per cent*) were pending between three to five years and 340 UCs amounting to ₹ 318.00 crore (eight *per cent*) were pending for more than five years.

2.10 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 stipulate that the Municipal Chief Auditor (MCA) should audit the municipal accounts and submit a report thereon to the Standing Committee of the Municipal Corporation. The MCA functions as the internal auditor of MCs. Rule 393 & 394 of Maharashtra Municipal Account Code, 2013 stipulates that the Municipal Auditor should audit the municipal accounts and submit a report to the Chief Officer of the Municipal Council/Nagar Panchayat.

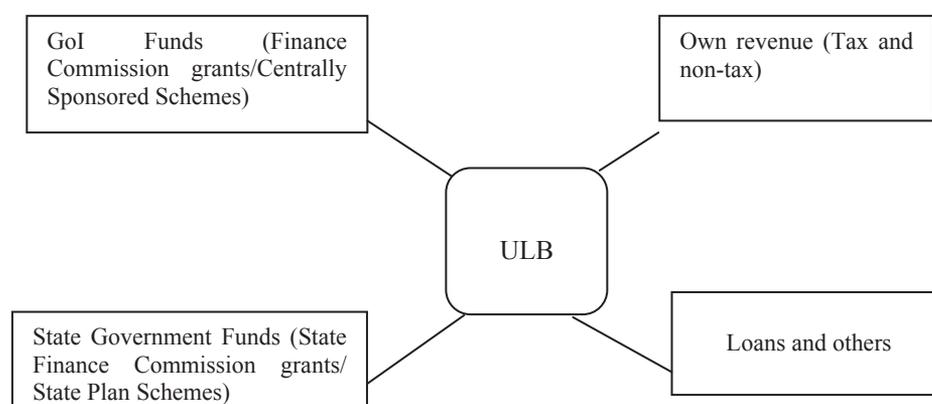
The internal controls in ULBs were inadequate in view of non-reconciliation of cash book with pass book, non-maintenance of cash book, discrepancies in maintenance of cash book, delay in preparation of annual accounts as discussed in paragraphs 2.11.4.1, 2.11.4.2 and 2.11.5.1.

2.11 Financial Reporting Issues

2.11.1 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



The position of the receipts and expenditures of 27 Municipal Corporations and 369 Councils and Nagar Panchayats (NPs) during 2014-15 to 2018-19 is shown in **Table 2.1.6**.

Table 2.1.6: Position of receipts and expenditure of ULBs during 2014-15 to 2018-19.

₹ (in crore)

Description	2014-15		2015-16		2016-17		2017-18		2018-19	
	Municipal corporation	Municipal councils / NPs	Municipal corporation	Municipal councils / NPs	Municipal corporation	Municipal councils / NPs	Municipal corporation	Municipal councils / NPs	Municipal corporation	Municipal councils / NPs
Own revenue	34931.92	1699.48	38253.18	1925.60	37470.43	2184.60	39058.72	2301.02	38750.03	2411.34
Grants received from GoM	900.67	1124.65	2875.08	1223.95	2482.87	1839.72	8833.84	1503.24	11792.12 ¹⁰	2423.43
Finance Commission grants	130.27	212.95	583.87	626.44	526.91	906.44	420.96	556.55	919.95	1123.42
Other Central Government Grants	848.97	224.54	799.54	177.89	888.01	283.35	647.04	274.25	1001.99	403.65
Other receipts	9927.14	2115.91	10312.84	3304.00	9198.01	3208.21	7119.84	3434.79	4018.91	4482.39
Total receipts	46738.97	5377.53	52824.51	7257.88	50566.23	8422.32	56080.40	8069.85	56483.00	10844.23
Percentage of own revenue to total receipts	74.73	31.60	72.41	26.53	74.10	25.94	69.65	28.51	68.60	22.24
Total expenditure	41055.08	5269.38	42983.88	6647.48	42575.53	6851.81	39297.22 ¹¹	6949.15	42733.81	8892.71

Source: Information furnished by the Municipal Corporations/Councils/Nagar Panchayats

As seen from **Table 2.1.6** the percentage of own revenue to total receipts declined during 2018-19 vis-à-vis the percentage during 2014-15.

2.11.2 Recommendations of the State Finance Commission

As already commented in paragraph 1.11.2 of Chapter I, the Fourth SFC constituted in February 2011 submitted its report along with the recommendations to the GoM for its approval (October 2017). Out of 118 recommendations, one recommendation¹² having a direct financial burden was fully accepted (March 2018) while six recommendations (direct financial burden: three, indirect financial burden: one and administrative reforms: two) were partially accepted. The remaining 111 recommendations were rejected by the GoM.

