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INDO - USAID FIRE (D) PROJECT



Status of Municipal Accounting Systems in Selected Urban Local Bodies of India

Report & Annexure

Indo-USAID Financial Institutions Reform and Expansion Project- (FIRE-D)

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Executive Summary

The National Institute of Urban Affairs appointed ICRA Management Consulting Services Limited (IMaCS) to conduct a study on “Status of Municipal Accounting for Selected Local Bodies in India”.

The objective of the study was to examine the current accounting implementation process, identify the areas of reform and consequently formulate a road map for its successful execution as per the given timelines. The focus of the project was on analysing the technical changes that are required in the process of accounting and budgeting, with a view to understand the limitations of cash-based accounting that can be overcome by a more suitable system based on accrual concepts.

In the nation's journey towards becoming an economic power, local bodies will have to play an important part in enabling infrastructure availability to the citizens. The Jawaharlal Nehru Urban Renewal Mission (JNNURM) has made available funds to the extent of Rs. 50,000 crore for supporting urban reforms and after adding the contribution of states and municipalities the funding would amount to about Rs. 1,26,000 crore over a period of seven years. While the physical planning and development measures will address the issue of spending this amount judiciously, an appropriate accounting system for recording the transactions, including the establishment of a proper system for asset and liabilities accounting and revenue recognition are necessary. Accounting reforms and change to an accrual accounting system is a vital ingredient in this process. The accounting reform is intended to provide financial information to various users such as, citizens, elected representatives, administrators, investors, creditors, executives, legislatures, State Audit Departments, and State Urban Development and Panchayati Raj Departments in a timely and organised manner. The Committee on Accounting Standards for Local bodies has recognised the need for creating awareness amongst various stakeholders about the benefits of the accounting reform process in local bodies.

The purpose of this report is to present the salient features of the accrual accounting system for those who are charged with the governance of the local bodies in India. It brings out the distinguishing features of the two systems of accounting: the traditional cash accounting system and the accrual accounting system, and the manner in which they affect the performance of a local body.

Many local bodies still follow the cash based accounting system. The Government has been alive to the fact that many cities are shifting to accrual based accounting systems, driven by the need for better transparency, the need to make corporations more accountable, and the need to make accounting statements more useful to Governments and other users. The states at the forefront of such reform have been Tamil Nadu, Gujarat and Maharashtra, while there are several others who have also been quite active.

To meet the expectations of various stakeholders, an accounting system has to satisfy the following basic objectives (1) be accurate in capturing the underlying transactions, (2) enhance transparency, and (3) be user-friendly to facilitate understanding of the accounting statements by most users. This report analyses the deficiencies in the present accounting system from the standpoint of meeting the expectations of various users, and recommends the contours of an accounting system that satisfies the above objectives. The report analyses the system of implementation in five shortlisted local bodies namely: Surat, Bangalore, Bhubaneswar, Faridabad and Shillong. The process involved understanding in detail the process of transition from cash based to accrual accounting and identify the problems faced by various corporations in the execution of the same. The study concludes that it is technically feasible to make the change from the existing accounting system to the proposed appropriate accounting system, and lays down a strategic roadmap for implementation of the same.

The methodology of our study, finalized in conjunction with the National Institute of Urban Affairs (NIUA), involved a thorough analysis of the “as-is” system of accounting in selected local bodies. Our analysis focussed on understanding the following:

- The processes underlying the accounting transactions
- The information flow that facilitates the processes
- The mechanisms in place for collecting the information
- The issues faced in implementing the system
- The benefits reaped by the corporation once the system is in place
- The way forward to improve the system and take it to the next level of implementation

To understand the experience of cities who have successfully implemented the reforms, we studied the reforms in states like Gujarat, Tamil Nadu and Maharashtra which implemented accrual accounting system way back in 1990’s. Our objective was to understand the drivers of accounting reform, the trajectory of the reform process, and the context and reasons for undertaking reform. We have used this learning to validate some of the primary conclusions of the study with respect to the accounting reform, and to formulate the strategic road map for implementation.

The prevailing cash-based accounting system in India is deficient on the dimensions of transparency and user-friendliness on the following counts:

- a) The system is primarily focussed on inputs, almost at the exclusion of outputs and outcomes, and cannot therefore be utilised as an effective tool for measuring accountability for performance.

- b) Only those transactions where cash has been paid or received are recorded by the system. Transactions where no cash has been paid or received are not recorded, even if value has been received or a liability been contracted.
- c) Accounting records reflect transactions for the current year only. Past transactions relating to assets and liabilities, are not an integral part of the accounts.
- d) The accounting system tends to understate liabilities and commitments of the Government, leading to issues of inter-generational equity and lack of transparency. In many countries, this has been an important reason for accounting reforms towards an accrual-based system.
- e) Inability of Government to keep track of assets, which results in relatively poor stewardship, is a big lacuna in the accounting system today.
- f) Decision-makers (including the local body itself) are unable to look ahead to estimate whether they can continue to afford the services they currently deliver, or whether they can afford new services (as they do not have information of full costs or indebtedness).

Keeping in view the deficiencies of the existing cash-based accounting system, any suggestions for an appropriate accounting system for the local body should be governed by three primary criteria. They are:

- a) Enhancing the transparency and user-friendliness of local body's accounts and financial statements.
- b) Taking cognisance of (and be reasonably on par with) contemporary initiatives by several other corporations in reforming their accounting and budgetary systems.
- c) Taking note of the existing structure, organisation, processes, and functioning of its various its departments

Given the above expectations from an accounting system, the study has analysed the current system of five shortlisted local bodies of India. A summary of observations on the improvements required in the current accounting system for selected bodies we had studied are as follows:

- a) **Time Bound Implementation Plan:** A time bound implementation plan covering all aspects of municipal accounting in a phased manner should be formed to actualize municipal accounting reforms. We feel that the minimum time frame for such implementation plan could be two years and the maximum could be upto four years.
- b) **Training Methodology:** The training of officers and employees who will be implementing the accounting reforms should be on-the-job, and should be carried out at their workplace as part of implementation. Training should be given at every stage of implementation. It should be need based and user friendly.

- c) **Appointment of Consultants for Professional Know-how:** The core-team responsible for designing & implementing should be independent accounting experts and consultants. This feature helps the municipal corporation to make their municipal accounting reforms closer to ground realities and to smoothen the implementation process.
- d) **Computerisation:** It has been observed that introduction and implementation of accrual based accounting system in a municipal body becomes much easier and faster if computerization is adopted right from the beginning. Ready-made accounting software available in the market or tailor-made software developed by a suitable agency can be used for implementation. This would also help application of unified accounting code.
- e) **Participatory Approach:** The entire exercise of municipal accounting reforms should be made as participatory as possible. In municipal body it should involve along with a managerial and political leadership, other non-accounting (technical and administrative) officers as accounting system cut across all the departments and sections. Outside the municipal body, it should involve local academic experts, local consultant appointed as a part of implementation and the government officers of related departments/agencies.

The study highlights the following major drawbacks in current accounting system for selected local bodies that are yet to implement or are in the process of fully implementing the system:

- a) Local bodies in the stage of implementation have appointed consultants to undertake the conversion and complete the **handholding exercise** to the local body. But the process has been slow and incomplete. The duration of services of consultants will soon end, whereas the urban local bodies are still not fully equipped to undertake the process of implementation. And we feel that the local bodies will once again fall back to cash based accounting unless consultants are appointed for a time span of another couple of years.
- b) Although system has been put in place by the consultants, **lack of effective initiative** from the personnel of the corporations results in duplication of work. Corporations are still recording transactions on cash based accounting whereas the consultants are following accrual based accounting leading to duplication of work. The efforts should be unified and in the right direction for successful execution.
- c) The process of **asset valuation** is still under preparation in most of the local bodies. Even the corporations who have transformed to accrual based accounting are yet to complete the process of valuation. The task being tedious and time consuming needs to have a focussed approach and a dedicated team to incorporate in the system of implementation.
- d) Undertaking **Opinion-Building Exercise** and direct enough efforts to change people's mindset and build opinion in favour of accounting reforms.

- e) The municipal body lacks directed **management support** for the exercise. The exercise does not seem to receive the much-required support and leadership. At every stage, the implementation process faced hurdles such as inordinate delays in giving administrative clearance to different implementation phases or reports submitted by the consultant's adequate staff for training and implementing the new accounting system.

There will be five successive stages for the transition. The focus during the five stages shall be as follows:

- a) A **central implementation cell** should spearhead and coordinate the process of implementation. The pilot implementation should be preceded by a phase where the focus should be on attaining technical and administrative preparedness. Capacity building in terms of human resources will happen right through the two phases.
- b) **Technical preparedness:** The technical preparedness stage is the foundation-setting part of the transition process, and seeks to build and/or acquire the technical skills needed to make the transition to the new accounting system. The focus here is in laying down the basic accounting policies and principles. This stage should also focus on the information availability, the systems and processes to collect and collate the required information and streamline the flow of information.
- c) **Administrative preparedness:** Once the technical preparedness is achieved, the administrative issues such as selecting the right department and identifying training initiatives should be carried out. Making the necessary changes in the organization structure and reporting relationships in consonance with the changes in the systems is the focus of this stage.
- d) **Pilot implementation:** The pilot implementation for selected accounting practices estimating implementation time frame of a year. The implementation cell should use the learning's of the pilot implementation to fine-tune the roll out procedures for the rest of the departments.
- e) **Full-scale implementation:** On gaining an understanding of the implementation process from the previous stage the roll-out in full fledged form.

In line with the changes in the accounting system, the budgeting system would also require some changes so as to make the combined system more transparent and user-friendly. The changes in the budgeting system are in the areas of Budget format and presentation, classification issues pertaining to expenditure management, issues related to functional classification, providing a direct link between the financial accounting system and the Budget, and introducing a process of departmental budgeting.

In conclusion, we would like to say that reforming the present accounting system in favour of accrual based is a step in the correct direction that is in line with what users would want, and in conformance with best practice. The path of implementation is arduous and will stretch to over a decade for a wide scale implementation, but in our opinion, that is a path well taken.

1 Introduction

1.1. Project Background

Pursuant to the recommendation of Eleventh Finance Commission, the Comptroller and Auditor General of India (C&AG) of India constituted a Task Force in February 2002 to evolve appropriate accounting formats for Urban Local Bodies (ULB) after taking into account their requirements and expertise of accounts staff available with them. The Task Force on Accounting and Budget Formats for ULBs constituted by C&AG submitted its report in December 2002 in which it devised model budget formats along with accounting formats and its recommendations on introduction of cost accounting, MIS and Computerization etc. in ULBs.

The report of the Task Force was accepted by the Government of India and thereafter forwarded to State Governments in April 2003 for implementation of the accounting and budget formats as prescribed by the Task Force, keeping in view the local requirements.

In this context a ‘National Workshop on Municipal Accounting Reforms’, was jointly held by Ministry of Urban development, Government of India (MoUD), C&AG, National Institute of Urban Affairs (NIUA) and USAID to review the progress made by the various State Governments in the area of municipal accounting reforms and to finalise a countrywide time bound programme for implementation of accounting reforms. Based on the recommendations MoUD with assistance of C&AG, FIRE project of USAID and NIUA prepared a National Municipal Accounts Manual (NMAM) and its companion National Municipal Accounts Training Manual (NMATS). Based on these manuals state governments have to prepare their own state training manual as per their own requirement.

In order to carry forward the reform agenda, Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has called for implementing improved municipal accounting having a modern accounting system based on the double entry and accrual principal, which could lead to better financial management, transparency and self-reliant accounting system for the ULBs. This reform has been incorporated as a mandatory reform for the ULBs under the JNNURM reform agenda.

NIUA has engaged ICRA Management Consulting Services Limited (IMaCS) to understand the factors leading to successful implementation of improved municipal double entry accounting system in selected cities and recommend ways for effective implementation in cities which are in the process of implementing accounting reforms. For this five cities have been shortlisted in consultation with NIUA: Bangalore, Surat, Shillong, Faridabad and Bhubaneswar.

1.2. Project Objectives and Scope of Work

The objective of this exercise is to initiate steps for successful implementation of double entry accounting system in selected ULBs of India. The key activities under the assignment include the following:

1. Reviewing the JNNURM initiative in terms of its implementation
2. Identifying the problem and studying the drawbacks in the existing accounting system with a comparison between cash based and accrual based accounting systems
3. Understanding key reasons for delay in implementation of the process, if any
4. Studying the methodology followed by ULBs like Bangalore, Bhubaneswar and Surat (who successfully implemented the process) and incorporating the lessons learnt from experiences of these cities.
5. Suggesting improvements in the current accounting framework
6. Identifying the areas of reform and consequently formulating strategic roadmap for its implementation
7. Reviewing the reform process currently followed for establishing accrual based accounting.
8. Setting the timelines and measuring the outcomes
9. Holding discussions with and make presentations to NIUA
10. Preparing a list of recommendations concerning the transformation from existing to new modern based accounting system and suggesting areas of improvement for successful implementation.

With this study our aim was to understand the key concerns and issues faced by the Urban Local Bodies in their process of transition from cash based accounting to accrual based accounting. This system of accrual based accounting would enable users to determine not only effective compliance with budget conditions but would also ensure efficiency of municipal operations and improvement in overall financial status of the urban body. A robust accounting system is the first step in initiating good financial management practices.

Accounting reform is mandatory for the ULBs under the JNNURM reform agenda and ULBs and urban civic services providers are required to adhere to a specific timeline to implement the financial management reforms. All the states and ULBs have agreed to shift to double entry accrual based accounting system. Some of the cities have already shifted to the new accounting system, however a number of other cities have provided their target dates to shift to accrual based accounting system and are at different stages of implementation.

The study has been conducted to identify the subject concerns and thereby suggesting ways for successful implementation of accrual accounting system. The assignment has been undertaken as detailed in the Request for Proposals document provided by NIUA for this assignment.

1.3. Approach

We have completed the study in four modules (as shown in Figure 1.1) explained below:

Figure 1-1: Our approach



Module 1: Selected ULBs Based on Predetermined Criteria

Module 1 was designed to shortlist five Urban Local Bodies from a sample of 65 JNNURM cities. The objective was to select a mix of ULBs who are in various stages of implementing accrual accounting systems – ranging from ULBs that have completed successful implementation to ULBs who are yet to commence. Care was also taken to cover the various geographical regions with the objective of understanding the peculiarities prevailing in the respective regions. The cities were finalised on the basis of the following parameters:

- Status of implementation of modern accrual accounting process
- Percentage of urban population to total population
- Cost allocation for urban infrastructure under JNNURM
- Current Status of implementation of mandatory reforms under JNNURM other than shift to double entry accounting system

These parameters were prioritized in consultation with NIUA. Based on the above, the following five urban local bodies were shortlisted: Bangalore, Bhubaneswar, Shillong, Surat and Faridabad.

This sample of five shortlisted cities is an ideal mix and an appropriate sample from the census cities as the two of the shortlisted cities: Faridabad and Shillong are still in the process of implementation whereas the other three: Bangalore, Surat and Bhubaneswar achieved their implementation process in the recent past. The case of successful cities guided us in understanding the issues important in the process of transformation and helped us in bridging gap between the existing and the proposed system of accounting.

Module 2: Assessed the Existing Accounting System

Module 2 was designed to carry out the analysis of the existing accounting system. This covered the following:

1. Understanding the accounting rules and principles that are currently followed
2. Assessing the methods adopted for recording and accounting for assets and liabilities
3. Understanding the principles of revenue and expenditure recognition and their accounting
4. Assessing the adequacy of the records maintained – such as asset register, loan register, demand - collection - balance statements etc
5. Studying the information systems underlying the accounting system. This was important to understand extent of the availability of information and the quality of the available information.

This module was based on the inputs received from the local bodies and the field visit to the various ULBs. The team undertook a preliminary visit to the shortlisted Urban Local Bodies to review the current status of accounting policies. We accomplished these tasks through a questionnaire which was circulated to the shortlisted ULBs prior to our field visits.

The objective of this module was to map out the stage of reform the urban local body is currently operating at. This gave us a sense of whether it's a pure cash based accounting or has there been any efforts made by the ULB to move towards accrual based accounting. Also this helped us in understanding the underlying process of recording the transactions. For example: how is the capital expenditure on long term assets recorded, how do they account for outstanding transactions, how do they track arrears for various tax collection heads, how are the loan statements documented and what is the mechanism to record contingent liabilities. This in turn assisted us in formulating a practical framework through which a municipal body will develop an operative accrual accounting system.

Module 3: Identified Gaps in the System

Module 3 focussed on understanding the issues that needs to be addressed for speedy implementation of the transition process. On the basis of the interviews conducted in line with the structured questionnaire we assessed the stage of transition from cash to accrual accounting

for the identified urban local bodies. This helped us in formulating a detailed plan and a transitional strategy for successful implementation of accrual based accounting. The key issues that were addressed through this module are:

1. What is the extent of awareness amongst the officials of the ULB on accrual accounting
2. Is the information required for implementing an accrual accounting system available at the ULB
3. If the information is not available, can it be collected, if so, from where should it be collected
4. Is any change required in the systems and procedures to collect the information

Module 4: Crystallized the Action Points for Selected Cities

Module 4 was designed to arrive at a roadmap for implementation of the accrual accounting system across various cities. We identified the key success factors that facilitated the implementation of accrual accounting systems and collated the learning's from those cities to arrive at a set of implementation guidelines. By the end of this module we had a clear understanding of the various issues that were faced by different local bodies during implementation. Once we had clear picture of the implementation process we suggested the way ahead for the implementation.

Methodology

We followed a mix of primary and secondary research. Our primary interactions were essentially with officials and staff of the Municipal Corporations /Municipalities, officials and elected representatives of Urban Local Bodies (ULBs). As part of secondary research, we reviewed relevant reports on implementation of accrual accounting systems and included some findings in our analysis.

Work Plan

The following exhibit gives our work plan proposed in the proposal.

Figure 1-2: Work Plan

Task	Weeks							
	2	4	6	8	10	12	14	16
Phase I - Preparation and Inception								
Team mobilisation and preparation								
Project kick-off with client								
Inception meeting with surveyed ULB officials in Delhi								
Submission of Inception report	Week 2							
Phase II - Field visits and assessment -5 ULBs								
Circulation of checklists and information requirements to cities								
Field Visit - Tasks envisaged (5 days per city)								
Interaction with Commissioner, Accounting incharge and personnel								
Field reviews would cover the following aspects								
I - Accounting organisation and information flows								
II - Accounting Manual - review vis-à-vis NMAM								
III - Assets and Liabilities								
IV - Income and expenditure recognition								
V - Other aspects - Budgeting and reporting								
VI - Other aspects - Audit and internal controls								
Submission of Interim report (after completion of review of 2 cities and initial feedback from 3 other cities)				Week 8				
Interim Discussion with NIUA on interim report and findings					Week 10			
Completion of field visits and city level review						Week 12		
Submission of Draft Report							Week 14	
Workshop with ULBs, NIUA and MoUD								Week 16
Incorporation of suggestions from ULBs, NIUA and MoUD								
Submission of Final Report								Week 16

2. Need for an Appropriate Accounting System

2.1 Accounting Reforms as Engines of Good Governance

An integral part of the new expectations of governance is for Public Information – without which there cannot be meaningful participation or shared decision-making. The modern citizen expects a fair account of how the government is faring in its job in much the same way as investors in a company expect fair accounts of the company’s financial position and performance. Transparent accounting and financial reporting is central to the fulfillment of new age governance. The introduction of acceptable accounting practices and disclosure norms are not just technical practices but the foundations for the integrity and maturity of the government. For instance, municipal bodies in India today are facing an unprecedented growth in the demand for urban infrastructure and civic services. Constraints on the availability of financial resources to augment the level of urban infrastructure and services, has become a compelling reason to generate funds by enhancing its own revenue sources (such as through effective municipal tax administration) and creating conditions for the involvement of other social institutions to contribute to the development needs of the city.