Action taken by UDD on the accepted recommendations of the Finance Commission was awaited (December 2020).

The Fifth SFC for the period 2020-25 constituted in March 2018 submitted its report along with the recommendations to Government in August 2019 which was placed in the State Legislature in December 2020.

2.11.3 Utilisation of the Central Finance Commission Grants by ULBs

The Fourteenth FC recommended grants of ₹ 2,830.33 crore to the ULBs of Maharashtra during the year 2018-19. As against this, ₹ 2,204.70 crore was released by the GoI to GoM. Performance grant of ₹ 625.63 crore was yet to

¹⁰ The difference in the figures of grants furnished by MCs & Municipal Councils/NPs and the figures reflected in State Finance was pending reconciliation.

¹¹ The difference in figures of revenue and expenditure for the year 2014-18 furnished during the year vis-à-vis the figures furnished during previous years was pending reconciliation.

¹² Share of 50 per cent of the amount collected as Profession Tax to be devolved on the respective Local Bodies.

be released by GoI. The position of grants released by the GoI to GoM and the grants released by the GoM to the ULBs is shown in **Table 2.1.7**.

Table: 2.1.7: Release and utilisation of 14th FC grants

(₹ in crore)

Year	Category of grants	Recommendations of 14 FC	Actual grants released by GoI	Grants released by GoM to ULBs	Utilisation of grants by ULBs as per UCs furnished	Balance grants to be utilised
2018-19	Basic	2204.70	2204.70	2204.70	Awaited	-
	Performance	625.63	0	0	-	-
	Total	2830.33	2204.70	2204.70	-	-

Source: Information furnished by Urban Development Department, GoM

The utilisation certificate submitted by ULBs if any, for utilisation of basic grants was not furnished by UDD (December 2020).

2.11.4 Maintenance of Records

2.11.4.1 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.

Scrutiny of records in 17 out of 237 test-checked units during 2018-19, revealed that in five units cash book was not maintained and in the remaining 12 units discrepancies such as improper maintenance of cash book and incomplete cash books were observed. (**Appendix 2.2**)

2.11.4.2 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 2018-19, in seven out of 237 (**Appendix 2.3**) test-checked units, reconciliation of balances as per cash books with bank pass books was not done.

2.11.5 Maintenance of accounts by ULBs

As per 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) in November 2004 for implementation of accrual based accounting system by ULBs.

The Urban Development Department, (UDD) Government of Maharashtra adopted (July 2005) NMAM for implementation from 2005-06.

As per the information furnished by 26¹³ out of the 27 MCs, the system of maintaining the accounts on accrual basis was implemented in 22¹⁴ MCs while

¹³ Aurangabad Municipal Corporation has not furnished the information.

¹⁴ Ahmednagar, Akola, Bhiwandi-Nizampur, Dhule, Greater Mumbai, Jalgaon, Kolhapur, Latur, Malegaon, Mira-Bhayandar, Nashik, Navi-Mumbai, Nagpur, Parbhani, Pune, Pimpri-Chinchwad, Panvel, Sangli-Miraj-Kupwad, Solapur, Thane, Ulhasnagar and Vasai-Virar.

four¹⁵ MCs were yet to implement the same. All the Municipal Councils had prepared their accounts on accrual basis. The Nagar Panchayats have commenced the work of accrual-based accounting system.

2.11.5.1 Arrears in preparation of Annual Accounts

The annual accounts of MCGM are required to be prepared on or before 31st July of the following year and in respect of other MCs, annual accounts are required to be prepared as soon as may be, after first day of April of the following year. The annual accounts of Municipal Councils/NPs are required to be prepared by 30th June of the following year. The annual accounts approved by the MCs and Councils/NPs is certified by DLFA.

Information furnished by 27 MCs, revealed that 16 Municipal Corporations had prepared their annual accounts till 2018-19 while there were arrears in preparation of annual accounts in respect of 11 Municipal Corporations as given in **Table 2.1.8**.