However this calls for robust fiscal health on part of the municipal governments. *For instance, capacities to raise funds from the private sector are directly linked to the quality of municipal accounting and financial reporting systems.* Municipal accounting systems would therefore need to reflect not only financial transactions but also the ‘financial performance’ of the municipal governments, which includes its ability to achieve its developmental goals, meet its programme targets, its efficiency in the use of resources, its financial position including income, assets and liabilities as well as its foresight in dealing with the developmental and financial challenges of governing the city.

2.2 Role of Local Government

The role of the local government is being continuously modified to keep pace with the changes in expectation of urban local governance. The 74th Constitutional Amendment Act of 1993 has broadened the role of the local government formally. There have also been other changes that have occurred as a result of the economic reforms on the 1990s.

The many roles that the local government is expected to play today include:

- A Regulator, namely the administration of various acts and regulations
- A Provider, that involves providing urban services efficiently and equitably by managing its accounts effectively and efficiently.

- An Agent, that takes the schemes of higher levels government to the people. This includes promotion of popular participation
- A Welfare Agency, which provides active assistance to higher level governments in the equitable distribution and delivery
- An Agent of Development, who strives for improvement in the quality of life through the augmentation of infrastructure.

2.3 Trends in Municipal Accounting Reforms in India

The necessity of providing basic urban services have made municipal accounting reforms not only philosophically relevant but also a compelling necessity in actual practice. The story of municipal accounting reforms in India is barely two decades old. The period between 1981 and 1991 can be termed the *first phase* of municipal accounting reforms in India. There were only two instances of reform in this period, located in the metro cities of Mumbai and Chennai. Both cities were experimenting with the introduction of double entry accrual based accounting system at the instance of the World Bank. In Mumbai the scope of reform was limited to the water supply and sewerage system whereas in Chennai an attempt was made to apply accounting reforms to all of its accounting operations. It did improve quality of accounting data and operations but as complete conversion was not achieved, the outcome was very limited in all respects.

The *second phase* of the municipal accounting reforms can be traced from 1990 to 1995. Once again at the behest of the World Bank accrual based accounting was introduced in seven cities of Gujarat as a part of its financial assistance to the Gujarat Urban Development Project. The work of reform was facilitated by consultants appointed by the World Bank and met with varying degrees of success in this period.

The *third phase* presents a sudden wave of accounting reforms across the country since 1998. The developments in this period include a statewide municipal accounting reforms programme in Tamil Nadu through the Tamil Nadu Urban Development Fund (TNUDF), the introduction of improved accounting systems in Anand (Gujarat), Jaipur (Rajasthan) and Tumkur (Karnataka) and various reforms in Mirzapur (Uttar Pradesh) under the Ganga Action Plan. Other initiatives include an accounting system enhancement project in Bangalore facilitated by a civic organization, the Bangalore Agenda Tasks Force and self-initiated projects in Indore, Hyderabad and Ludhiana. The state of Maharashtra received technical assistance from United State Agency for International Development (USAID) to introduce statewide municipal accounting reforms which will be facilitated by a consultant, A.F. Ferguson & Co. Other states like Uttaranchal, Haryana, Andhra-Pradesh and Gujarat are also contemplating further municipal accounting reforms.

This phase has also witnessed broader institutional developments in municipal accounting reform. Most notably, the development of a technical guide for accounting and financial reporting by urban local bodies by the Institute of Chartered Accountants of India (ICAI) in 2000 and formulating the recommendation of the 11th Finance Commission that Comptroller & Auditor General of India (C&AG) should audit accounts of urban local bodies. The Supreme Court of India in the year 2001, while hearing a Public Interest Litigation (PIL) relating to the functioning of ULBs, opined that urban local bodies in India should take immediate steps to get their accounts converted from cash basis to accrual basis. In the light of these developments, the Government of India constituted a task force on municipal accounting reforms under the aegis of the C&AG, which has submitted its report in December 2002.

The Task Force has firmly recommended adoption of accrual based accounting in place of existing cash based accounting. It has also recommended adoption of better budgeting practices, cost sheet and management information system and has provided model accounting, budgeting and cost formats.

2.4 Role of JNNURM in Aligning the Accounting Processes

The Jawaharlal Nehru National Urban renewal Mission (JNNURM) is a reform linked incentive scheme for providing assistance to state governments and urban local bodies in selected 63 cities, comprising all cities with over one million population, state capitals and few other cities of religious and tourist importance for the purpose of reforming urban governance, facilitating urban infrastructure and providing basic services to urban poor. This is the single largest initiative of the Central Government in urban sector with an outlay of Rs.50000 crores and after adding the contribution of states and municipalities the funding would be about Rs.126000 crores over a period of seven years.

In the nation's journey towards becoming an economic power, local bodies are going to be key players in making available the best of infrastructure to the country citizens. Accounting reforms and change to an accrual accounting system is a vital ingredient of the reform process. This reform process has ensured availability of financial information to various users such as, citizens, elected representatives, administrators, investors, creditors, executives, legislatures, State Audit Departments, and State Urban Development and Panchayati Raj Departments in a timely and organised manner. The Committee on Accounting Standards for Local bodies has recognised the need for creating awareness amongst various stakeholders about the benefits of the accounting reform process in local bodies.

Most of the local bodies are in the process of implementing the reform process and have completed most of the following:

- Resolution by Government expressing commitment to establish modern municipal accounting system
- GO/Legislation/Modification of rules for migrating to double-entry accounting system
- Appointment of consultants for development of State Manual (Either based on NMAM or independently)
- Completion and adoption of Manual

- Commence training of personnel
- Appointment of field-level consultant for implementation at the city-level
- Notification of cut-off date for migrating to the double entry accounting system
- Business Process Re-Engineering
- Valuation of assets and liabilities
- Drawing up of opening balance-sheet (OBS)
- Full migration to double-entry accounting system
- Production of financial statements
- Year of commencement of external audit of financial statements
- Adoption of accounts
- Frequency of such external audit cycle
- Preparation of outcome budget
- Year in which ULB will institute internal audit/control mechanism
- Credit rating of ULB/ parastatal (if required)
- Complete re-vamp of the Public Financial Management (PFM) cycle, which includes internal accounts

2.5 Various Initiatives on Aligning Accounting Practices

Over the last 20 years, there have been sustained calls for governments to move towards accrual based accounting and to adopt private-sector-style financial statements. In this process of transition, Comptroller & Auditor General (C&AG) of India constituted a Task Force in February 2002 to evolve appropriate accounting formats for ULBs after taking into account their requirements and expertise of accounts staff available with them. The Task Force on Accounting and Budget Formats for ULBs constituted by C&AG submitted its report on 16 December 2002 in which it has devised model budget formats along with accounting formats and its recommendations about introduction of cost accounting, MIS and Computerization etc. in ULBs.

The Task force was constituted with the following objectives:

- To suggest budget and accounting formats drawing out of the positive features of the existing system as well as the commercial system of accounting for which ‘Technical Guide on accounting and Financial Reporting of Urban Local Bodies’ prepared by the Institute of Chartered Accountants of India.
- To suggest format for determining the cost of important utilities and services like water supply etc. to enable the accounting system to focus of managerial issues as well.
- To ensure that the format provide for appropriate codification and classification so that it is possible to network the data on computer for the purpose of comparison and aggregating any information at State and Central levels, as recommended by the Eleventh Finance Commission.

- To recommend improving/strengthening the present management information, which may not be an integral part of accounting data but are essential for enhancing the financial health and managerial performance of the ULBs.
- To visit places like Bangalore, Chennai, Mumbai etc. to study the changes being suggested in the existing system of accounting by various consultant to the State Government so as to make a comparative study to draw out the most suitable and easily implementable combination.

Indian municipal scenario is now full of various municipal accounting reform experiments. It is a very appropriate and opportunist time to evaluate various municipal accounting reforms which have taken place to formulate action plan for the introduction of nationwide municipal accounting reforms. For this an attempt is made to review these experiments to understand their present status. The following table details the various reforms initiatives and their objectives:

Table 2-1: Various Reform Initiatives

Reform Initiatives	Abstract
Institute of Chartered Accountants of India (ICAI) Technical Guide on ULB Accounting and Financial Reporting, 1999	<p>The Indo-USAID FIRE project realized the demand for an improved accounting system based on its experience assisting municipal corporations, other ULBs, and state agencies to introduce a commercial orientation in urban infrastructure services and to access private financing for them.</p> <p>The purpose of the technical guide is to provide a broad framework for and direction to state governments, ULBs, ICAI members, and others as they work to improve urban accounting and financial reporting systems. Urban local bodies include municipal corporations, municipalities, and town panchayats.</p>
Urban Reforms Incentive Fund	<p>The Union Budget of 2002-2003 started a project by setting up Urban Reforms Incentive Fund (URIF). This fund had provision of 10% of total budget for introduction of Double Entry System of Accounting in Urban Local bodies.</p>
Recommendation of the Eleventh Finance Commission, 2001	<p>The recommendations were as follow:</p> <ul style="list-style-type: none"> • Entrustment of technical guidance and supervision (TGS) over proper maintenance of accounts and audit of all 3 tiers of PRIs and ULBs to C&AG of India • C&AG to prescribe auditing standards for PRIs and ULBs, guidelines for certification audit of the account of PRIs, budget and accounts formats for PRIs and ULBs and list of codes for programmes, functions

Reform Initiatives	Abstract
	<p>and activities for PRIs</p> <ul style="list-style-type: none"> • Comprehensive training programmes to upgrade the skills of the staff of local fund audit department and PRIs to be conducted by the C&AG
<p>Recommendation of the Task Force Report, 2002, of the Comptroller & Auditor General (C&AG)</p>	<p>The Task force of Comptroller & Accountant General made a report in 2002 recommended the accounting reforms in local bodies. The recommendations were</p> <ul style="list-style-type: none"> • Uniform formats for financial statements and budget • Formats for determining the cost of important utilities and services like water supply etc and showing this information by way of disclosure to the accounts • Significant accounting policies to be followed by ULBs as per model accounting policies need to be disclosed in a separate schedule forming part of the accounts and initiate steps for smooth switch over to the double entry accrual system of accounting.
<p>Release of National Accounting Manual by the C&AG and the Ministry of Urban Development, Government of India, 2005</p>	<p>The Ministry of Urban Development & Poverty Alleviation, Government of India, launched the formulation of the National Municipal Accounts Manual, facilitated by the C&AG of India and supported by Indo-USAID FIRE-D Project and National Institute of Urban Affairs, New Delhi, with the objective of to align the National Level perspectives of reforms in municipal finance and financial management with the State Government, a generic framework of National Municipal Accounting. This National Municipal Accounts Manual has been formulated with comprehensive coverage of accounting policies, procedures, and guidelines designed to ensure correct, complete and timely reporting of municipal transactions and produce accurate and relevant financial reports.</p>
<p>ICAI Committee for Local Body Accounting Standards, 2005</p>	<p>The Council of the Institute of Chartered Accountants of India (ICAI) constituted an independent Committee on Accounting Standards for Local Bodies (CASLB) in March 2005 with the main objective of formulating Accounting Standards for Local Bodies on accrual basis.</p> <p>Apart from formulating Accounting Standards for Local Bodies, the Committee also takes steps for facilitating improvement in accounting methodology and systems of local bodies and acts as a forum to receive feedback from Local Bodies regarding problems faced by them in the adoption of accrual accounting and in application of the Accounting Standards set out in its Preface to the Accounting Standards for Local Bodies.</p>
<p>Pre-requisite for funding under</p>	<p>JNNURM reform conditionalities call for “improved municipal accounting,</p>

Reform Initiatives	Abstract
the National Urban Reform Mission, 2006	with the objective of having a modern accounting system based on double entry and accrual principles, leading to better financial management, transparency and self reliance”. This is a mandatory reform for local bodies to have access for the JUNNRM grant funds.
National Manual for Municipal Accounting	<p>National Municipal Accounting Training Manual has been prepared as a follow-up of the National Municipal Accounts Manual. This model-training manual aims to provide support to state governments in implementing financial management reforms in urban local bodies. It comprehensively deals with recommendations of the National Municipal Accounts Manual through modern training methodology.</p> <p>The training manual is accompanied by a separate volume meant for Elected Representatives and Top Management. The information provided would enable them use improved financial management, MIS, financial indicators, and techniques to read financial statements in their decision making functions.</p>
Twelfth Finance Commission	<p>The recommendation were as follow:</p> <ul style="list-style-type: none"> • Linking the release of grants to certification of timely release and utilization of grants by AG • The maintenance of accounts by the panchayats be standardized; the accounts of the intermediate and district panchayats be subjected to audit by Comptroller and Auditor General (C&AG); • Adoption of a performance audit system

Based on the recommendations of the C&AG Task Force, an agenda was circulated and the following relevant decisions were taken for the given agenda:

Table 2-2: List of Agenda & its Decisions

Agenda	Decision
Policy decision by the State Governments on adoption of the Task Force report on accrual system of accounting by ULB's.	All the State Government's representatives agree in principle with the recommendations of the Task Force report in adopting accrual system of accounting by ULBs.
Constitution of State Level Steering Committees	All the State Governments agree to constitute State Level Steering Committees. It was also agreed that though the Task Force suggests the composition of these committees, however, the State Government may have

Agenda	Decision
	different composition, based on their respective requirements.
Review of Legislative Framework of State for implementation of recommendations of the Task Force	All the State Governments agreed to look into their respective State Act/Rules for necessary amendments, in order to incorporate the recommendations of the Task Force. However, there was reservation as to the time allowed for such a review
Development of Accounting Manual	It was agreed that the C&AG, with USAID FIRE support, would prepare a Model Accounting Manual by February 2004 and its draft should be circulated to the States for comments. The final Model Accounting Manual will be provided to the State Governments and based on the same the State Governments can prepare their respective State specific accounting manuals according to their own requirements.
Manpower, Training and Implementation Support	<p>It was decided that C&AG team will, with USAID FIRE support, prepare a model training module by April 2004, which would be circulated amongst the States. State Governments can use the model training module according to their requirements and prepare state level training modules.</p> <p>It was emphasized that training of municipal officials is required to be a continuous process and it was agreed that the training modules should be in two phases. The first phase of training may be before the finalization of State specific accounting manuals and the second phase after the finalization of such manuals. The training module should also consider the type of training to be imparted to official at different levels. It was also agreed that training-of-trainers is an integral part of training municipal officials and that consultants should also be provided adequate training. The representative of Yashwantrao Chavan Academy of Development Administration (YASHADA) Pune, a state level apex training institute of the Government of Maharashtra, offered his institute's support to the C&AG's office in the development of the model training module and in providing training to the municipal staff.</p>
Verification and Valuation of Assets and Liabilities	It was agreed that the municipal officials should start the process of identifying ULB's assets at the earliest. However, since the asset valuation requires specialized expertise, outside professionals may be appointed by ULBs for the purpose.
Parallel run of the old and new accounting system	It was agreed that the parallel run of old and new accounting system should continue at least for one year till the new system stabilizes.
Computerization of Budget and Accounts	It was decided for the purpose of uniformity, uniform software for computerization of budget and accounts will be developed by the MOUD & PA, which will be given to all the States and the States may on their part make

Agenda	Decision
	<p>necessary changes in the software according to their requirements.</p> <p>On the issue of timetable for implementation of accounting reforms, barring some minor suggestions, it was agreed by the participants that the time schedule circulated is achievable by the States.</p>

2.6 Streamlining Process of Institutionalization

The study assesses the current state of accounting and financial management systems in Indian urban local bodies. It identifies, analyzes, and documents good practices, focusing on their existing context, success factors, and replicability. It is important to mention that urban governance in India is a state subject and there are vast differences in the levels of reform that have achieved in different states. For the purpose of comparison, this study has developed good practice benchmarks and used those to compare practices across shortlisted ULBs.



The framework, as illustrated in the adjoining figure, brings out the linkages between legislative, budgeting, implementation, and reporting process in the urban local bodies. Improved functioning in these areas would lead to increased accountability and enhanced levels of service delivery. The recent impetus for reforms brings to the forefront the acceptance, need, and requirement to focus on the vital link of public financial management and accountability to improved governance and service delivery.

The following table details out the various important components imperative for successful implementation, their benchmark practice and current policy framework.

Table 2-3: Implementation framework

Component	Benchmark	Practice	Policy
Legislative Framework	The good practice benchmark for a sound legislative framework would imply a framework that is backed by comprehensive rules, and provides appropriate incentives for performance and penalties for non-performance.	In India, urban local bodies are governed by respective state municipal acts. While comprehensive in areas such as financial control, budgeting and audit, there are gaps in procurement, monitoring, and enforcement. Also, the present framework shows weakness in aspects of participative planning; public accountability; and modern accounting in line with international good practice, audit, and management practices.	Although the legislative reform environment is positive, urban local bodies lack implementation capacity. Furthermore, there are no systems of penalty for non-performance. However, adoption of state fiscal responsibility acts, as recommended by the Twelfth Finance Commission, with Karnataka and Tamil Nadu as proactive examples, can positively impact compliance and performance issues.
Planning and Budgeting	The good practice benchmark for budgeting and planning entail that budget planning is realistic, comprehensive, and participatory.	In Indian urban local bodies, budgets are generally seen as a statutory requirement, and hence limited to providing sanctions for expenses and revenues. Current budgeting practices are not directly linked to a larger strategic, multi-year planning process. The rigor of planning is replaced by incremental budgeting and need for debates, and participation is limited to elected representatives. However, certain leading practices have been observed in West Bengal and Kerala (public participation); Karnataka (standard forms for budgeting); and Kapra, Andhra Pradesh (multi-year planning) that can be replicated.	Within the framework of incentive linked JNNURM, improvements can be expected through the city development plan and financial operating plan wherein urban local bodies are required to develop a perspective planning framework based on long-term policies, programs, and strategies to match fund requirements. This should move budgeting from a stand-alone process to an integrated and strategically linked planning aid.
Budget Execution	The good practice benchmark for budget execution is that the budget is used as a tool for planning, procurement, and expenditure control.	Weak monitoring, lack of variance analysis and unpredictability of transfers from the center and states impede budget implementation. Re-scheduling of budget heads during the year is common practice because expenditures are not based on resource realization. Furthermore, shortfalls in revenue generally lead to cuts in capital and recurring expenditures. Since own source revenues are limited and dependence on state funds is still high and the unpredictability of state transfers is a serious concern for effective budget execution. The recent	Legislation fails to specify fiscal management responsibilities of respective officials and levels of government (states) and therefore needs to be strengthened.

Component	Benchmark	Practice	Policy
		<p>recommendation of the Twelfth Finance Commission for state enactment of fiscal responsibility legislation is a step to improve predictability of timing and quantum of state transfers and strengthen budget execution.</p> <p>The Reserve Bank of India circulated a model fiscal responsibility bill to the states, and some states have enacted the Fiscal Responsibility and Budget Management Act. However, improvements in ULB budgetary systems have yet to accrue from this Act.</p>	
Accounting and Management Information systems	The good practice benchmark for accounting implies that accounting is complete, accurate, timely and meaningful to decision makers.	Urban local bodies in India have traditionally followed the single entry cash basis of accounting. This limits their ability to prepare meaningful performance reports and statements of financial position. Accounting work utilizes a predominantly manual system with a multiplicity of registers and limited staff capacity resulting in accounts in arrears for several years.	Adoption of a double entry accounting system in urban local bodies has been limited despite Supreme Court intervention and provision of the National Municipal Accounting Manual. Tamil Nadu is the only state to have implemented a double entry accounting system in all its urban local bodies. Currently, efforts are underway for state-level implementation in Karnataka, Uttar Pradesh, West Bengal, Gujarat, Kerala, Tripura, Maharashtra and Rajasthan. Experience shows that states need some initial handholding support and technical assistance for shifting to modern methods of accounting and computerized technologies. The challenge is to build capacity for generating and using this financial information for improved decision making in urban local bodies.
Cash and Fund Flow Management	The good practice benchmark of efficient cash and funds management entails a system that is able to document receipts, payments, and fund flows effectively and efficiently in the urban local bodies.	Most urban local bodies in India are characterized by weak cash management and treasury systems. This is primarily due to poor budget preparation, absence of cash flow forecasting, lack of a single treasury account, and delayed reporting of expenditure. Bank reconciliations are generally in arrears, and cash management is limited to prioritization of check issue. In addition to overcoming their weak capacity, urban local bodies need to improve interdepartmental co-ordination of treasury management.	Municipal acts and accounting rules of respective states prescribe systems for maintenance of cash and bank books by the urban local bodies. While these formats are generally followed, the concept of treasury and fund management is lacking in urban local bodies.

Component	Benchmark	Practice	Policy
		A successful initiative in treasury management is the case of Madurai. Although many urban local bodies raised money through bonds, not all of them could optimally utilize the funds. Therefore, any movement toward treasury management must be done cautiously as most urban local bodies lack the requisite capacity and technical knowledge.	
Procurement	The good practice benchmark for procurement implies procurement system which promotes increased competition, value-for money and transparency in purchases by the urban local bodies.	Procurement practice is characterized by a lack of uniformity in rules and procedures, insufficient management and oversight, and severe capacity constraints on the side of the public and private sectors. With procurement comprising over half of ULB budgets and increased procurement envisaged under initiatives like JNNURM, inefficiencies in the manner in which urban local bodies design, contract, and implement projects; and purchase goods are a strong constraint on the effectiveness of local spending. Some urban local bodies have shown progress in this area budget information data sheets in Madurai; preparation of bi-annual list of capital works in Bhubaneswar and e-procurement in Andhra Pradesh. Rajasthan (under ADB funding) and Kerala (under Royal Netherlands Embassy and Department for International Development funding) are now set to expand the project based e-procurement to statewide e-procurement	Legislation governing procurement, though rudimentary, defines procedures and limits for procurement. However, there is no focus on quality and performance nor there's a linkage with planning. Improving performance of ULB procurement systems is an important way to save money, improve quality of spending, and enhance delivery of services. A useful approach to improving procurement in urban local bodies would combine simplification of rules supported by the drafting and implementation of a model procurement law and enhanced monitoring through strengthening the provision of public information, auditing, and capacity building; and developing public private partnership mechanisms.
Internal Control and Audit	The good practice benchmark for internal control and audit is a strong and clearly defined system of controls with and effective policies, systems, and procedures for internal transactions.	Internal controls in most ULBs are either weak or nonexistent. Internal audit if exists, is poorly defined and not independent. ULBs also need to do considerable work on strengthening their financial, operational and transactional controls. They also need to put in place effective and independent departments for internal audit. An example of an independent internal audit system is that of Kolkata Municipal Corporation, where the Municipal Accounts Committee is headed by the Opposition leader.	ULBs accounting rules are very weak in the areas of internal (operational and financial control) and most ULB-related legislation does not provide for internal audit. Internal controls are generally incorporated in financial rules and focus on delegation of financial limits. Some urban local bodies have a standing committee for audit and accounts with the objective of scrutinizing ULB accounts at each level and ensuring compliance with audit notes. However, with the shift to a double entry accounting system and the increased

Component	Benchmark	Practice	Policy
			demand for accountability (through the Right to Information and Public Disclosure Laws) there is a need to strengthen controls and put in place internal audit.
Asset and Liabilities Management	The good practice benchmark for asset and liability management is that a comprehensive database of all assets and liabilities is available and there are adequate policies and procedures in place to provide for their operations, maintenance, replacement and revaluation.	Urban local bodies generally hold significant fixed assets (land, buildings and infrastructure) but few have exploited the commercial potential of these properties to generate non-tax revenues. The maintenance of infrastructure assets is poor and expenditure for operation and maintenance is either not allocated in the budget or is not available due to deficits. Most urban local bodies do not have proper inventories of assets which are updated regularly. As a result they are neither able to utilize their assets effectively nor deal with liabilities in a planned manner. Ludhiana, Ramanagram, Lucknow, and Ahmedabad have demonstrated good practice. Ludhiana Municipal Corporation added about 800 properties to its assets worth an estimated Rs. 1,900 million as a result of a survey of its properties with the revenue records	Modern accrual accounting practices are expected to address the shortcomings in assets and liabilities management.
Reporting	The good practice benchmark for reporting would mean timely, meaningful, and user-friendly reports that provide reliable financial information and facilitate effective decision making and engagement with stakeholders.	Reporting requirements for ULBs are weak. Although the environment for reporting is becoming stronger, there is still lack of demand for such information from within government and from the public. Media campaigns (similar to those used for Right to Information Act) could help to ensure that the community recognizes the need for and starts demanding relevant information. This level of participation will add to ULB accountability.	The overriding focus of state legislation is on reporting to the state and is limited to compliance certificates, budgets, and periodic administrative statements. There are no guidelines on disseminating financial results to the public. Some efforts have been made through the Public Disclosure Law, National e-Governance Action Plan (NEGAP), and citizen facilitation centers. Karnataka has incorporated a public reporting requirement in its recent accounting rules as well. These efforts are intended to improve the accountability of urban local bodies to the citizens.
External Audit	The good practice benchmark for external audit would	The current external audit mechanism relating to audit continues to be the weakest link. There is an extensive	As per most state legislation, the statutory audit of urban local bodies is generally carried out by the

Component	Benchmark	Practice	Policy
	imply a strong and independent external audit certifying the accounts of ULBs in accordance with national auditing standards.	backlog of audits due to limited capacity of Local Fund Audit (LFA) and increasing transactions of urban local bodies. With adoption of a double entry accounting system, audit capacity needs to be enhanced. Also, professional independent audits that comment on the <i>truth and fairness</i> of financial statements are required in addition to the routine compliance audits.	Local Fund Audit and limited to transaction reviews and focused on prudence and compliance.
External Oversight	The good practice benchmark for a well-functioning external oversight system is that there should be mechanisms to ensure that key decision makers are accountable to the public.	Limited availability of reports in the public domain, weak community structures, and lack of involvement of citizens lead to poor external oversight.	Public involvement in ULB governance is at first glance missing in the current legislative environment.

2.7 Accounting Principles, Systems and Financial Reporting

What is a more ‘appropriate’ system of accounting for Government?

A more appropriate system of accounting, in order that it does not suffer from some of the lacunae of the cash-based accounting system, should be based on concepts that are different from those underlying the cash-based system. As part of our study, we evaluated the accounting systems currently in use in the shortlisted corporations. We examined whether an accounting system that is based on the accrual concept would be able to address the shortcomings of the existing cash-based accounting system.

We present below some accounting concepts and conventions:

- a. **Cost concept:** Transactions should be recorded at their historic costs, i.e. at the actual amounts at which they are incurred. The value at which a transaction is recorded should not change in future. However, where circumstances cause permanent erosion in value, the same should be recorded.
- b. **Matching concept:** The accounting procedure should ensure that all revenues and costs are recorded in the appropriate statement (under suitable account heads) at the appropriate time. For instance, any expenditure that has been incurred (whether paid for or not) in the course of earning an income during a particular period should be accounted for in the same period. Similarly, any expenditure, the benefit of which will flow in later years, should be appropriately apportioned to the later years when the income would be earned. Application of this concept in accounting would mark a fundamental shift towards accrual-based accounting. In fact, one of the main reasons for the present system of Government accounts not representing the true position of assets or liabilities is that this concept is not applied currently
- c. **Disclosure:** A good accounting system should ensure that all significant information is disclosed appropriately in a manner such that the user can draw the necessary inferences for the entire set of accounting statements
- d. **Conservatism:** Accounting statements are drawn up usually on a conservative basis. It is prudent not to anticipate uncertain income, but expenses that are likely to be incurred should be recognised and accounted for.
- e. **Materiality:** An item of information, for the purpose of accounting and disclosure, is material to a financial statement if any misstatement or omission of such information may be reasonably expected to influence the decisions of users of the statement.
- f. **Segregation of revenue and capital:** It is essential that every expenditure item be appropriately recorded as revenue or capital expense. While revenue expenses are those against which the benefit is realised within the same accounting period, capital expenses yield benefits over a longer time frame. Read in conjunction with the concept of “matching

revenue and expense” (point ‘b’ above), it implies that there must be a record of assets and liabilities to indicate what is owed to and by Government to the outside world (in other words, a balance sheet). As management and stewardship of such long-term expenses are of critical importance, it is essential that revenue and capital items be segregated while accounting so that the full nuance of the underlying transaction is captured.

The concepts and conventions discussed above do not purport to provide an exhaustive description of an accounting system that is based on accrual concepts. Our study of the various corporations focused on assessing the extent to which the existing accounting system meets the expectations of stakeholders.

The infirmities of a cash-based accounting system as analysed in this study can be overcome largely by adopting a system based on accrual concepts. Refer to the example in the box in Exhibit below. It is clear from this example that following an accrual-based system can significantly enhance the accuracy and transparency of the accounting statements vis-à-vis a cash-based system.






Cash Based Accounting	
Appropriation 	1. Appropriation - The legislature approves the spending of money
Commitment 	2. Commitment - The Government and its agencies make commitments to third parties to spend moneys or to provide services
Rendering of services 	3. Rendering of services - The Government and its agencies provide or receive service
Verification of services delivery 	4. Verification of services delivery - The services provided or received is verified to ensure that the same is in accordance with the terms of the contract
Preparation of Payment order 	5. Preparation of payment order - The authorisation for the payment is made as per the laid down process
Release of payment	6. Release of payment - The payment is affected
<p>In a cash system of accounting only transactions i) and vi) mentioned above are recorded. However, from the perspective of a stakeholder of the entity in question, the information on the status of the entity at the intermediate stages is also important. The intermediate stages ii) through v) represent various stages of the transaction, at which instants specific liabilities or obligations are contracted, or assets are acquired and revenues are earned. Failure to capture the essence of these steps will result in non-recognition of the liabilities and obligations or recognition of revenue. An accounting system based on accrual concepts can capture each stage of the transaction above, which materially affects the financial position of the entity, thereby ensuring a more comprehensive coverage and greater accuracy.</p>	

Exhibit 1: In what way is an accrual accounting system better than a cash - based system?

In the chain of processes mentioned above, some would necessitate recording an accounting entry while some would be a matter of disclosure. For instance, when a commitment is made (step ii) it is not recorded in the books as an accounting entry, but is disclosed appropriately. Similarly, when service is received or rendered, the relevant accounting entry is passed. If the service received is not as per the terms of the contract (step iv), or requires modifications, the same is disclosed appropriately.

2.8 Advantages of Accrual based accounting over Cash based accounting

Some areas where an accounting system based on accrual concepts is able to score better than a cash-based system, thereby aiding the cause of enhanced transparency and user-friendliness are as follows:

- **Completeness**

An accounting system based on accrual concepts depicts the financial position of an entity more completely and in an integrated manner than a cash-based system does. It does so by recording assets, liabilities, revenue and expenditure in an integrated manner. The principal area where an accrual-based system scores over a cash-based system is that the former records both cash and non-cash transactions, thereby being able to capture a more complete and wholesome picture of operations at most instants of time. *We would like to mention here that accrual accounting supplements cash accounting and does not supplant it.*

- **Internal control**

An accrual-based accounting system enables better internal control over the operations and transactions, than a cash-based system can confer. For instance, an accrual-based system has in-built checks and balances that facilitate verification of control totals in the general ledger with the subsidiary ledgers. The system is self-balancing and helps in evaluating the arithmetical accuracy of the accounts. A cash-based system, particularly where it is a single-entry system, does not have this checks and balances as part of the system. The existing system in corporations today, while being a cash-based system, has adapted some practices of the double-entry system and maintains details of some account heads. This provides checks and balances to some extent. Though the departments maintain a record of their assets in registers, accounts relating to physical assets are not presented in the accounts. However, it is important to note that since all such information is not linked to the accounting system in an integrated manner, resulting in the accounts not presenting a complete picture. Further, all such information is not subject to an active audit programme that certifies its accuracy.

- **Decision support**

An accounting system based on accrual concepts provides better quality information for decision-making. This is particularly evident in the case of an organisation that renders operations of a commercial nature, where it competes for customers and resources with other

entities in the market. Even in departments or programmes where profit is not the objective, it may be important to get a good handle on all the costs, so that subsidies or incentives could be better designed. An accounting system based on accrual concepts enables computation of full costs of operation irrespective of whether cash has been paid or not. It also provides complete information of the liabilities contracted and their impact on the long-term fiscal position. In such situations, a cash-based accounting system is inadequate.

- **Long term sustainability**

An accrual-based accounting system presents a more complete and transparent view of the financial position of the local body in comparison to a cash-based accounting system. The former enables a more accurate computation of subsidies and capital costs that may exist, and better depicts the long term impact of the actions of the corporation (as captured by its liabilities), thereby helping users in arriving at the sustainability of the current spending levels of the Government.

- **Accountability**

More accurate identification, accounting and control of the assets of the Government facilitate better control and stewardship over assets. The system also enables a more effective assessment of the performance and provides the necessary information for linking the input costs to outputs and outcomes, an expectation that is arising from Governments in today's times.

- **Comprehensive coverage**

Any transaction encompasses a series of steps and each of the steps has an implication from appropriation to actual spending of the amount. As depicted in the above Exhibit the cash based system recognises and records the transaction at only those stages where cash is involved and does not capture all the stages of the transaction. An accounting system based on accrual concepts records the impact of more stages and therefore more comprehensively covers the impact of a transaction.

Based on the above analysis, it can be concluded that at the aggregate level, an accounting system based on accrual concepts facilitates a better evaluation of the long-term fiscal position of the Government vis-à-vis a cash based system can do. At the individual entity level, accounting statements based on accrual concepts serve as a better measure of evaluating performance efficiency.

- **Comparison between cash based and accrual based accounting systems**

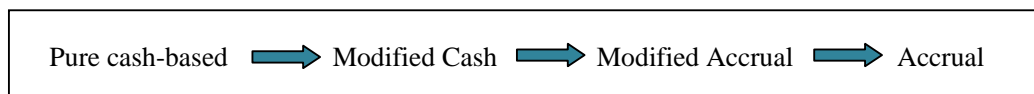
The following table compares the user-friendliness and transparency of accounting systems under the cash-basis and accrual basis. For assessing user-friendliness, we have used a number of criteria that are based on the expectations of various users from accounting statements.

Table 2-4: Merits and Demerits of Cash Based and Accrual Based Accounting

Parameter	Cash Accounting	Accrual Accounting
Ease of understanding	<ul style="list-style-type: none"> ◆ Simpler than accrual based statements ◆ More familiarity in Government circles but less so in private sector 	<ul style="list-style-type: none"> ◆ Greater complexity ◆ Not familiar in Government circles, but widely followed in commercial circles
Recording a transaction: When does a transaction get recorded?	<ul style="list-style-type: none"> ◆ No ambiguity. Cash flow is the trigger for accounting 	<ul style="list-style-type: none"> ◆ Needs an elaborate system of accounting standards and policies, which need to be applied consistently to transactions.
Reliability - Ease of detecting manipulation	<ul style="list-style-type: none"> ◆ Relatively easier to manipulate, as there are less checks and balances (more so in single entry system) 	<ul style="list-style-type: none"> ◆ Ease of manipulation depends upon quality of governance, rigour of auditing, and level of sophistication of users. If well administered, this system is more reliable
Usefulness for managing liquidity	<ul style="list-style-type: none"> ◆ Provides information on use of cash and balances. Useful in managing liquidity 	<ul style="list-style-type: none"> ◆ Can be as useful as a cash-based system, provided the system discloses information on cash and commitments (e.g., payment arrears) by way of a cash flow statement
Management of non-financial assets	<ul style="list-style-type: none"> ◆ No information provided 	<ul style="list-style-type: none"> ◆ Superior, as it provides information on assets created and in use
Assessing sustainability of fiscal policy and intergenerational equity	<ul style="list-style-type: none"> ◆ Much less useful than accrual-based system 	<ul style="list-style-type: none"> ◆ Useful, if statements are supplemented with additional disclosures
Usefulness to assess financial risk of entity	<ul style="list-style-type: none"> ◆ Limited to the extent of cash flow and liquidity position 	<ul style="list-style-type: none"> ◆ Lenders, analysts and other external users are more familiar with accrual financial statements. Can lead to lower borrowing costs for entities, including countries (has been experienced by certain countries)
Basis for determining fiscal strategy of entity	<ul style="list-style-type: none"> ◆ Limited use 	<ul style="list-style-type: none"> ◆ Can provide more insights (when used in conjunction with cashflow statement)
Assessment of Accountability of entity	<ul style="list-style-type: none"> ◆ Provides information only on cash transactions – incomplete information 	<ul style="list-style-type: none"> ◆ Superior, as it provides significantly more information to estimate accountability
Usefulness in pricing products/services	<ul style="list-style-type: none"> ◆ Not very useful, as it does not provide the full information 	<ul style="list-style-type: none"> ◆ Superior, as it provides complete information on full costs to enable the correct pricing

2.9 Modified cash or modified accrual accounting systems

During the course of our study (in discussions as well as in some literature) we came across a general perception that it may be advisable for the local body to move gradually from (the present) cash-based accounting to “modified-cash” accounting, further to “modified accrual” basis of accounting, and then, if necessary to a pure accrual system. This transition is graphically depicted below:



The broad definitions of the various states of accounting are as follows:

- **Pure Cash-based:** In this system, a transaction is recognised and recorded when cash is paid or received. Only actual payments and receipts are accounted for.
- **Modified Cash Basis:** In this system the basis for recognition of income and expenditure continues to be cash. However, the books of accounts are kept open for a specified period after the end of the year for adjustments of certain cash flows that relate to the reporting period but occur after the end of the year. There is also some disclosure on the lines of accrual accounting.
- **Modified Accrual Basis:** Under this system, the criteria for recognition of income and expenditure are the same as accrual accounting, but with some exceptions. Certain types of assets and liabilities may not be recognised.
- **Pure Accrual Basis:** All transactions are recognised and accounted for when the transaction takes place irrespective of the actual payment or receipt of the consideration. All assets and liabilities that have been created or have arisen in the usual course are also accounted, irrespective of the payments and receipts of cash.