Table 2.1.8: Arrears in preparation of annual accounts by Municipal Corporations

Arrears from the year	Number of Municipal Corporation	Name of the Municipal Corporation
2015-16	01	Aurangabad
2016-17	01	Panvel
2017-18	05	Kalyan-Dombivli, Nanded-Waghala, Parbhani, Sangli-Miraj-Kupwad, Vasai-Virar
2018-19	04	Chandrapur, Pimpri-Chinchwad, Solapur, Thane
Total	11	

Source: Information furnished by the Municipal Corporations

As per the information furnished by 232 Municipal Councils and 120 Nagar Panchayats, the arrears in the preparation of annual accounts is shown in **Table 2.1.9** and details given in **Appendix 2.4**.

Table 2.1.9: Arrears in preparation of annual accounts by Municipal Councils and Nagar Panchayats

Arrears from the year	Number of Municipal Councils	Number of Nagar Panchayats
2015-16	06	29
2016-17	0	01
2017-18	18	04
2018-19	18	09
Total	42	43

Source: Information furnished by the Municipal Councils/Nagar Panchayats

¹⁵ Amravati, Chandrapur, Kalyan-Dombivli, Nanded-Waghala.

2.11.6 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 December 2020, only eight DC bills amounting to ₹ 9.83 lakh pertaining to UDD were pending.



MUMBAI
THE 15 JUNE 2021

(S. K. JAIPURIYAR)
Principal Accountant General (Audit)-I,
Maharashtra, Mumbai

APPENDICES

Appendix-1.1 (Reference: Paragraph 1.11.4.1; Page 10) List of units where discrepancies in maintenance of cash book were noticed			
Sr. No.	Name of the unit	Sr. No.	Name of the unit
1	Project Director, DRDA, Dhule	20	BDO, PS Deoni, District Latur
2	DHO, Health Department, ZP Sindhudurg	21	Education Officer, ZP Jalna
3	Education Department, ZP Sindhudurg	22	District Animal Husbandry Officer, ZP Jalna
4	DHO, Health Department, ZP Satara	23	Agriculture Development Officer, ZP Jalna
5	Animal Husbandry Department, ZP Sindhudurg	24	BDO, PS Mantha, District Jalna
6	Executive Engineer, Works Department, ZP Sindhudurg	25	Agriculture Development Officer, ZP Bhandara
7	Executive Engineer, Works Division (S), ZP Sindhudurg	26	Deputy CEO (W &C), ZP Bhandara
8	Executive Engineer, Works Division (N), ZP Sindhudurg	27	BDO, PS Bhandara, District Bhandara
9	VDO, VP Devthan, Taluka Akole District Ahmednagar	28	BDO, PS, Pauni, District Bhandara
10	VDO, VP Halkarwadi, Taluka Haveli District Pune	29	BDO, PS Lakhandur, District Bhandara
11	BDO, Achalpur, District Amravati	30	BDO, PS Parbhani, District Parbhani
12	BDO, PS Chandur, District Amravati	31	BDO, PS Purna, District Parbhani
13	BDO, PS Tiroda, District Gondia	32	District Health Officer, ZP Buldhana
14	BDO, PS Arjuni, Morgaon, District Gondia	33	General Administration Department, ZP Buldhana
15	BDO, PS Amgaon, District Gondia	34	BDO, PS Jalgoan Jamod, District Buldhana
16	BDO, PS Ausa, District Latur	35	BDO, PS Nandura, District Buldhana
17	BDO, PS Nilanga, District Latur	36	BDO, PS Shindkhedraja, District Buldhana
18	BDO, PS Udgir, District Latur	37	BDO, PS Shegaon, District Buldhana
19	CEO, ZP Nagpur	38	BDO, PS Katol, District Nagpur

DRDA : District Rural Development Agency
DHO : District Health Officer
VDO : Village Development Officer
BDO : Block Development Officer

PS : Panchayat Samiti
VP : Village Panchayat
ZP : Zilla Parishad
CEO : Chief Executive Officer