Our analysis suggests that there is no authoritative definition for terms such as “modified cash” or “modified accrual” accounting, and these terms are used essentially to signify cash accounting with some supplementary accrual information or vice versa. These procedures (“modified cash” or “modified accrual”) are typically not regarded as long term solutions - but rather as ad hoc and selective, arising from particular emerging problems and avoiding the rigour of a well-constructed overall accounting framework.

- **Conclusion - What is ‘appropriate accounting’ for the local body?**

Based on an evaluation of the requirements of a transparent and user-friendly system that satisfies the needs of multiple users, and the inherent limitations of a cash-based system, we opine that the appropriate form of accounting is essentially an accrual based one, with suitable departures from the accrual concept in some cases. Such departures are to be made based on

certain well laid down accounting conventions, principles, and eventually, accounting standards. It should also be mentioned that making such departures does not necessarily make the proposed system “non-accrual” in nature, as the concept of accrual accounting encompasses in its fold such departures.

The proposed system is an improvement over the present cash based system and not a mere replacement of the existing system. The appropriate accounting system provides all the information that is available in the present dispensation, besides providing such additional information which will make the accounting records more complete from a users’ perspective. In a nutshell, the proposed accounting system supplements the cash accounting system, and does not supplant it. While cash accounts serve the purpose of legislative control over public finances, an accrual system is helpful in expanding the efficacy of fiscal management.

3. Successful Case Studies

The Municipal Accounting Reforms exercise in various cities of India is a model, which can be replicated by any other municipal corporation of the country contemplating such reforms. These initiatives stand apart for their unique characteristics and innovative implementation solutions. The Accounting reforms were remarkably successful in the process of implementation. This chapter documents the salient features of these attempts, the lessons they have to offer and the reasons for their success. This chapter would briefly cover the success case for the following:

1. **The Gujarat Case Example**
2. **The Tamil Nadu Case Example**
3. **The Maharashtra Case Example**

The above mentioned experiments are briefly covered in the subsequent sections:

3.1 The Gujarat Case Example

Background:

City Managers' Association Gujarat (CMAG), beginning in the same year, engaged various resource agencies, and organized several cluster-level, hands-on training programs in the subject area for municipal officials including accountants and elected representatives, under the guidance of the then Chief Accountant of Vadodara Municipal Corporation (Dr. Ravikant Joshi, later continuing as the Project Advisor to Gujarat Municipal Accounting Reform Project).

Simultaneously, CMAG lobbied with the Urban Development Department (UDD) and Gujarat Municipal Finance Board (GMFB) as well as the Directorate of Municipalities (DoM) – all government agencies - for a public-private partnership to initiate the accounting and budgetary reform, given the advantages of such a partnership with CMAG, an NGO governed by representatives of urban local bodies of Gujarat.

Four years later, in 2005, CMAG launched the Gujarat Municipal Accounting Reform Project (GMARP).

Formulation & Implementation:

While many states are still attempting 'pilot' projects, Gujarat courageously decided to go all out for all the municipalities in the state; the logic was that Gujarat had sufficient experiential learning from some failed World Bank and ADB supported pilots, such as Anand Municipality, and successes such as the Vadodara Municipal Corporation.

The project initially started with focus of implementation in 141 municipal bodies. Due to restructuring of municipal bodies during 2006-07 and 2007-08 13 municipalities were merged with Municipal Corporations of larger cities while 30 new municipal bodies got added. Thus, the GMARP program has been expanded to total 159 municipalities of Gujarat State.

CMAG-GMFB-DoM-Stakeholders combine succeeded in overcoming the constraints and the challenges of implementing GMARP on a large, multi-hued canvass and that too working within 'the system' with a shoe-string budget, forms the gist of the success story.

Status before Initiative

As is the case with the rest of the country, the municipalities in Gujarat followed (and continues to follow as a parallel system) cash based, single entry accounting system. There was an unwieldy heterogeneity in every aspect - account code, chart of accounts, classification, formats etc.

Further, there was no software, thus resulting in lack of uniformity. The State had not updated municipal account codes for past thirty to forty years. Moreover, accounts were pending and not audited over the years. The system as a whole had a weak core and a burdensome peripheral system.

There was no bifurcation between the 'revenue' and 'capital expenditure' leading to incompleteness of accounts and lack of transparency. There was a total absence of system documentation, procedures and internal checks, as also of tree structure logic classification and grouping of cost-centers –something that helps arriving at per-capita costs for each cost center, so necessary as an attribute of good urban governance.

The financial reporting system (Annual Budget, Annual Administrative Report and Annual Audit Report) was inadequate even for the internal users. The present Municipal Act does not compel a municipal body to publish or to disseminate financial reports.

Reform Action Plan

Objective

The primary objective of the GMARP was to undertake the project implementation based on National Accounting Manual published by the Comptroller and Auditor General (C&AG) of India. The secondary objectives are:

- a) to introduce elements of efficiency and accountability in municipal accounting
- b) to make municipal accounting and budgeting as transparent as possible for citizens to ultimately participate in urban governance, and
- c) to make municipalities globally competitive and assist them in future in market borrowings for up-gradation of infrastructure.

Conceptualization:

Since the year 2000, City Managers' Association Gujarat (CMAG), a Registered Trust and Society established in 1997 by the office bearers of various urban local bodies of Gujarat, has been conducting workshops and seminars in order to spread awareness about the double entry, accrual based and computerized accounting system with hands-on learning.

In early 2005 and in consultation with GMFB, CMAG established a Task Force comprising of senior Chartered Accounts from the Ahmedabad branch of Western India Regional Council of the Institute of Chartered Accountants of India (ICAI) and senior government officials including the then Joint Secretary of UDD to find ways and means of initiating the proposed GMARP.

In September 2005, CMAG, having been appointed as the PMTU by the GMFB, submitted a project proposal to the GMFB. The expert in the subject of municipal accounting reform (and who was earlier invited by the Task Force for a presentation) was confirmed as Project Adviser to the PMTU.

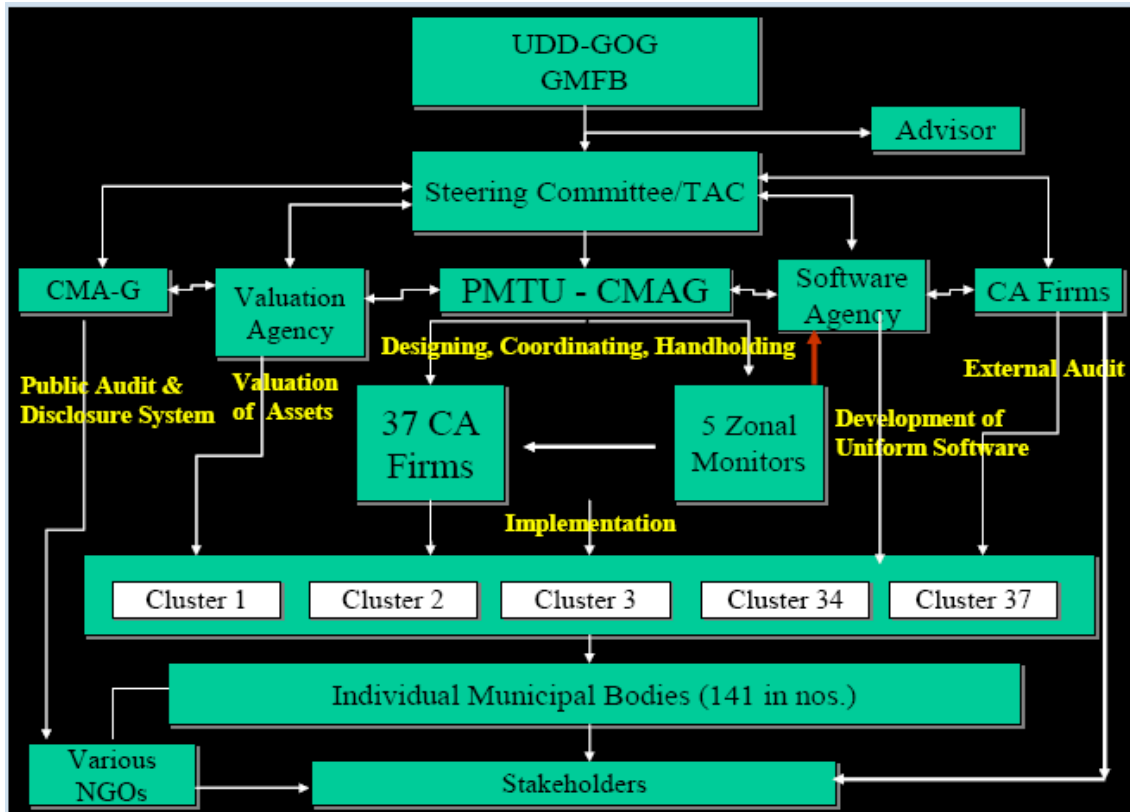
Simultaneously, an empowered, 10-member Technical Advisory Committee (TAC) headed by the then Joint Secretary, Urban Development Department, Govt. of Gujarat was formed, comprising of the then Executive Director of CMAG (and GMARP Project Manager), the Project Adviser, government officials, eminent CAs, and auditors and accountants.

Exhibit 3.1 & 3.2 provides the chronology of events to establish GMARP and Institutional Arrangement of GMARP respectively

Figure 3-1: Establishing GMARP: the Chronology of Events

2000 – 04	CMAG organized 'hands-on' training events across the state to demystify the new accounting systems; lobbying with the government for the project
April, 2005	Task Force constituted; decides on short-term priorities with invited expert
25 th April	Second meeting of Task Force – draft SoW, ToR, Municipal zones
August	GMFB publishes EoI
September	CMAG appointed as PMTU; budget proposal approved; procurement processes begin
3 rd October	1 st TAC meeting convened
8 th October	Tender forms issued to all 87 empanelled CA firms
12 th November	Tender submission last date – 57 technical tenders received by PMTU
13 th November	Work Orders issued to 37 approved firms
18-19 th November	First 2-day compulsory training conducted by Project Adviser for Project Cas ; Tool kits CD & Hard copies of training manual distributed
19 th December	Formal launch of the GMARP by the Hon'ble minister for Urban Development, GoG; second raining programme begins
20 th Dec. 2005	The second training program for Project Cas conducted
January 2006	10 zonal ice-breakers organized for all municipalities

Figure 3-2: Institutional Arrangement for GMARP



Issues & Problems

When viewed in the perspective of a never-before attempted reform and that too for an NGO such as CMAG with its inexperienced PMTU staff, the first issues that emerged after state-wide Interactions discussed above were quite challenging - notwithstanding the fact that they were ultimately resolved after a long drawn-out process.

Out Come

The PMTU's motto was a personalized approach for each stakeholder group to the extent possible. This approach in fact developed an emotional attachment to the project on the part of PCAs and many Chief Officers, and certainly the PMTU staff. The stakeholder groups gelled into a single functional unit, held together by the desire for a successful project ending, a sense of history, and above all, by dedication and commitment.

Status as in 2008

- Dummy Balance Sheets from 159 municipalities
- Municipal Fixed Asset Valuation completed in 98 municipalities
- Approved Final Balance Sheets for all 130 municipalities
- Budgetary Reforms completed in all 159 municipalities

The factors responsible for successful implementation are as follows.

- Monthly accounts are prepared regularly although on the basis of hybrid accounting system.
- The parallel run is still continuing even after two years, that is, the Anand Municipality is still maintaining its official accounts on manual single entry basis.
- In the parallel run of a new system the accounts are maintained in a double entry accounting system but on a cash basis.
- There does not exist a matrix structure of the budget and account heads. At other place where accounting reforms have been implemented, it is the accounting heads, which replace budget heads. In Anand Municipality, ledgers are maintained as per budget heads/items. As a result accounting or subject head-wise data is not available. For example one can know the salary expenditure of a particular department but it is not possible to know the total salary expenditure of the municipality at a glance. One is required to total up department/section-wise salary expenditure or any accounting head-wise receipt or payment information.
- TCS has recommended Fund Based Accounting System but parallel run is conducted on consolidated fund basis.
- On the one hand fund based accounting system is not adopted, and on the other hand, in order to keep grant-wise separated accounting, almost 23 different bank accounts have been opened for managing accounts of grants over and above two main bank accounts for a consolidated funds operations. It seems that having separate bank account is wrongly equated with fund accounting.
- The budget document is ill structured. Also the budgetary control system is almost absent, and as a result, bills of one budget head get booked in another head. Also in certain cases expenditure goes beyond budgetary allocations.
- Bills are pre-audited for payment but there is no system of post audit of books of accounts with vouchers.

- There is lot of duplication of work. Day to day receipts and payments are recorded in cash book/bank book and then in respective receipt and payment ledgers. Again the same data gets entered in budget head-wise ledgers (classifieds).
- Over and above limitations the Anand Municipality, accounting reforms efforts are characterized by the various implementation issues and macro level shortcomings of Gujarat accounting reforms experiment.

3.2 Tamil Nadu Case Example

In January, 1999, the state of Tamil Nadu approved a measure to begin with pilot testing of Double entry accrual based accounting system in two municipal corporations and 10 municipalities. With the pilot project successfully in progress, the State inaugurated this new system in its remaining three municipal corporations and 92 municipalities on April 1, 2000. Tamil Nadu is the first state in India to initiate such extensive accounting reforms on a state-wide scale.

The State of Tamil Nadu decided to change to a double entry accrual accounting system in late 1997 because it wanted to be able to present acceptable information to funding agencies on the financial position and performance of ULBs. The state government began the process by appointing a committee chaired by a retired Joint Director of the Local Fund Audit in January 1998. State officials asked the FIRE project to help the committee develop a manual and implement the new accounting and financial reporting system throughout the state. At that time, there were no guidelines on how to do this in India.

Case Study: Chennai Municipal Corporation

In the beginning of 1980s, World Bank initiated accounting reforms in India. As part of selective improvements of World Bank, Mumbai and Chennai began

The committee submitted its first draft of an accounting system manual for all ULBs in the state in June 1998. This draft was discussed in detail with the Commissioner of Municipal Administration, the Director of Local Fund Audit, and the Chief Executive Officer of the Tamil Nadu Urban Infrastructure and Finance and Services, Ltd. The Finance Department of the state also reviewed the draft.

The first part of the Accounting Manual for Urban Local Bodies in Tamil Nadu deals with accounting procedures, the second part provides the chart of accounts, and the third part presents the new forms and formats to be used in the new accounting system. Every procedure, account and form was specifically designed for the state's ULBs. The committee developed separate procedures for key municipal functions, including taxes and fees accounting, water supply and drainage fund accounting, suppliers/material accounting, contractors accounting, loans and grants accounting, etc.

In January 1999, the state Department of Municipal Administration and Water Supply decided to test the new system in 12 selected cities. The pilot began at the start of the new fiscal year on

April 1, 1999. Meanwhile, the state Secretary referred the Tamil Nadu manual to USAID and the FIRE project for their review and referral to the recently-formed ICAI committee developing accounting standards for ULBs in India.

The FIRE project and the Housing and Urban Development Corporation (HUDCO) organized a roundtable to discuss issues raised by the ICAI committee. Senior officials of the Tamil Nadu government, consultants writing the manual, ICAI committee members, and FIRE project and USAID staff met in September 1999 and reached unanimous decisions on several key issues. The issue of applicability of existing Indian accounting standards for municipal assets and revenue was raised. As a result, a chapter on “Norms of Recognition of Municipal Assets and Revenue” was inserted in the Tamil Nadu manual. The ICAI committee reviewed these norms but has not yet reached consensus on guidelines for valuing certain infrastructure fixed assets of municipal bodies, such as roads, parks, and municipal lands.

The municipalities in the pilot showed initiative in introducing the new accounting system. They set up the new accounts and maintained them on a double entry basis manually. They collected information on assets and liabilities using the forms in the manual and, with the help of consultants, produced opening balance sheets. Based on this success, in January 2000 the Department of Municipal Administration and Water Supply of the State government instructed that the new accounting system be started in the remaining municipalities on April 1, 2000. Tamil Nadu thus became the first state to introduce comprehensive accounting reforms state-wide.

In order to ensure a smooth changeover to the new system, the state aggregated the 107 ULBs into 25 groups based on location and size. TNUDP-II, funded by the World Bank to oversee implementation of the new accounting system, contracted with 25 chartered accountant firms to assist ULBs introduce the new accounting manual. In March 2000, TNUDP-II, with technical and financial support from the FIRE project, conducted a three-day program to train staff of each municipality and a one-day orientation to familiarize the accounting firms with the functioning of ULBs and the proposed municipal accounting system. A qualified chartered accountant and an accountant will visit each ULB and assist in implementation of the new accounting system for 18 months. The firms are providing on-the-job training, trouble-shooting, and helping to prepare financial statements based on the new system.

Tamil Nadu’s accounting reform is one of the best examples of the reforms underway in India’s urban sector. The process of revision of the manual continues, in light of ICAI’s recently prepared technical guide and the state’s ongoing review of the system. TNUDP-II is monitoring progress through two committees: one at the field level (regional) and another at the state level.

The state contracted with a firm to develop accounting software for the ULBs that will be introduced after it has been tested with cities using the new system manually. The state’s goal is that all its ULBs prepare year-end financial statements on an accrual basis for the fiscal year ending March 31, 2001. The Tamil Nadu example shows that accounting reforms can be successfully introduced state-wide where there is effective political and administrative

leadership, the willingness of local officials to take bold initiatives, and continuous support by the state government and donor agencies, such as the World

The foregoing discussion clearly outlines the success story of the Tamil Nadu experiment with municipal accounting reforms. GOTN, TNUDF, and all the municipal bodies of Tamil Nadu have achieved a stupendous task, which has no parallel in the history of Indian municipal system. Until now any sort of municipal reform was considered an impossible task and repeated experiences from the municipal bodies throughout the country have confirmed this belief. Even the State of Gujarat and Maharashtra, which had a legacy of progressive and developed municipal system, have failed in recent years to bring about any substantial changes in the municipal administration. In the backdrop of such a hopeless situation of municipal reforms throughout the country, the success achieved by the State of Tamil Nadu in introducing accounting and other reforms is exemplary. *It has proved that if there is administrative and political will, and appropriate methodology is adopted, it is quite possible to bring about municipal reforms not only in one or a handful of municipal bodies, but in all the municipal bodies of the state.*

3.3 The Maharashtra Case Example

The Government of Maharashtra (GoM) initiated municipal accounting reforms during 2001 and developed the accrual based municipal accounting manuals for the Urban Local Bodies (ULBs). The Director of Municipal Administration (DMA), Government of Maharashtra, is responsible for supervising the 230 municipal councils in the state. The DMA assessed the accounting systems in the state's municipal councils and on seeing the need for accounting reforms requested the FIRE project in the beginning of the year 2001, to support the development of an improved accounting system for the state's municipal councils and municipal corporations. The corporations assessed the accounting system of the Corporation in pursuance of the recommendations and guidelines from CAG task force and NIUA. The USAID-FIRE (D) project provided technical assistance.

Thane Municipal Corporation (TMC) : After considering the level of preparedness prevalent at TMC and the benefits arising out of such change over to double entry system and accrual decision was taken to adopt this changed methodology from the financial year 2004-2005. Preparatory work was done by TMC pertaining computerization of database program for salary, property taxes, Public Works Department (PWD) data and a program for tracking of assets and work in progress. A core team of employees with accounting background was then formed to implement the double entry accuracy accounting system.

As part of the continuing process of financial reforms, the Corporation switched over to double entry method of accounting to introduce the concept of accrual. In-depth discussion was held with the members of municipal bodies and aid agencies to create an accounting pattern, on the basis of their experiences and methods of accounting prevalent. In October 2004, the implementation process started off with training programs to use Tally software for the staff at

various levels and trainings were conducted in two batches for four days each. A two-day workshop was also arranged to brief about the preparation of closing balance sheet. Concerned personnel's from all the departments and the accounting staff participated in the workshop.

High priority was given to the overall process of conversion of system to double entry accrual accounting system. To ensure that the task of converting the existing system into the double entry accrual accounting system monitoring was done in a time bound manner. Instructions were given by the Commissioner to prepare an inventory of the assets along with their value provision of all infrastructural support including creation of double entry accounting cell. Consultants supported for strategic partnering and continued involvement of manpower. This helped TMC to build a concrete base while switching over to double entry accrual accounting system.

Results Achieved: TMC identified its financial records, entire assets and liabilities as a part of this exercise, as single entry system does not result in the preparation of a complete statement. By the end of March 2005, work of preparation of opening balance sheets was completed. A seminar was organized on September 19, 2005 by TMC to derive benefit from the views and inputs from the experts in the field of accounting.

Some of the achievements of the accounting reform are as follows:

- Using of data forms – collating, analyzing the same, identifying gaps to take actions.
- Policy decisions based on manuals, standards, etc
- Comparing available data with agreed policy implementation.
- Valuation methodologies – devising appropriate cost effective solutions keeping in mind prescribed procedures and limitations of available data and staff timeframe.
- Evolving unique – custom built solutions like use of Tally software to minimize time and cost.
- Reconciliation with department records and assurance of accuracy of data.
- Depreciation Methodology and impact.
- Issues regarding funds, grants (opening balance and adjustments thereto)
- Drafting of accounting policy disclosure and framing of accounts
- It ensures transparency and accountability.

Lessons Learnt: The whole exercise became fruitful due to the total commitment and personal involvement of the concerned officers. The new accounting system has commenced in full swing from April 1, 2005. The funds under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) have been sanctioned as the accrual accounting system was implemented prior to the mission.

Table 3-1 : Implementation Status - Comparison across Various States

Accounting Aspect	Maharashtra	Tamil Nadu	Hyderabad	Delhi	Kolkata	Karnataka
Accounting Method						
Method of accounting adopted	Double entry accrual based accounting system	Double entry accrual-based accounting system	Double entry modified accrual-based accounting.	Double entry accrual-based accounting system	Double entry cash based accounting. The accrual accounting adjustments are separately added to the cash-based account at the year end. This is done while compilation of financial statements and is not part of the accounting system /software.	Double entry accrual-based fund accounting system.
Governing legislation for accounting	<ul style="list-style-type: none"> • Mumbai Corporation Act. • City of Nagpur Corporation Act • Mumbai Provincial Municipal Corporations Act, 1949 & • Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965 	<ul style="list-style-type: none"> • Tamil Nadu Urban Local Bodies Act, 1998 and • Tamil Nadu Urban Local Bodies Rules, 2000 	Hyderabad Municipal Corporation Act, 1955	Delhi Municipal Corporation Act, 1957 (Amended 1993)	Conventional format. According to the statute, the State Government is to notify the format of accounts, which it has not yet done.	Karnataka Municipalities Act, 1964 and Karnataka Municipal (Accounting & Budgeting) Rules, 2006. Separate Regulations based on Rules for Corporations.
Computerisation level	Currently manual. Supported by an accounting manual containing all the details. To be	Computerized accounting. Supported by an accounting manual, and also a	Computerized accounting. Supported by an accounting manual.	Computerized accounting (Tally)	Computerized accounting No accounting manual in place yet.	Web-enabled customized software under implementation. Will run in parallel.

	computerized.	User Manual.					
Books of Accounts/Financial Statements							
Accounts Maintenance	There is provision for getting overall picture and utilization of funds from each special fund and reserve. Can generate separate groupings of funds.	Separate accounts are maintained for : a) Revenue Fund b) Capital Fund c) Water Supply and Drainage Fund d) Elementary Education Fund.	No separate fund-wise accounts are maintained	Fund accounting is done for various funds such as General Fund, Capital Projects Fund, Debt Management Fund, Special Revenue Funds, Trust & Agency Funds, and Proprietary Fund.	The Municipal fund is supposed to be maintained in 6 different accounts viz. i) Solid Waste Management Account ii) Sewerage & Drainage Account, etc. The accounts are supposed to be maintained separately for each of the accounts and presented in a consolidated as well as separate accounts in the financial statements	Separate accounts maintained for 3 funds: (i) General Fund (ii) Water Supply & Sewerage Fund, and (iii) Enterprise Fund	
Frequency of financial statements	Annual & Quarterly	Annual.	Financial Statements – Annual. Comparison with budget, and review - Annual.	Annual	Financial statements – Annual Comparison and annual review with budget / previous period is carried out monthly.	Required to prepare half yearly accounts.	
Annual financial statements	Overall Income & Expenditure Account, and Balance Sheet prepared	Separate Income & Expenditure Account and Balance Sheet are prepared for Revenue Fund, Capital Fund, Water Supply and Drainage Fund, and Elementary Education Fund. Consolidated financial	Income & Expenditure Account, and Balance Sheet are prepared. Apart from these, fund wise financial statements are prepared in columnar form, for General Fund, City Development Fund, Community Development Fund, Debt- Service Fund	Statements of Revenue, Expenditures, and Fund Balances', and Balance Sheet are prepared for the different funds. In addition, combined Financial statements for all the funds, grouped under Governmental	Income & Expenditure Account, Receipts & Payment Account and Balance Sheet are prepared. Apart from these, separate accounts of the municipal fund are prepared such as Solid waste, sewerage, etc., as well as details of revenue and expenditure for each market, etc.	Consolidated and Fund-wise Income & Expenditure Statement, Receipts and Payment Account, Balance Sheet, Notes to accounts and performance indicators.	

		statements are not prepared.	(grouped under Municipal Fund), and Salary & Pension Fund (grouped under Fiduciary Fund).	Fund and Fiduciary Fund are also prepared.		
Bank reconciliation statement	Done, but tends to be in arrears.	On monthly basis	Done manually, on monthly basis.	Done periodically.	Done periodically. Even at present, some accounts have not been reconciled for several years.	Required to be done monthly.
Fixed asset register	The assets are treated individually and the track of each asset item is kept in the Fixed Asset Register. In the accounts, assets are treated as a block.	As per the Accounting Manual, Fixed Assets Register has to be maintained category-wise, and all assets created on and from 1-4-99 have to be entered in the Register.	Separate Fixed Assets Register has to be maintained for grant/ scheme funded assets and other fixed assets.	Fixed Assets Register has been collated and updated. However, this process is continuing, and is likely to continue for the next one or two years.	Fixed Assets Register is maintained.	Prescribed in formats. Separate register for Land, immovable Properties and Movable Properties.

Table 3-2: Comparison across shortlisted JNNURM Reform cities on the basis of JNNURM agenda

Accounting Reforms	Surat	Bangalore	Bhubaneswar	Faridabad	Shllong
Establish a committee to implement improved financial management reforms	√	√	×	×	×
Appoint chartered accountants for providing handholding support	√	√	√	√	√
Implement training programs	√	√	√	√	√
Prepare inventory of assets and liabilities	√	√	√	√	√
Value all assets and liabilities, finalize opening balance sheet*	√	×	√	×	×
Reengineer business processes to align with accrual-based accounting system	√	√	√	√	×
Adopt and implement an accrual-based accounting system	√	√	√	√	√
Appoint an external auditor	√	√	√	×	×
Publish financial statements along with audit reports	√	√	√	×	×
Carry out parallel runs of both existing and new system of accounting till the latter gets stabilized	√	√	√	×	×
Implement transparent, multi-year budget system with the priorities set by stakeholders	√	√	√	×	×
Institute internal control procedures and appoint an internal auditor	√	×	×	×	×
Undertake credit rating	√	√	√	√	√
Budgeting Reforms	Surat	Bangalore	Bhubaneswar	Faridabad	Shllong
Assess existing accounting reform initiatives	√	√	√	√	√
Formation of project management unit	×	×	×	×	×
Assessment of functional requirement	√	√	√	√	√
Preparation of budgetary reforms action plan	√	√	√	√	√
Data digitization (entry and validation) of the manual records	√	√	√	√	√
Training to end users	√	√	√	√	√
Documentation	√	√	√	√	√

4. Surat Municipal Corporation

4.1 Overview of SMC

The Surat Municipal Corporation (SMC) has been regarded as one of the models of excellence in urban management. The Corporation has given high priority to implementing managerial and administrative reforms and hence had taken the initiative to undertake the implementation process of accounting reforms. The implementation was supported through the World Bank assisted project, way back in year of 1992.

Various problems were encountered, in areas of financial management and accounting practices explained in detail in the subsequent sections. In order to improve the existing Financial Management practice, Price Waterhouse Coopers (PwC) were appointed as consultants to the Surat Municipal Corporation to recommend and adopt modern public authority type Accrual Accounting System and Financial Management and Reporting Systems, and also to train the corporation staff for operating such systems. Based on the study conducted by PWC and the recommendations made by them, the SMC converted to Accrual based accounting in 1992-93. The system since then is on a continuous up gradation mode.

The Bombay Municipal Accounts Code, 1961, governs account in SMC. The Chief Auditor conducts the audit in the corporation and is independent of the accounts department. He is responsible to the Standing Committee. Essentially, all functions are carried out through either receipts or payments, with certain transfers and adjustment provisions.

In order to capture both the qualitative discussions and the individual capacity of the SMC, the study team conducted comprehensive interviews and circulated individual questionnaire. Detailed discussions with several officials of the accounts department were conducted. The findings are detailed in the subsequent sections.

4.2 Implementation methodology

In order to achieve basic objective of the SMC, the corporation decided to:

- To prepare opening and closing balance sheet for the corporation based on valuation of assets facilitated.
- To convert accounts and accounting system of municipalities from present single entry cash based system to online computerised accrual based double entry accounting system
- To train the municipal staff to follow the systems designed so that they become capable of carrying on, the new accounting system from 1st April 2007 onwards
- To develop customized uniform software for accounting
- To prepare common accounts and audit manual and prepare audit programme for concurrent auditing of accounts

- To provide hand-holding to facilitate smooth transition to computerized environment

4.3 Procedures followed in SMC

Existing accounting system of the SMC is full proof and is designed to ensure transparency and give a true picture of its assets and liabilities. SMC has introduced a Computerized Double-Entry Commercial Accounting System way back in 1992. The framework and basic outline followed by Surat Municipal Corporation to achieve modern financial accounting system comprises the following four series of actions:

- Overall approach of implementation
- Enlisting main features of the system
- Process of basic documentation and recordings
- Chart of accounts-budget code wedlock.

4.4 Overall Approach of Implementation

SMC established modern municipal accounting system resolution by the government; Government of Gujarat decided to introduce Double entry accounting system in local self-government and also provided consultancy for the same. In this regard, Price Waterhouse Coopers, Kolkata (PwC) was appointed by SMC as a consultant, and subsequent to this SMC adopted Accrual based accounting systems vide standing committee resolution No. 1669 dated 16/01/1992. SMC adopted modern Municipal accounting system since 1992, covering Head Quarter and 7 Zones. In this process of implementation SMC managed to completely adopt the National Municipal Accounting Manual. Within the same time frame SMC commenced training of personnel, appointed field level consultant for implementation at the city level and notified of cut-off date for migrating to the double-entry system.

On the financial reform front for various initiatives pro-business process re-engineering was undertaken:

- SMC made necessary changes in the software programs to implement payment to suppliers and contractors.
- SMC facilitated e-payment for salary disbursement of its 19,000 employees and pensioners, which covered 105 branches of 15 banks.
- The Corporation extended an additional facility of payment of property tax through credit or debit cards. The swiping card system was in place at various civic centres of the city. This resulted in enormous cost saving.
- SMC commenced “Mobile Tax Collector Vehicle” which facilitated a smooth and user friendly process for tax collection for the citizens of the city.
- A detailed exercise was carried by external consultants in respect of identification and valuation of fixed assets. Considering the huge voluminous assets and its accuracy, internal departments of SMC re-evaluated the value of the assets which was in sync with the value arrived by the external consultants.

- Preparation of outcome budget is prepared and adopted by SMC; vide SMC General Board Resolution no. 79/2007 dated 15/02/2007.
- SMC has also adopted complete re-vamp of the Public Financial Management (PFM) which includes internal controls.
- CRISIL was appointed by GoI for evaluation of financial performance of SMC. It covered assessing the current administrative reforms, service quality rendered, project risk undertaken, financial reforms and current financial strength of SMC. CRISIL awarded “CCR AA-“(CCR Double A minus). Amongst all corporations in India, SMC was accredited with the highest rating.
- There are approximately 4200 pensioners / family pensioners SMC need to support. This is statutory responsibility of the municipal corporation. To handle the same a pension fund has been created by SMC in FY 2006-07.

4.5 Enlisting Main Features of the System

The main features of the current accounting system inter alia are:

- Accrual system of accounting generally for both income and expenditure items
- Uniform classification and consolidation of accounts by using a formalized chart of account detailing account heads and codes
- Maintenance of “Intermediate” accounts (e.g. Asset Purchase a/c, loan repayment a/c etc) to facilitate accounting and recording of information
- Clear distinction between capital and revenue items
- Preparation of balance sheet showing the financial position

4.6 Process of Basic Documentation and Recording

The source documents for accounting of various types of transactions, inter – alia, are: “Money receipt” for collection accounting including cash incomes are: “Demand Bill” for accrued incomes and debtors accounting, “Passed party bill” for accrued expenses and creditors accounting, “Pay bill” for salary accounting, “Bank Pay-in slip” for accounting of bank deposits, “Cheque Counterfoil” for bank payment accounting, “Bank advice and/or Bank statement “for accounting of direct debits/credits by bank, “Stores Receipt Voucher (SRV)” for stores receipt accounting, “Stores Issue Voucher (SIV)” for stores issue accounting, “Stores Return Note (SRN)”for stores return accounting, “Stores Adjustment Voucher (SAV)” for accounting of stores write backs/offers

Many of these source documents are entered in the respective day books or summary statements as the case may be, for daily/monthly consolidation and analysis purpose. The daily/monthly totals as per day book and statements as well as the remaining source documents are the basis for

raising the following primary accounting documents: Cash Receipt Voucher, Cash Payment Voucher, Bank Receipt Voucher, Bank Payment Voucher, Journal Voucher (JV)

Cash book and journal book are the only books of prime entries. The cash and bank vouchers will be the source of entry in the cash book and the JVs are the source of entry in the journal book. The cash books are balanced and reconciled on a daily basis. General Ledger (GL); in one or more sections; are the principal books of accounts maintained in “T” form. Posting to GL are made from the prime books of accounts on a daily/monthly basis.

The following subsidiary records are maintained; Debtors Ledger, Creditors Ledger, Priced Stores Ledger, Advance Ledger, Deposit Register, Staff Loan/Advance Ledger, Loan Register, Investment Register, Capital WIP Ledger, Fixed Asset Register, and Nominal Ledger. Postings are made to these subsidiary records from the respective source/primary document or records, as the case may be, on a daily basis

Under this present accounting system of SMC, the Municipal Fund has been broadly classified into the following four sub-funds for which a separate annual budget also is prepared, namely: Revenue Accounts, Capital Accounts, Loan Accounts, and Deposit Accounts.

Table 4-1: Basic Documentation and Recording

Type	Components
Assets	The Corporation maintains its assets in the form of fixed assets, capital work-in-progress, and investments in a sinking fund, earmarked fund, loan fund, general fund and interest accrued. In addition to this, the corporation also maintains record of its current assets including, stores and spares in hand, debtors tax and non-tax revenue, bank balance and cash balance. The loans and advances paid to the employees and other agencies are also accounted as assets, which the Corporation possesses.
Liabilities	As a part of its liabilities, SMC maintains a municipal fund, including a corpus fund, sinking fund, as well as committed/ earmarked fund, and depreciation fund. The reserves and surpluses contained by the Corporation include income from capital receipts and credit balance from the revenue income. Secured loans and unsecured loans are also reflected in the balance sheet of the Corporation. In addition to these there are current liabilities in the form of sundry creditors, deposits received, employee related liabilities and other liabilities
Revenue	Involving receipt of taxes, charges, loans and grants
Expenditure	Involving release of funds against establishment, works and supplies

4.7 Classification & Codification of Accounts Followed in SMC

A proper system of classification and codification of accounts is the keystone of the present financial information system in Surat Municipal Corporation. In particular the day to day

recording of financial accounting data is made in a more systematic manner and under appropriate classification which in turn makes final consolidation easier. Furthermore, as the accounting classification is dovetailed with the budget classification, the management process of both budgeting and budgetary control is facilitated. Numeric codes have been developed since such codes are simple to use, easy to process and communicate and well suited to meet all the accounting and budgeting needs of the SMC.