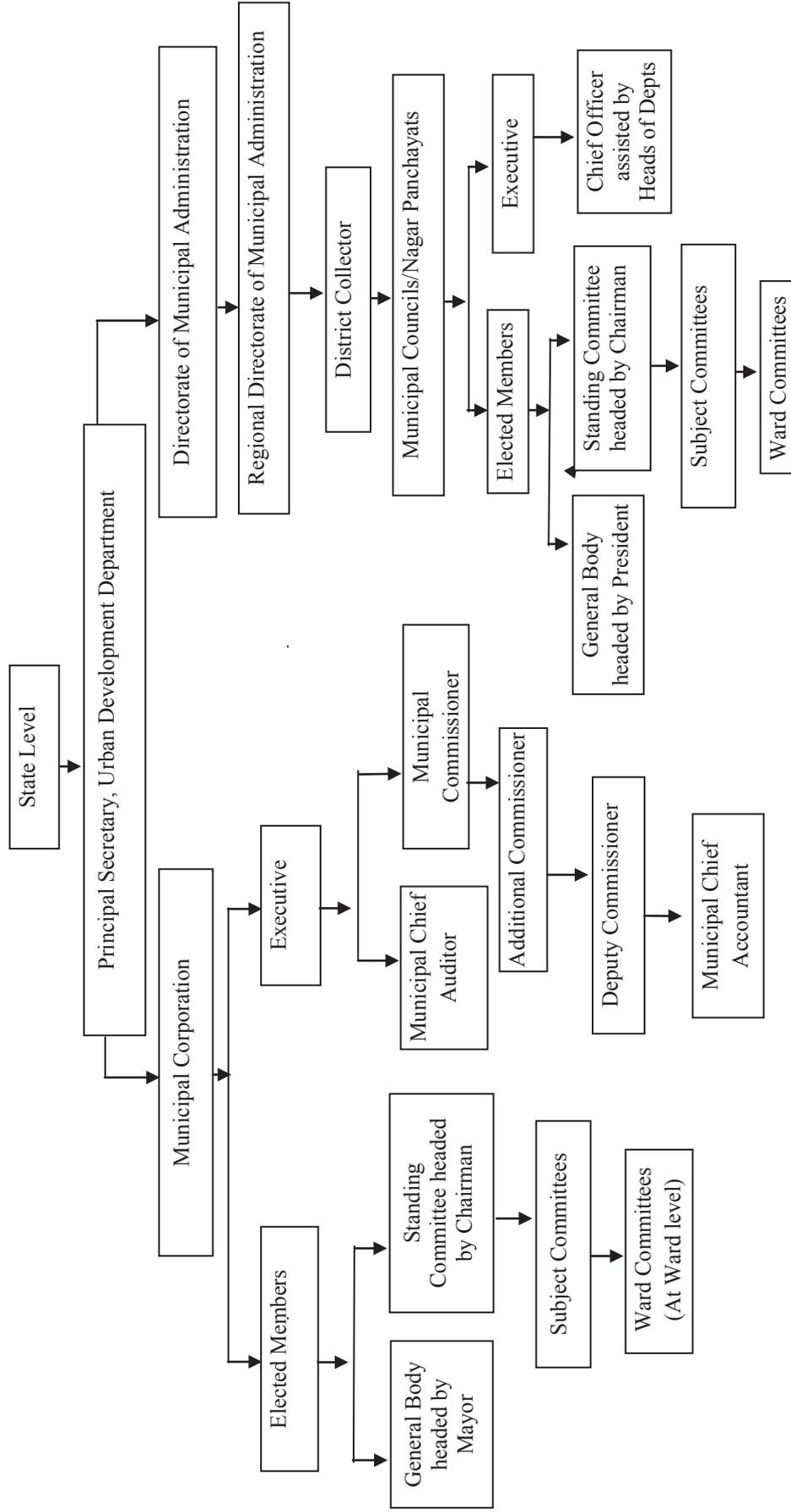
Annual Technical Inspection Report (Local Bodies) for the year ended 31 March 2019