Accounting Code Structure - In order to have a uniform system of accounting, the Government accounting system follows a four-tiered accounting structure. Thus, any transaction will be accounted for under the following heads:

a) Major Head – Corresponds to the zone in which the transaction has been documented.

The first major head categories different transactions on the basis of zone in which the transactions are documented. Surat currently is classified under seven zones namely: West Zone; North Zone; South East Zone; South West Zone; East Zone; Central Zone; Headquarter.

b) Minor Head – Corresponds to the general ledger where each account is accompanied by a reference number called General Ledger Accounting Code (GLAC)

The transactions are classified on the basis of the type of expenditure incurred or revenue earned. These heads are common for all departments and entities. All revenue receipts codes lie between have 1001 to 1999, revenue expenditure from 2000 to 4999, capital expenditure 5000 to 5999 and capital income from 7000 to 7020.

c) Sub Head – Corresponds to the budget department (denoting BCNT number and name)

Further to zone code a transaction would pertain to a particular department. All departments are given BCNT codes which identifies the department where the transaction would be recorded.

d) Project Head – Corresponds to a particular project

At this stage coding of a transaction is done at a project level. A four digit code is assigned on the basis of the classification done for the transaction. Project Code is assigned to only capital expenditure items.

e) Party Head – Corresponds to the sub-budget party codes

All suppliers or contracts with SMC are allocated a party code, where each party will have a unique PAN number and bank account number. Party code is assigned to transactions pertaining only to revenue expenditure and capital expenditure.

Table 4-2: Classification and Codification of Account

Tier	Tier Description	Illustrative Accounts Heads
1	Primary	Asset
2	Secondary	Fixed Asset
3	Group	Land
4	Individual	Free Hold Land

4.8 Process of computerization

SMC is the first municipal corporation in India to develop an IT policy. SMC introduced computerisation in all its departments' way back in 1998. Statistics are computerised on a daily basis and efforts are on to computerize the past records too. Right from the inception of a modern accounting system Surat Municipal Corporation commenced its computerisation. A proactive decision to computerise an accounting system not only smoothed the process of implementation, but also avoided duplication of efforts

For the purpose SMC has imparted training to its staff through professional IT institutes. The Information Systems Department dutifully carries out the functions listed below so as to achieve the objectives of providing better services to the citizen at his doorstep, reducing overall administrative response time for various tasks, reducing the total cost of operations for the SMC, providing centrally organized information dissemination, having speedy and effective communication system, establishing a knowledge repository for various processes and having an effective management information system and decision support system with utmost effectiveness and efficiency:

- Analysis of business processes of various departments of SMC and to design the information system for the same
- Development of computerised systems for the information systems of the departments.
- Archiving the data and information of various computerized processes to reproduce it and provide it to the end user on their demand
- Imparting training to the users of various systems developed at SMC
- Designing and developing the internet and intranet website of SMC

Due to computerization and use of modern tools/techniques, the fund management of SMC at seven zones HQ and 10 civic centers's become easier and speedy. The SMC had used information technology in the area of: On-line tax collection, E-online e-tendering, Direct payment to contractors/suppliers, On-line booking of halls, citizen can make payment of his dues

at any location at city civic centers, transfer of data from zone office, city civic centre to H.Q., management of account related information effectively, retrieval of information becomes very easy and fast and reduced redundancy of data management. This has ultimately increased financial efficiency of the Surat Municipal Corporation

4.9 Progress update

Table 4-3: Progress Update

Commitment as per the MOA for the current financial year	Targeted completion year as per MOA	Cumulative progress	Status as on March 2007	Status as on March 2008	Status as on March 2009	Status as on August 2009
Resolution by government to establish modern municipal accounting system	2006-07		SMC has adopted modern municipal accounting system	SMC has adopted modern municipal accounting system	SMC has adopted modern municipal accounting system based on double entry accounting vide standing committee resolution dated 16 th January 1992	SMC has adopted modern municipal accounting system based on double entry accounting vide standing committee resolution dated 16 th January 1992
GO/Legislation modification of rules for migrating to double entry accounting system	2006-07	Completed	SMC has adopted modern municipal accounting system	SMC has adopted modern municipal accounting system	SMC has adopted double entry accounting system dated 16 th January 1992	SMC has adopted double entry accounting system dated 16 th January 1992
Appointment of consultants for development of State manual (either based on NMAM or independently)	2006-07		Consultant appointed Price Waterhouse Coopers through Government of Gujarat	Consultant appointed Price Waterhouse Coopers through Government of Gujarat	Appointed City Manager Association of Gujarat as nodal agency	Appointed City Manager Association of Gujarat as nodal agency
Completion and adoption	2006-07	Completed	Manual	Manual adopted	SMC has adopted double entry book keeping accounting	SMC has adopted double entry book keeping accounting system as per Institute

Commitment as per the MOA for the current financial year	Targeted completion year as per MOA	Cumulative progress	Status as on March 2007	Status as on March 2008	Status as on March 2009	Status as on August 2009
of manual			adopted		system as per Institute of Chartered Accountant guidelines and codes	of Chartered Accountant guidelines and codes
Commence training of personnel	2006-07	Completed	Training completed	Training completed	All personals of account branch of SMC had been trained to use the software and to maintain double entry account as per the codes/methods prescribed by the consultant	All personals of account branch of SMC had been trained to use the software and to maintain double entry account as per the codes/methods prescribed by the consultant
Appointment of field level consultant for implementation at the city level	2006-07		SMC has adopted double entry book keeping accounting system	SMC has adopted double entry book keeping accounting system	This activity is to be carried out by the state however, all mission cities of Gujarat has appointed their own consultant to implement the reforms. Accordingly, SMC has also appointed M/s Price Waterhouse Coopers as consultant and adopted double entry book keeping accounting system	This activity is to be carried out by the state however, all mission cities of Gujarat has appointed their own consultant to implement the reforms. Accordingly, SMC has also appointed M/s Price Waterhouse Coopers as consultant and adopted double entry book keeping accounting system
Notification of cut-off date for migrating to double entry accounting system	2006-07	Completed	SMC has adopted double entry book keeping accounting system	SMC has adopted double entry book keeping accounting system	Already implemented from 16 th January 1992	Already implemented from 16 th January 1992

Commitment as per the MOA for the current financial year	Targeted completion year as per MOA	Cumulative progress	Status as on March 2007	Status as on March 2008	Status as on March 2009	Status as on August 2009
Business Process Re-engineering (if required)	2007-08	Completed	NA for current financial year	e-payments, direct debit completed and bill tracking system under implementation	a) Necessary changes have been made in software programme to implement e-payment to suppliers and contractors b) Adoption of 19,000 numbers of employee's/ pensioner's salary disbursement system covering 105 branches of 15 banks c) E-payment to contractor at no extra cost	d) Necessary changes have been made in software programme to implement e-payment to suppliers and contractors e) Adoption of 19,000 numbers of employee's/ pensioner's salary disbursement system covering 105 branches of 15 banks f) E-payment to contractor at no extra cost
Valuation of assets and liabilities	2006-07	Completed	Work in progress not converted as assets	Completed by January 2008	Completed by SMC by March 2008. Assets worth Rs 3149 crore booked in balance sheet. Necessary provision made for depreciation fund in FY 2007-08 & 2008-09	Completed by SMC by March 2008. Assets worth Rs 3149 crore booked in balance sheet. Necessary provision made for depreciation fund in FY 2007-08 & 2008-09
Drawing up of opening balance sheet (OBS): Provisional OBS	2005-06	Completed	Completed	Completed		
Drawing up of opening balance sheet: Adoption of provisional OBS	2005-06	Completed	Completed vide SMC standing committee dated	Completed vide SMC standing committee dated 26/12/2006	Completed vide SMC standing committee dated 26/12/2006	Completed vide SMC standing committee dated 26/12/2006

Commitment as per the MOA for the current financial year	Targeted completion year as per MOA	Cumulative progress	Status as on March 2007	Status as on March 2008	Status as on March 2009	Status as on August 2009
			26/12/2006			
Drawing up OBS: Finalisation of OBS	2006-07	Completed	Completed vide SMC standing committee dated 2007-08 26/12/2006	Completed vide SMC standing committee dated 26/12/2006	Completed vide SMC standing committee dated 26/12/2006	Completed vide SMC standing committee dated 26/12/2006
Full migration to double entry accounting system	2007-08	Completed	Completed	Completed vide SMC standing committee resolution dated 16 th January 1992	Completed vide SMC standing committee dated 16/1/1992	Completed vide SMC standing committee dated 16/1/1992
Production of financial statements (income and expenditure accounts and balance sheet)	2005-06	Completed	Completed vide SMC standing committee dated 26/12/2006	Completed vide SMC standing committee dated 26/12/2006	Completed vide SMC standing committee dated 26/12/2006	Completed vide SMC standing committee dated 26/12/2006
Audit of financial statements	2006-07	Completed	Internal Auditing by Municipal Chief Auditor	Internal Auditing by Municipal Chief Auditor	Internal Auditing by Municipal Chief Auditor	Internal Auditing by Municipal Chief Auditor
Adoption of accounts	2006-07	Completed	As per BPMC Act – 1949	As per BPMC Act – 1949	As per BPMC Act 1949, u/s 105, Municipal Chief Auditor is conducting weekly	As per BPMC Act 1949, u/s 105, Municipal Chief Auditor is conducting weekly examination and audit of

Commitment as per the MOA for the current financial year	Targeted completion year as per MOA	Cumulative progress	Status as on March 2007	Status as on March 2008	Status as on March 2009	Status as on August 2009
					examination and audit of municipal account	municipal account
Preparation of outcome budget	2007-08	Completed	Completed prepared and adopted vide SMC General Board Resolution dated 15 th February 2007	Completed prepared and adopted vide SMC General Board Resolution dated 15 th February 2007	Prepared and adopted vide SMC general board resolution dated 15 th February 2007. Half yearly outcome budget will be prepared during December 2008	Prepared and adopted vide SMC general board resolution dated 15 th February 2007. Half yearly outcome budget will be prepared during December 2008
Complete re-vamp of the Public Financial Management (PFM) cycle which includes internal controls	2007-08	Completed	Adopted	Adopted	Adopted	Adopted
Credit rating of ULB (if required)	2006-07	Completed	Not Required	GOI has appointed CRISIL for carrying out credit rating for Surat	SMC has been assigned AA rating by CRISIL	SMC has been assigned AA rating by CRISIL
Any other reform steps being undertaken	2006-07	Completed	Sharing of quarterly, half yearly annual accounts. Computer driven project monitoring and	e-payments, direct debit completed & bill tracking system under implementation. Sharing of annual accounts with various stakeholders. Computer driven project	Sharing of annual accounts with various stakeholders. Computer driven project monitoring and billing system in place. E-payments system introduced.	Sharing of annual accounts with various stakeholders. Computer driven project monitoring and billing system in place. E-payments system introduced.

Commitment as per the MOA for the current financial year	Targeted completion year as per MOA	Cumulative progress	Status as on March 2007	Status as on March 2008	Status as on March 2009	Status as on August 2009
			billing system.	monitoring and billing system		

4.10 Initiatives undertaken by SMC to accomplish the accounting reforms

When Surat Municipal Corporation had signed the Tri-party agreement in March-2006, most of the reforms were already incorporated in the system whereas the remaining were soon integrated in the process. The following are the main initiatives undertaken by SMC to accomplish the accounting reforms:

1. Adopted modern **accrual based double entry accounting system**. This system is being adopted since 1992. Due to this Rs.3194 crore assets has been booked.
2. **National Municipal accounting Manual** was adopted with modifications. There were minor modifications made to the NMAM which were specific to the working of the corporation and nature of the services provided. Other than this there were no major changes from original NMAM.
3. **Field Level consultants** were appointed for effective implementation at the city level. The consultants were appointed through an open bidding process for the purpose of development of the state manual and for effective transformation to accrual accounting.
4. **Training programmes** were undertaken by SMC for various functionaries like chief accounts officers, departmental heads, and other middle level municipal managers. The objective of conducting these training curriculums was to improve the effectiveness of knowledge management and service delivery, formulate practical policies and identify the operational issues which SMC can face during the implementation process.
5. The process of **valuation of assets** was completed in 2006-07. The process of identifying the inventory of assets, and their subsequent valuation applying accounting norms, posed the greatest challenge for SMC.
6. Total **Computerization of Accounts** with Balance Sheet - SMC introduced computerisation in all its departments' way back in 1998. Statistics are computerized on a daily basis and efforts are on to computerize the past records too. The town maps are digitised and details of each department are laid over.

The biggest challenge was the **change management**. Adopting keyboard for running the systems and processes, at first, appeared daunting for hundreds of frontline clerks and counter operators. Computer and system related training was imparted to the staff so that they attained the working knowledge and gained confidence in handling applications. Almost every service delivered by the SMC has geographic attributes attached to it. GIS based decision support systems help in closer integration of these services.

7. **Business process re-engineering** - The citizen interface would be through a web portal or kiosk which would monitor file position through virtual monitoring, and anytime interaction will be facilitated. The ULB would be provided with business intelligence to track service levels and outcomes with applications such as Building permissions, etc on the net. Process reengineering in order to take the status from "as is" to "should be"

would be codified through Business Process Reengineering and gap analysis. There would be a change in the management style as no physical file would be moved and all manual tendering would be stopped.

8. Double entry accrual based system requires an **opening balance sheet**. This requires valuation of fixed assets; determination of liabilities as on the date of the opening balance and inventory of various other assets and liabilities possessed by a ULB. Opening balance sheet for SMC was drawn and adopted in 2005-06. Whereas the opening balances were finalized in 2006-07.
9. **SMC facilitated Web enabled centralized monitoring system** - IT enabled systems have been put in place in Surat Municipal Corporation (SMC) to enable standardising the processes, obtaining timely and accurate information and reducing the response time. This feature ensures accessibility to the systems and statistics from any place and at any time without any limitation.
10. **Outcome based budget** - SMC has prepared the outcome budget, completed valuation of assets/liabilities and the CRISIL has rated SMC as AA- which is highest among the entire country in case of ULBs.
11. **Accounting of depreciation** - Depreciation is an important item of expense under this system of accounting. The corporation has worked out a lump sum factor of depreciation over the last five years. It has assumed depreciation rates on buildings, plant and machinery and vehicles, transportation and other equipments.
12. It was understood that several kinds of fixed assets form part of a single asset, e.g. Parks may comprise a part of land, building, pumping station, etc., some of which may be depreciable while others may be non-depreciable. Even some of the depreciable assets have varying useful lives. In order that depreciation can be computed properly, accounting for each of these items was carried under different account heads.
13. Complete re-vamp of the **Public financial management cycle** which includes internal control.

4.11 Achievements of SMC through the process of implementation

The process of conversion to double entry accounting system helped SMC achieve many other linked objectives as cited below:

1. **Property Tax Reforms:** Extension of property tax regime to all properties has been completed. Area based assessment of property tax has been introduced. SMC could achieve 96.76% collection of current demand and 82.95% of total demand by March end 2008 against 75% as per Memorandum of Agreement.
2. **User Charges Reforms:** SMC has formulated new policy on user charges from 2007-08 on water, drainage and solid waste collection. SMC has recovered 55% of the operation and maintenance charges in 07-08.

3. Surat Municipal Corporation pioneered **in harnessing the power of IT**. The corporation developed and implemented computerised payroll, property tax, vehicle tax and pension systems during 1982-85; put the property tax system online (Intranet) in 1990 and started computerised double entry accounting system in 1992. Almost every income related function has been computerised for timely issuance of bills, faster tax collection at single points of contacts like the citizen facilitation centres across the city.
4. SMC has used Management Information System (MIS) for monitoring and grading services like sanitation, maintenance and efficiency of street lights, preventive and curative health activities, complaint management service, etc. Long-time familiarity with computerised budgeting has helped **tracking capital projects** for their scheduled commissioning and reducing the time-to-benefit for the citizens. SMC has also a well-designed and highly informative website where all relevant information is available to the citizens.
5. A set of financial reports produced periodically by the Accounts Department enabled the policy makers to assess the efficiency of the SMC in carrying out its **stewardship responsibilities**. It also provided the Corporation as well as the state government with relevant financial information to serve as a basis for their decision.
6. **Transparency** in Municipal Accounts - In recent years, the corporation felt the necessity to communicate reliable information concerning their financial activities and financial position to various interest groups, for which they have initiated the accrual basis of accounting systems.
7. Timely preparation of final accounts has been adopted by Surat Municipal Corporation.

4.12 Learning's from the successful implementation in SMC

The various learning's that other municipal bodies should adapt from Surat Municipal Corporation for quick and successful conversion to accrual accounting system are cited below:

1. Time Bound Implementation Plan

A time bound implementation plan covering all aspects of municipal accounting in a phased manner should be formed to actualize municipal accounting reforms. The minimum time frame for such implementation plan could be two years and the maximum could be four years.

1. Training Methodology

The training to the officers/employees who will be actually implementing the accounting reforms should be on-the-job, and should be carried out at their workplace as part of implementation. Training should be given at every stage of implementation. It should be need based and user friendly.

2. Appointment of Consultants for Professional Know-how

The core-team responsible for designing & implementing should be independent accounting experts and consultants. This feature helps the municipal corporation to make their municipal accounting reforms closer to ground realities and to smooth out the implementation process.

3. Computerisation

It has been observed that introduction & implementation of accrual based accounting system in a municipal body becomes much easier and faster if computerization is sought right from the beginning. Ready-made accounting software available in the market or tailor-made software developed by a suitable agency can be used for implementation. This would also help application of unified accounting code.

4. Participatory Approach

The entire exercise of municipal accounting reforms should be made as participatory as possible. In municipal body it should involve along with a managerial and political leadership, other non-accounting (technical & administrative) officers as accounting system cut across all the departments and sections. Outside municipal body, it should involve local academic experts, local consultant appointed as a part of implementation and the government officers of related departments/agencies.

5. Regular Monitoring and Updation of Implementation Plan

There should be weekly review by the local implementation team of a municipal body. The state level core implementation team attached to nodal agency should review progress every fortnightly. On the basis of the review, the implementation plan should be updated so that its completion can be attained within a time schedule.

5. BRUHAT BENGALURU MAHANAGARA PALIKE

5.1 Overview of BBMP

Bruhath Bengaluru Mahanagara Palike (BBMP), was established in 2007 after the amalgamation of surrounding areas with Bangalore Mahanagar Palike (BMP). BBMP serves a population of 58.40 lakh (2001 Census) covering an area of 709.53 sq.kms., making it one of the largest cities in the country. Bengaluru, apart from being the state capital of Karnataka, is an important IT/ITeS centre in the country. The main decision-making body of BBMP is the Council, comprising elected representatives, while the administrative wing headed by the Commissioner looks after the day-to-day operations.

BBMP is credited for pioneering Fund Based Accounting System (FBAS) in the country, thanks to reforms carried out by Bangalore Agenda Task Force (BATF) in early years of this decade. FBAS was brought in by BATF to showcase the importance of better financial information and hence better control in governance. FBAS implementation became a preamble to other cities in municipal accounting by having a transparent accounting system. Since then Bangalore is successful in publishing its account statements every year so that its citizens are aware of its financial status. Further, it helped Bangalore to be well ahead of other cities, when reforms on Municipal accounting was mandated by Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

5.2 Role of BATF in Accounting Reforms of BMP:

Bangalore Agenda Task Force (BATF) was meant to be a partnership between the citizens, corporate & Administrative agencies which included BMP. BATF team had comprised a team of experts from various fields across all sectors who are appointed by Karnataka Govt. BATF was well supported by the then Government & heralded with various landmark reforms.

The major focus of this task force was to improve the governance system thereby improving citizens' livelihood and increase opportunities for investment in Bangalore. To achieve this, BATF have felt stronger need for accounting reforms to provide better citizen services. Therefore BATF funded the entire project of FBAS implementation which strived to improve citizen participation in BMP.

BATF began the FBAS implementation in 1999 with collection of information on assets. Despite delays in getting information on receipts & expenditure, BMP finally achieved FBAS by coming out with Balance sheet of 2003-04 in June 2004. Various citizen specific-interfaces have been implemented through FBAS thereby BATF focus on citizen empowerment is largely fulfilled,

5.3 Fund Based Accounting System

FBAS is new to Indian governmental accounting system. In FBAS, each Fund is a separate entity thereby providing better information and hence possibility for better control. Also it is in line with General Accepted Accounting Principles (GAAP) which is becoming the global standard for accounting. FBAS typically follow ‘Accrual or Modified accrual concept’ as ‘Basis of accounting’ and ‘Double entry’ as ‘System of bookkeeping’ which is indifferent from the system being followed in other cities. However it is the way the ‘funds’ are organized differentiates FBAS from others. FBAS thus provides basis for better control of various financial activities with information trailing to each fund category.

5.4 Classification of Funds

Funds are generally classified based on its purpose, operations and their nature. In BMP, there are three funds as given below:

5.4.1 Governmental Type Fund

Governmental Fund forms the main category in FBAS which focus on spending for obligatory & discretionary functions like provision of basic infrastructure, education, health, etc. In this category, Government cannot collect or recover the entire operational costs by “user charges”. There are four sub-types within governmental fund: General fund, Capital project fund, Special reserve fund & Debt service fund.

5.4.2 Proprietary Type Fund

Proprietary funds would focus on creating and maintenance of productive assets like commercial building. Levy of “user charges” would take care of maintenance of assets. Activity of this fund is similar to activities of a commercial business and hence called “proprietary”.

5.4.3 Fiduciary Type Fund

Fund related to trust or agency would be earmarked as Fiduciary fund. They would focus on maintaining moneys as per trust deed or arrangement. They also include project funds and pension funds.

5.5 Implementation Challenges

FBAS implementation was a huge challenge to move the organization from traditional cash based system of accounting to modern and technology driven FBAS. There were no complete records for key areas like assets, liabilities, receivables and payables. Also it was a herculean task to streamline revenue flows which were happening through hundred offices of BMP with few hundred bank accounts. BATF appointed NCR Consultants Ltd (NCRCL) to implement FBAS along with mentoring them with key inputs from eminent personalities.

5.6 Implementation Methodology

3PT approach, as popularly called, was used for implementing FBAS in BMP. This involved a thorough assessment of Policy, Process, People & Technology, at various levels. After this phase, implementation took place so that all issues were adequately addressed.

5.6.1 Policy

Karnataka Municipal Corporations Act 1976 was in fore for governing accounting rules and regulations for municipalities. Though it allowed BMP to have its own accounting, it did not prescribe any specific system. However, FBAS regulations were very different from what was followed till then. So it needed policy support from Corporation council & State government. Accordingly FBAS accounting regulations were introduced & cleared by Corporation council & state government in 2001. In fact, accounting policies & budgetary regulations were drafted and legalized for BMP for the first time ever.

5.6.2 Process

Process mapping was done to understand the working erstwhile system. About 20 departments were connected with one or the other aspect of accounting leading to a complicated system. Business Process Re-engineering (BPR) was used to re-design & implement the major processes & sub-processes. Further coding system was brought in to allocate unique identification to each of the important assets.

5.6.3 People

Overcoming resistance of staff was again an important aspect to successful implementation of any system. Existing employees of then BMP were explained about the benefits of FBAS & how it can simplify their job. Institutional structure was changed to accommodate working requirements of new system. Additional Commissioner (Finance) was created as a pivotal role to take care of all matters related to Finance & Accounts. Further, Assistant controller (Finance) was another role created for each of the zones to decentralize accounting function. These new roles ensured smooth functioning of the new system.

5.6.4 Technology

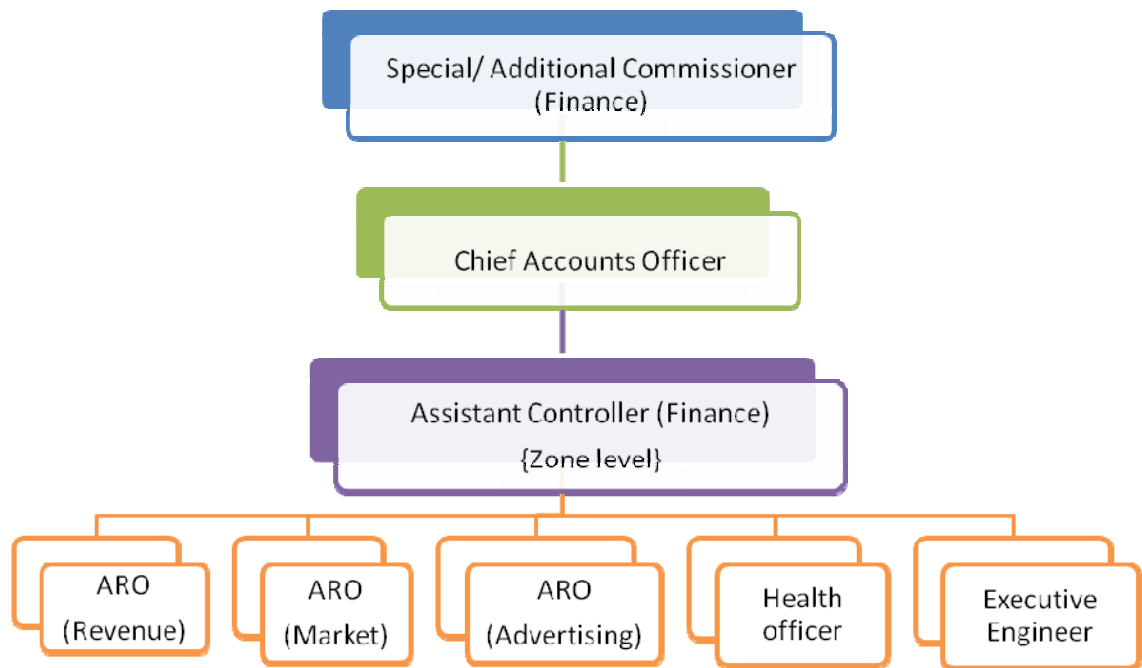
Technology was the key in implementing the new system. New system was deployed to accommodate all the requirements of FBAS along with customization to BMP accounts wherever required. New system was capable of producing Management Information Systems (MIS) in all the major departments of BMP. Further, 50 different MIS reports are available now which can be used for review at various levels. Even ward level information on revenue/ expenditure or details on every work within the ward is available now.

5.7 Procedures Followed in BBMP

5.7.1 Organizational Structure

As mentioned earlier, Organizational structure of BBMP was revamped catering to FBAS requirements. Special/ Additional Commissioner (Finance) is the head of Finance function. Chief Accounts Officer would be responsible for budget & accounts of the corporation. Then there would be Assistant controller Finance (ACF) for each of the eight zones. As indicated in the following chart, ACF would co-ordinate with various Assistant Revenue Officers designated for Revenue, Market and Advertising. Further, ACFs will also co-ordinate with other departments like Health, Engineering, Education, Horticulture, etc. These eight zones will together control all 198 wards of the corporation. There will be field staff for each of these wards designated for revenue collection & other jobs.

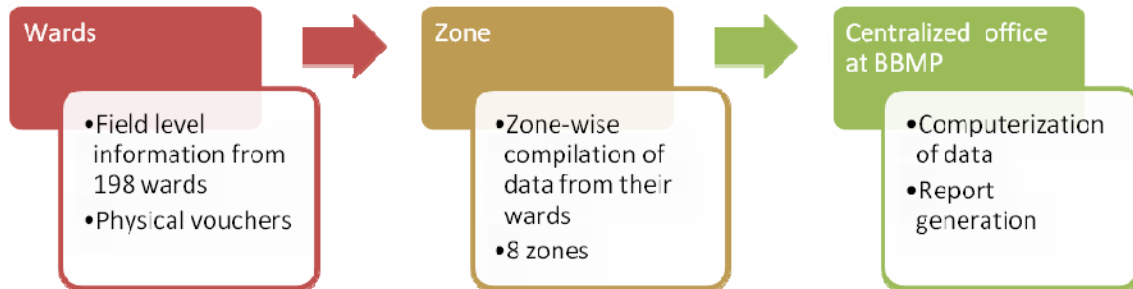
Figure 5-1: Organisation Structure



5.7.2 Information flows

Field staff from each ward will forward the information (like daily revenue collection challans) to centralized operation cell through their respective zones. This information is presently in the form of physical vouchers. Centralized unit for FBAS is based at BBMP Head Office. Operations of this centralized unit alone are currently outsourced to external consultants. Personnel in the centralized unit, in turn, will digitize the content by feeding the data into the system. Thus all the data is computerized and made capable of producing financial & MIS reports at various levels.

Figure 5-2: Information flow of Data



5.7.3 Benefits of FBAS to BBMP:

Key benefits attributable to FBAS are highlighted below:

- Availability of real-time information enhances decision making process
- External borrowings from Banks & Financial institutions are made possible with assessable financial data.
- Transparency of accounts leads to better governance
- RTI queries are answered at a quicker pace due to availability of information
- Duplication of payments is eliminated with systematic tracking of each and every work.

5.7.4 Existing FBAS system v/s JNNURM requirement

JNNURM has mandated accrual municipal accounting as one of its key reforms. BBMP is ahead of various other cities with FBAS already implemented for its municipal accounting. However, following key parameters, if implemented, will make BBMP compliant to the JNNURM requirements in municipal accounting front.

- Shifting to National Municipal Accounting Manual (NMAM)
- System modification to accommodate NMAM codes for assets, etc
- Reporting as per NMAM standards.

5.8 Progress update

Table 5-1: Progress updation

Reform Code	Commitment as per MoA (MoA signed on 8-Dec-06)	Target Year as per MoA	Cumulative progress
KA-L2-a	GO/Legislation/Modification of rules for migration to double-entry accounting system	Act already passed	FBAS Regulations already passed
KA-L2-b	Appointment of consultants for development of State manual	Year 1	Infrastructure Professional Enterprises Pvt. Ltd. Appointed in 2004
KA-L2-c	Completion and adoption of manual	Year 1	Govt. Order passed
KA-L2-d	Commence training of personnel	Year 1	Done
KA-L2-e	Appointment of field-level consultant for implementation at the city-level	Year 2	NCR consultants Limited, Chennai appointed
KA-L2-f	Notification of cut-off date for migrating to the double-entry accounting system	Year 2	1/4/2003
KA-L2-g	Business Process Re-engineering	Year 4	Yes Done while FBAS was introduced during 2001. For eg; Compilation section in Accounts branch has been wound up.
KA-L2-h	Valuation of assets and liabilities	Done	Done
KA-L2-i	Drawing up of opening balance sheet (OBS)	Done	Done

KA-L2-j	Full migration to double entry account system	Year 3	Done
KA-L2-k	Production of financial statements (income expenditure accounts and balance sheet)	Year 1	BMP has been publishing its Financial Statements (Balance Sheet, Income & Expenditure Statements) for 5 years running in leading Newspapers. Balance Sheet for 2006-07 published on 20th May 2007. Financial Statements for year 2008-09 for Greater Bangalore is ready & will also be published shortly.
KA-L2-l	External Audit of Financial Statement	Year 4	Audit of 2006-07 completed & report issued by the Statutory Auditor. Audit of 2007-08 underway.
KA-L2-m	Frequency of external audit	Annually	Being done every year. There is no backlog. Audit upto 2006-07 Completed. 2007-08 underway.
KA-L2-n	Preparation of outcome budget	Year 6	Will be done a year ahead of schedule
KA-L2-o	Complete re-vamp of the Public Financial Management (PFM) cycle which includes internal control	Year 6	Will be done as part of restructuring following formation of Greater Bangalore.
KA-L2-p	Credit rating of ULBs / Para-statal Agencies	Year 4	Credit rating done by ICRA

5.9 Way ahead

Our primary interactions with key stakeholders of BBMP revealed some of the following action points to improve the present system which can further enhance decision making process.

1 Decentralized & Web enabled system

Present system involve mundane task of digitizing each of the physical vouchers by passing through centralized system with huge human intervention. Ideally, BBMP should look at decentralizing the system where web-based challans/vouchers are issued at the first instance itself. This would further eliminate the time lag to reflect actual figures at any moment.

2 Linkage with other databases

As of now, existing system is linked with works database alone where their payments (as per work completion) are taken care of. However other databases like property tax, grievance redressal system, etc are in silos with no information exchange. Synchronization of all these databases would improve information flow across the organization.

3 Upgradation of existing FBAS

Existing technology, which is in use since 2001, is relatively dated in its architecture & functioning. There is immediate need for its upgradation to accommodate additional requirements like NMAM codes, etc. Also, Upgradation should ensure decentralized web-enabled system and linkage with other databases as mentioned above.

4 Valuation of Infrastructure & Governmental Assets

Valuation is yet to be completed for infrastructure & governmental assets like roads, bridges, etc. Valuation of them becomes vital to improve the accountability of assets & better governance of them.

5 Cash Management System

There are about 200 property tax collection points with independent bank accounts. Compiling & pooling of all these accounts need to be systemized. Further, it should be handled by one or two banks which can ease their accounting.

6 Expenditure Monitoring System

Expenditure monitoring system is yet to be computerized on the lines of revenue monitoring system. Computerization of expenditure system should link all the sub-divisions so that expenditure is monitored on a day-to-day basis.

5.10 Lessons learned

1. Comprehensive approach covering policy, process, people and technology aspects needs to be adopted
2. Continuity of key personnel as project champions is crucial for success
3. Domain knowledge and implementation expertise of external change agents is vital for proper implementation
4. The implementation should not be viewed as a mere computerization exercise
5. External change agents should handhold the municipality through one complete financial year

6. BHUBANESWAR MUNICIPAL CORPORATION

6.1 Overview of BMC

Bhubaneswar, the capital city of Orissa state has been the prime beneficiary of rapid economic growth being witnessed in the state in recent times. The most visible symbol of this growth is the emergence of an urban corridor stretching from Cuttack to Khorda via Bhubaneswar traversing 80 kms across. However the inadequacy in large industrial investment has meant that the city has emerged as a tertiary services led consumption centre with a weak manufacturing base. Bhubaneswar serves a population of 6.47 lakh (2001 Census) covering an area of 135 sq.km.

With the support of USAID, BMC has initiated the process of implementing Double entry accounting system in 2006. There is significant and marked improvement in the financial position of the Bhubaneswar Municipal Corporation (BMC) since the past three years.

6.2 Role of USAID

Consequent to 74th Constitutional Amendment Act, all the state governments had to assume responsibility for ULB reforms. Then Government of Orissa with the support of USAID initiated the urban reforms program in 2006 through Financial Institutions Reform and Expansion project - Debt market component (FIRE-D). The objective of this program was to improve delivery & management of urban services thereby enhancing the creditworthiness of Urban Local Bodies (ULBs). Bhubaneswar Municipal Corporation (BMC) was chosen as pilot city for implementation to start with and FIRE-D supported the following major activities:

- Developing state municipal accounting manual
- Introducing & implementing double entry accrual based accounting system (DEAS) to ensure improved financial management in BMC

The timing of this initiative became relevant to reform agenda of JNNURM which aimed at improving governance of ULBs & Bhubaneswar being one of the selected cities under JNNURM.

6.3 State Municipal Accounting Manual

Development of State Municipal Accounting Manual was of foremost importance before implementation of Double entry accrual accounting system. USAID FIRE-D along with technical support of Infrastructure Professionals Enterprise and Manas Dash & co has developed Orissa Municipal Accounting Manual (OMAM) on the lines of National Municipal Accounting Manual (NMAM). However some changes were incorporated to suit the specific needs of Orissa state. Following table illustrate those changes made in OMAM when compared vis-à-vis with NMAM:

Table 6-1: Comparative Change in OMAM and NMAM

Policy	NMAM v/s OMAM
Property and other taxes	<ul style="list-style-type: none"> In NMAM, Revenue is recognized when bills are raised whereas in OMAM, Revenue is recognized when bills are served.
Octroi	<ul style="list-style-type: none"> No changes
Water supply	<ul style="list-style-type: none"> In NMAM, Revenue is recognized when bills are raised whereas in OMAM, Revenue is recognized when bills are served.
Rentals, Fees and other sources of income	<ul style="list-style-type: none"> In OMAM, distinction is made between renewable & non-renewable licenses. In NMAM, Revenue is recognized when bills are raised whereas in OMAM, Revenue is recognized when bills are served.
Employee related transaction	<ul style="list-style-type: none"> Waiver of uncollectible amount subject to specific conditions is introduced for ULBs in Orissa.
Health & Sanitation	<ul style="list-style-type: none"> In OMAM, distinction is made between renewable & non-renewable licenses.
Fixed assets	<ul style="list-style-type: none"> OMAM recommends usage of Straight line method (SLM) depreciation for ULBs in Orissa OMAM also provides process for recording intangible assets.
Lease and Hire purchase	<ul style="list-style-type: none"> In case of Finance lease & Operating lease, OMAM considered accounting for ULB when it is either a lessor or a lessee.

6.4 Double entry accrual based accounting system (DEAS)

After developing the Orissa municipal accounting manual (OMAM), next step was to convert the accounting system to DEAS. USAID FIRE D program wanted to implement DEAS in BMC from FY 2006-07. This exercise began in June 2006 & was well supported by Orissa government. This exercise took over 2 years and account statements for 2006-07 were published on 31st August 2008.

Opening balance sheet

DEAS implementation has to be preceded by making “Opening balance sheet as on 01.04.2006”. It involved filling of around 37 formats under various heads like land, building, plant & machinery, vehicle, etc. It has taken over a year to complete “Opening balance sheet” & was published on 31st August 2007. This formed the basis for subsequent entries in Double entry accrual accounting system.

6.5 Implementation methodology

We shall look at various dimensions which form basis for implementing an effective double entry accrual accounting system (DEAS) and how BMC has fared in each of these dimensions.