Appendix-1.2			
(Reference: Paragraph 1.11.4.2; Page 11)			
List of units where reconciliation of bank balances with cash book were not carried out			
Sr. No.	Name of the unit	Sr. No.	Name of the unit
1	Project Director, DRDA, Dhule	30	BDO, PS Goregaon, District Gondia
2	VDO, VP Devthan, Tal Akole, District Ahmednagar	31	Chief Accounts and Finance Officer, ZP Latur
3	VDO, VP Kusur, Tal Vaibhavwadi, District Sindhudurg	32	VDO, VP Yedgaon, Tal Vaibhavwadi, District Sindhudurg
4	BDO, PS Deori, District Gondia	33	Executive Engineer, Rural Water Supply, ZP Jalna
5	VDO, VP Kesnand, Tal Haveli, District Pune	34	BDO, PS Ausa, District Latur
6	VDO, VP Uruli Kanchan, Tal Haveli, District Pune	35	BDO, PS Amgaon, District Gondia
7	VDO, VP Palasdeo, Tal Indapur, District Pune	36	District Water Conservation Officer, (MI), ZP Jalna
8	VDO, VP Kati, Tal Indapur, District Pune	37	District Social Welfare Officer, ZP Jalna
9	VDO, VP Bahe, Tal Walwa Islampur, District Sangli	38	Education Officer, ZP Jalna
10	VDO, VP Kalus, Tal Khed, District Pune	39	Executive Engineer, Public Works Department, ZP Bhandara
11	VDO, VP Dingore, Tal Junnar, District Pune	40	BDO, PS Jalna, District Jalna
12	VDO, VP Buchakewadi, Tal Junnar, District Pune	41	CAFO, ZP Washim
13	VDO, VP Nighojae, Tal Khed, District Pune	42	Deputy CEO, Women and Child Welfare, ZP Jalna
14	VDO, VP Chimbali, Tal Khed, District Pune	43	BDO, PS Bhandara, District Bhandara
15	VDO, VP Mangaon, Tal Kudal, District Sindhudurg	44	BDO, PS Lakhandur, District Bhandara
16	BDO, PS Amravati, District Amravati	45	Chief Accounts and Finance Officer, ZP Parbhani
17	BDO, PS Chandur Bazar, District Amravati	46	District Health Officer, ZP Parbhani
18	BDO, PS Daryapur, District Amravati	47	BDO, PS Parbhani, District Parbhani
19	Executive Engineer, Rural Water Supply, ZP Gondia	48	BDO, PS Kaij, District Beed
20	BDO, PS Kinwat, District Nanded	49	General Administration Department, ZP Buldhana
21	BDO, PS Loha, District Nanded	50	BDO, PS Purna, District Parbhani
22	BDO, PS Mudkhed, District Nanded	51	BDO, PS Narkhed, District Nagpur
23	BDO, PS Kandhar, District Nanded	52	BDO, PS Katol, District Nagpur
24	CEO, ZP Akola	53	BDO, PS Hingna, District Nagpur
25	BDO, PS Balapur, District Akola	54	BDO, PS Nagpur, District Nagpur
26	BDO, PS Murtizapur, District Akola	55	BDO, PS Kamptee, District Nagpur
27	District Health Officer, ZP Gondia	56	BDO, PS Ramtek, District Nagpur
28	CEO, Amravati	57	District Animal Husbandry Officer, ZP Jalna
29	BDO, PS Salekasa, District Gondia	58	Agriculture Development Officer, ZP Jalna

BDO : Block Development Officer
 PS : Panchayat Samiti
 ZP : Zilla Parishad
 VDO : Village Development Officer
 DRDA : District Rural Development Agency

CEO : Chief Executive Officer
 VP : Village Panchyat
 CAFO : Chief Accounts and Finance Officer
 MI : Minor Irrigation

Appendix-2.1
(Reference: Paragraph 2.2.1; Page 13)
Organisational Structure



Appendix-2.2 (Reference: Paragraph 2.11.4.1; Page 21)	
Sr. No	Name of Units where cash book was not maintained
1	The Administrative Officer, Education Department and Education Officer, Secondary Education Department, Pimpri Chinchwad Municipal Corporation, Pimpri, Pune
2	Chief Officer, Murud-Janjira, Municipal Council, Raigad
3	Chief Officer, Chalisgaon Municipal Council, Jalgaon
4	Chief Accounts and Finance Officer, Bhiwandi-Nizampur Municipal Corporation, Bhiwandi
5	Deputy Commissioner, Octroi/LBT Department, Bhiwandi-Nizampur Municipal Corporation, Bhiwandi
Sr. No	Name of Units where discrepancies in maintenance of cash book were noticed.
1	Municipal Corporation, Latur
2	Municipal Corporation, Akola
3	Municipal Corporation, Amravati
4	Accounts Officer, Accounts Department, Malegaon Municipal Corporation, Malegaon
5	The Administrative Officer, Municipal School Board, Ulhasnagar Municipal Corporation, Ulhasnagar
6	Deputy Commissioner, General Administration Department, Mira-Bhayandar Municipal Corporation, Bhayandar
7	Chief Officer, Karjat Municipal Council, Raigad
8	Chief Officer, Islampur Municipal Council, Sangli
9	Chief Officer, Municipal Council, Beed
10	Chief Officer, Ashta Municipal Council, Sangli
11	Chief Officer, Gangapur Municipal Council, Aurangabad
12	Chief Officer, Chandur Bazar Municipal Council, Amravati

Appendix-2.3 (Reference: Paragraph 2.11.4.2; Page 21) List of units where reconciliation of bank balances with cash book were not carried out	
Sr. No	Name of the Unit
1	Principal Secretary to the Govt. of Maharashtra, Urban Development Department, Mantralaya
2	Chief Accounts and Finance Officer, Malegaon Municipal Corporation, Malegaon
3	The Administrative Officer, Municipal School Board, Ulhasnagar Municipal Corporation, Ulhasnagar
4	Joint Director of Town Planning, Town Planning and Evaluation Department, Konkan Division, Navi Mumbai
5	Chief Officer, Ashta Municipal Council, Sangli
6	Chief Officer, Islampur Municipal Council, Sangli
7	Chief Officer, Municipal Council, Yevatmal

Appendix-2.4					
(Reference: Paragraph 2.11.5.1; Page 22)					
Status of arrears in preparation of accounts of Municipal Councils and Nagar Panchayats					
Sr. No.	Name of Council / Panchayat	Year from which the preparations of accounts are in arrears	Sr. No.	Name of Council / Panchayat	Year from which the preparations of accounts are in arrears
1	Jamkhed MC	2015-16	40	Chiplun MC	2017-18
2	Varangaon MC	2015-16	41	Malvan MC	2017-18
3	Kalamnuri MC	2015-16	42	Alibag MC	2017-18
4	Mukhed MC	2015-16	43	Roha MC	2017-18
5	Mangalwedha MC	2015-16	44	Dahanu MC	2017-18
6	Shirur MC	2015-16	45	Jawhar MC	2017-18
7	Dhanki NP	2015-16	46	Shrigonda MC	2017-18
8	Motala NP	2015-16	47	Pathardi MC	2017-18
9	Malegaon NP	2015-16	48	Bhusawal MC	2017-18
10	Manora NP	2015-16	49	Navapur MC	2017-18
11	Poladpur NP	2015-16	50	Parli Vaijnath MC	2017-18
12	Talasari NP	2015-16	51	Jalna MC	2017-18
13	Murbad NP	2015-16	52	Bhoom MC	2017-18
14	Karjat NP	2015-16	53	Pathri MC	2017-18
15	Newasa NP	2015-16	54	Wadi MC	2017-18
16	Parner NP	2015-16	55	Malshiras NP	2017-18
17	Sakri NP	2015-16	56	Shindkheda NP	2017-18
18	Ashti NP	2015-16	57	Mahur NP	2017-18
19	Patoda NP	2015-16	58	Sindewahi NP	2017-18
20	Wadwani NP	2015-16	59	Shendurjana Ghat MC	2018-19
21	Shirur Kasar NP	2015-16	60	Darwaha MC	2018-19
22	Chakur NP	2015-16	61	Sangola MC	2018-19
23	Naigaon NP	2015-16	62	Karmala MC	2018-19
24	Korchi NP	2015-16	63	Kurduwadi MC	2018-19
25	Chamorshi NP	2015-16	64	Kurundwad MC	2018-19
26	Bhamragad NP	2015-16	65	Karad MC	2018-19
27	Etapalli NP	2015-16	66	Phaltan MC	2018-19
28	Aheri NP	2015-16	67	Mahabaleshwar MC	2018-19
29	Kurkheda NP	2015-16	68	Lonavala MC	2018-19
30	Mulchera NP	2015-16	69	Jamner MC	2018-19
31	Madha NP	2015-16	70	Yeola MC	2018-19
32	Ajara NP	2015-16	71	Nandgaon MC	2018-19
33	Chandgad NP	2015-16	72	Kinwat MC	2018-19
34	Vaduj NP	2015-16	73	Osmanabad MC	2018-19
35	Hatkanangale NP	2015-16	74	Jintur MC	2018-19
36	Mangaon NP	2016-17	75	Manwath MC	2018-19
37	Mangrulpir MC	2017-18	76	Pauni MC	2018-19
38	Akkalkot MC	2017-18	77	Babhulgaon NP	2018-19
39	Daund MC	2017-18	78	Sangrampur NP	2018-19

Appendix-2.4 (Reference: Paragraph 2.11.5.1; Page 22) Status of arrears in preparation of accounts of Municipal Councils and Nagar Panchayats					
Sr. No.	Name of Council / Panchayat	Year from which the preparations of accounts are in arrears	Sr. No.	Name of Council / Panchayat	Year from which the preparations of accounts are in arrears
79	Dindori NP	2018-19	83	Korpana NP	2018-19
80	Aundha Nagnath NP	2018-19	84	Sironcha NP	2018-19
81	Mohadi NP	2018-19	85	Mahadula NP	2018-19
82	Lakhandur NP	2018-19			

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