6.5.1. Policy

BMC is following Orissa Municipal -Corporation Act, 2003. However it requires overhaul to suit changing needs of urban governance. For example, it doesn't legitimate Double entry accounting system as Cash book system is only approved by it. To cater these requirements, Orissa Municipal Corporation Act 2003 has to follow OMAM. It has taken over 5 years at various stages in approval & now it has to be approved by the cabinet to get implemented. Once OMAM is incorporated in Orissa Municipal Corporation Act 2003, , it would then require double entry accounting system to be followed. Further it would also pave way for dropping existing cash based system. Thus the state is yet to provide the much needed policy support to accommodate Double entry accrual accounting system. Further, USAID is in the process of drafting "Financial rules" which can enable Orissa Municipal Corporation Act 2003 to include OMAM.

6.5.2. Process

Before the implementation of DEAS, Process mapping has been done in detail to understand how the system worked. Following pointers were studied in depth:

- Different sections
- Functions of different sections
- Types of data collected
- Information flow across various sections

This study helped in identifying the interventions which has to be made for DEAS implementation.

6.5.3. People

People resistance is another important dimension critical to the success of any project. Therefore, employee buy-in has to be ensured for smooth functioning of new system. As the case with any project, there were many hiccups initially. However they have been overcome by advocating the advantages of DEAS system. This was predominantly done through training programs conducted in November 2007 and April 2008. For instance, it was very difficult for any employee to get bank balance as on a particular date, if he was asked by his higher authority before implementation of DEAS. Now it becomes easier to get any of those details with implementation of DEAS. Thus, employees are convinced that DEAS would simplify their job.

6.5.4. Technology

Technology is an important enabler in implementation of DEAS. Since the implementation of DEAS in 2006, Tally 9.0 is being used for entering data in BMC. In Tally, following are the vouchers in Tally system for which data is entered at BMC:

- Contra voucher
- Journal voucher
- Payment voucher

Presently, the data for 2008-09 is being computerised which means there is system backlog yet to be covered. Though Tally was sufficient to produce account statements as per DEAS, it is not capable of producing various MIS reports. Also manual registers are still used in parallel since BMC have been mandated to follow manual registers as per Orissa municipality rules 1953.

6.6 Changes after implementation of DEAS

As of now, financial statements for 2006-07 & 2007-08 were published. Accounts for 2006-07 were published on 31st August 2008. Similarly, accounts for 2007-08 were published on 31st August 2009. Following are some of the major changes after the implementation of DEAS:

- Preparation of annual statement of accounts
- Computerization of accounting systems
- Accounting of receivables & payables using accrual basis
- Classification of revenue & capital items of receipts and expenditure
- Accounting of the Corporation fund under five separate sub-fund accounts & each of these sections function independently like issue of tenders
 - Water supply, Sewerage & Drainage account
 - Road development
 - Bustee (slum)
 - Commercial projects
 - Solid Waste Management account
- BMC was maintaining 29 bank accounts before DEAS implementation. Now it was brought down to 15 accounts thereby reducing problems in account consolidation. Also Year-end reconciliations are being done now.
- Investment register is created to account all the investments made by BMC

- Records for Earnest Money Deposit (EMD) and Security deposit are systemized in Engineering department.
- Except for House building advance, other advances given to staff (like festival advance, medical advance, vehicle advance) are maintained properly now.

6.7 Progress update

Table 6-2: Progress Updation as per Target

Reform Code	Commitment as per MoA (MoA signed on 18-Dec-06)	Target Year as per MoA	Cumulative progress
a	GO/Legislation/Modification of rules for migration to double-entry accounting system		GO has been issued. Legislation/ Modifications of rules are under progress.
b	Appointment of consultants for development of State manual	Year 2	Completed
c	Completion and adoption of manual	Year 2	USAID FIRE-D with support of IPE and Manas Dash & co has developed Orissa Municipal Accounting Manual (OMAM) in 2006-07.
d	Commence training of personnel	Year 2	Completed
e	Appointment of field-level consultant for implementation at the city-level	Year 2	Manas Dash & Co has been appointed as field level consultants.
f	Notification of cut-off date for migrating to the double-entry accounting system		Completed
g	Business Process Re-engineering	Year 3	Completed
h	Valuation of assets and liabilities	Year 3	Completed by consultants
i	Drawing up of opening balance sheet (OBS)	Year 2	Opening balance sheet as on 01.04.2006 has been prepared & published on August 31, 2007.
j	Full migration to double entry account system	Year 2	Completed
k	Production of financial statements (income expenditure accounts and balance sheet)	Year 2	Completed for 2006-07 & 2007-08.
l	External Audit of Financial Statement	Year 2	AG Audit completed for the year 2008-09
m	Frequency of external audit	Annually	
n	Preparation of outcome budget	Year 3	Not yet done
o	Complete re-vamp of the Public Financial Management (PFM) cycle which includes internal control		
p	Credit rating of ULBs / Para-statal Agencies	Year 3	Completed

6.8 Way ahead

Based on our primary interactions with key stakeholders, following are the key interventions that have to be taken in the immediate future:

1 Legal issues - Orissa Municipal Corporation Act, 2003

Cabinet approval is still pending for OMAM so that it can be incorporated in Orissa Municipal Corporation Act, 2003. However, it is imperative to get it implemented so that it provides much needed policy support to further the initiatives in municipal accounting.

2 Technology

Till now, accounts are maintained manually & then entered in Tally. Tata Consultancy Services (TCS) is currently working on 'Oracle' based system under 'Project e-municipality'. It will have 10 modules with Accounting as vital among them. This will be eventually rolled out to all 103 ULBs in Orissa with pilot being started at BMC. New system is expected to have superior features to capture data online & can produce various MIS reports.

3 Outcome Based Budgeting

Incremental budgeting is still used in BMC for forecasting revenues & expenditure. Huge variance in actual & estimated values suggests the need for Outcome based budgeting which would better the analysis of variance.

4 Better Financial Management

There is need for Cash management, receivable management, inventory management and expenditure management system for BMC to have better financial management. For instance, ageing analysis of receivable would improve the collection efficiency.

5 Capacity Building

There is need for trained manpower from BMC for smooth continuation of the system as it is presently done by external consultants.

7. MUNICIPAL CORPORATION OF FARIDABAD

7.1. Overview of Faridabad Municipal Corporation

The Municipal Corporation of Faridabad (MCF), established under the Haryana Municipal Corporations Act 1994, serves a population of 1.06 million (2001 Census) in the city of Faridabad, one of the largest cities in the State of Haryana. Faridabad is an important industrial centre in Haryana and is also growing in importance as a economically strong city due to its location in the NCR. The main decision-making body of MCF is the Council, comprising elected representatives, while the administrative wing headed by the Commissioner looks after the day-to-day operations.

MCF's local economy benefits from its proximity to Delhi, the capital of the country. In addition, buoyancy in real estate related activities in the city has increased the intrinsic value of MCF's surplus land bank, improving the Corporation's financial flexibility. MCF has consistently maintained a revenue surplus of an average 37 percent of its revenue income, although the extent of such surplus was only nominal in 2 out of the last 5 years. Also MCF had an overall growth in non-tax revenues.

However MCF is constrained by a weak MIS structure, inadequate level of basic services including water supply and sewerage, low revenues from its own taxes and its high dependence on state Government transfers, although a majority of such revenues are non-discretionary in nature. Also the pressure of capital expenses on the revenue account is increasing year after year. This situation demands expenditure control measures and planned capital investments on the part of MCF. As part of the JNNURM programme, MCF has committed to undertake certain time-bound reforms. While there has been some progress made at both the state and Corporation levels in this regard, MCF has however been unable to meet a number of its reform targets - primarily those relating to improvements in collection efficiency and cost recovery.

In order to capture both the qualitative discussions and the individual capacity of the MCF, the study team conducted comprehensive interviews and circulated individual questionnaire. Detailed discussions with several officials of the accounts department were conducted. The findings are detailed in the subsequent sections.

7.2. Existing Scenario

MCF's accounting system was **cash-based**; income and expenditure heads are maintained on a cash basis. All the expenses towards regular maintenance are treated as revenue expenses, while expenses on new projects are treated as capital expenses. All accounts and budgets of the ULBs are audited annually with the first audit being done by a local auditor on a monthly basis with these reports being sent annually to the Director, Resident Auditor, Haryana who finally issues the annual report. The standing committee exercises

strict control over the projects that requires capitalization. Direct expenses are appropriated to the user department.

Problems Faced in Implementation

- Accounts were maintained under the Single Entry System. No mechanisms were in place to ascertain the accuracy of the receipts and Payment entered.
- All accounts are still maintained manually with no accounting activity being carried out using computers and the computer is used more as a device for storing data rather than for processing data.
- There are 34 accounts maintained in various banks for the last 30 years resulting complexity
- Cash Books were not closed and closing final balances was arrived at based on receipts and expenses classification and tallying mechanisms was not in place
- Correct position of bank balances were not known in the absence of non-closure of cashbooks and reliance to place of Bank Scroll, hence no proper financial planning could be made.
- Amount spent on final assets and available with the corporation was not available
- No Management Information System was in place, thus information related to municipal finance was not properly circulated to all relevant channels.

The accounts can be classified under two major heads, revenue account and capital account. The revenue sources of the Corporation may be broadly classified as internal or operating income and external receipts. Internal income includes receipts from the operations of the Corporation, in the form of taxes, water and sewer charges and fees and charges on other services such as advertisement fee, food and license fee. Whereas external fund sources include revenue grants from State and Central Government, loans and contributions for projects. Expenditure incurred towards establishment, operation and maintenance of services, as well as repayment of loans are treated as revenue expenditure. Expenditure on asset creation and investments in new projects or purchase of equipment are treated as capital expenditure. Advances, deposits and any item of income or expenditure, which is temporary in nature is treated and accounted for under the extraordinary account. This account head is not analyzed as the items in it are temporary in nature and have no impact on the overall financial position of MCF. Exhibit 2 & 3 provides formats of existing registers maintained by MCF.

Exhibit 2: House Tax and Fire Tax Register of Municipal Corporation of Faridabad

Municipal Corporation, Faridabad													
Zone													
Demand & Collection Register						House and Fire Tax							
Year 2003-2004						Year 2007-2008							
House No/Plot No			NH/Sector/Ward/Colony			Name of Owner				Name of Occupier			
Year	Head	Arrear	Demand(Proceedings taken to effect recovery thereof)	Total	Detail of Amount Received			Total Recovery	Related To Other Exp.	Balance	Interest	Total Balance	Remarks
					Receipt No	Date	Amount						
2003-2004	House Tax												
	Fire Tax												
2004-2005	House Tax												
	Fire Tax												
2005-2006	House Tax												
	Fire Tax												
2006-2007	House Tax												
	Fire Tax												
2007-2008	House Tax												
	Fire Tax												

Exhibit 3: Provident Fund Liabilities Register of Municipal Corporation of Faridabad

Name of Depositor	Name	Designer	Opening Balance	April							
				Date of Credit	Deduction from salary		Withdrawal		Total		
					Rs	P	Rs	P	Rs	P	

7.3. Procedure followed for Implementation

Accounting reforms in MCF were initiated by its Commissioner. The reforms were given legal sanctity with the Standing Committee and General Body passing a resolution on 11.06.2007 to implement the same.

- The accounting reform initiative was conceptualised in 2007. In this first phase, a reform plan was drawn with a timetable for introducing the new accounting system
- Next, the MCF identified and appointed a suitable consultant to design and implement the accounting reforms by competitive bidding process
- SOMISH Solutions has been appointed as consultants for conversion to double entry system.
- The consultants commenced work in November 2008
- They prepared an accounting manual and began implementing it in November 2008
- The balance sheet for 2008-09, which was prepared in May 2009, was reconstructed using the revised formats and budget codes
- The consultants built customised software between November and March 2009, which used Oracle 8, Visual Basic and Crystal Reports 8. This program fully meets the needs of the accounting system
- The corporation began preparing the opening balance sheet during the entire implementation exercise; this is at the final verification stage currently

The process adopted for reforming accounting system can be classified into two parts

1. Streamlining of the existing municipal accounting system and procedure without going for the introduction of the double entry accrual based accounting. This is required to finalize earlier years pending accounts, to prepare opening balance sheet and more importantly to prepare foundation for the introduction of double entry accrual accounting system.
2. Application of accrual accounting concept and maintaining of accounts on double entry accounting system with the help of live-wire kind of technical help. Enlisting of Assets, their valuation and then adding this data to the balance sheet.

7.4. Streamlining of the Existing Municipal Accounting System

- **Preparatory** – This stage broadly covers documenting existing accounting system as suggested below will expose various problems associated with it.
 1. All accounts maintained by the central account department staff and by the staff of other departments have been listed.

2. Each individual responsibility in the accounts department and the nature of job he is used and volume of job of that individual has been noted.
 3. Grouped various heads/items of receipts and payment to formulate existing chart of accounts.
 4. Listed various forms utilized, various registers, books of account maintained as a part of existing accounting system.
 5. Listed various accounting policies, proprietary rules and internal control procedures to be followed regarding raising demand, accounting receipts, preparation and processing of payment voucher etc as per existing accounting system.
 6. Carried out process mapping of entire existing accounting system that is how every receipt and payment moves from point of origin up to finalization of accounts.
 7. Process mapping, chart of accounts and Municipal Accounts Code available to key accounts staff has been made.
- **Review, Analysis and Implementation –**
 1. Existing chart of accounts and classification has been reviewed. Duplicating, ambiguous, redundant accounting items have been removed.
 2. Reviewed and analyzed all the information collected and prepared in the preparatory stage as explained above. Do away with duplicating, irrelevant registers, processes, forms to streamline existing accounting system and flow of work, receipts and payments.
 3. Reviewed and analyzed the quantum of work handled by each accounting staff. Rationalize quantum of work and allocate appropriate workload to each staff.
 4. Review and analyze various existing accounting policies, proprietary rules and internal control procedures and streamline them without compensating safety and propriety of the accounting system.

7.5. Introduction of Accrual Based Double Entry Accounting System

Case Studies - As the consultant have significant experience in designing the system he had reviewed all successfully stories in the conversion and implemented lessons learnt.

Resolution for adopting improved accounting system - It is necessary that general council of municipal body formally adopt a resolution regarding introduction of improved accounting system to seek permission from the State Government. Thus, a resolution has been passed in the year 2007 for the introduction of accrual accounting system.

Exhibit 4: Silent Features of the Somish-ERP

Masters

ERP-Masters are the primary plans, decisions and instructions of the Management/Authorities which they expect to be followed down the line. Entire ERP revolves around Masters and ensures no one deviates from the plans of the authorities. It houses the most crucial information as Master Coding of each activity. Masters includes the details of the Authority, Contract Codes, Details of Employees, Grade and Appointments, Finance, Accounts and inventory master coding; dually classified.

Accrual Based Double Entry Accounting System

ERP has integrated Accrual Based Double Entry Accounting System, complying with the C&AG guidelines and National Municipal Accounts Manual. It incorporates the Chart of Accounts and has a provision for State level modifications too. It is inbuilt with Bank Reconciliation statements, Trail Balance, Controls of Cash and bank funds, Books of Accounts, receipt and disposal of funds. System includes on-line internal audit and periodic statutory audit. All the screens are operated by passwords and thus need no signature, saving time of management. Recurring expenditure control is a key facility. ERP assists Accounts department to act as a controller by eliminating re-entry of any data Ledgers and Financial Statements are auto generated.

Branch Accounting

ERP integrates all the branches in a single system for complete accountability and transparency. Branches such as Copying Fee, Engineering Services, Slaughter Fee, Toll Tax, Stamp Duty share and Account Branches are all maintained separately and simultaneously merged into the final accounts. Daily transactions cash/bank along with the Revenue received is accounted in the individual account and the appended in the Main account.

Personal Information System

ERP Personnel Module assists the MCF to create an effective Personnel information system. Employee details such as name, designation, address, phone number, appointment details, salary structure etc., are maintained.

Inventory

ERP assists the MCF to manage their inventory and assets effectively. This module is directly integrated with Accounts preventing duplicity of entry.

Property Tax

ERP has a transparent and convenient system for collection of Property tax. The system is inbuilt with facility for self-assessment of property tax based on defined parameters. Demand notices are generated, printed and issued through the system.

Water Billing and Payments

ERP covers the present drive of automation including drinking water supply, billing and payment receipts. Applications for new water connections can be entered in the system thorough web portal or directly in ERP. The unique Resident ID facilitates creation of records of water supply connection type, supply rate or fix rates. Generation of bimonthly bills, receipt of payments, outstanding and defaulters list is facilitated.

In additions ERP is integrated with building plan approvals, municipal engineering services, and birth & death certificates, Solid Waste Management, Licensing, Rent Billing and Receipts, Driving License, Vehicle Registrations

The Duration

The reforms were conceptualised in November 2007 and came to a logical conclusion in November 2008 by appointing a consultant for conversion. Consultants have worked from November 2008 to May 2009 to produce provisional balance sheet for the year 2008 to 2009. By Significant efforts by the consultants process has completed only in six months.

7.6. Problems Faced During Implementation

Shifting to double entry accounting system and understanding the concepts and adopting to the new systems in computerized environment was a major problem in the implementation process.

1. Bank Accounts:

Most tedious task was to reconcile and consolidate all 34 accounts which are maintained by the MCF in various banks for last 30 years into three accounts in a single bank.

2. Unawareness of Municipal Staff

Municipal staffs were initially reluctant to any change in the system. It's due to lack of awareness about the benefits provided by modified system and process involves fully computerisation. Municipal Corporation initiative for a training program to the all accounting staff by APTECH has been called off due to lack of interest from the staff.

3. Duplication of Work

Although system is placed due to lack of initiative from the staff, still works are manually maintained which is resulting duplication of work.

4. Asset Valuation

Asset valuation is always a tedious and time consuming task. Given the list of assets and value at present terms by the municipality valuation of asset has been conducted by the consultant to equip in the balance sheet.

5. No Opinion-Building Exercise Undertaken:

From the government's records and discussions with people, it seems that enough efforts have not been made to change people's mind set and build opinion in favour of accounting reforms.

6. Lack of Management Support:

Within the municipal body, the exercise did not receive the much-required support and leadership. At every stage, the implementation process faced hurdles such as inordinate delays in giving administrative clearance to different implementation phases or reports submitted by the consultant's adequate staff for training and implementing the new accounting system.

7.7. Progress Update

Table 7-1: Comparative Progress Updataion

S No	Module	Target Year as per MoA	Progress During Last Quarter of 2008	Progress During on March 2009	Progress During on June 2009	Cumulative progress
1	Resolution by Government expressing commitment to establish modern municipal accounting system		Resolution passed in 2007 in the meeting of MCF House held on 11.06.2007	Resolution Passed in the year 2007	Resolution Passed in the year 2007	Resolution Passed in the year 2007
2	Appointment of consultants for development of state wise municipal financial accounting manual	2006-07	----	----	National Municipal Accounting Manual (MNAM) has been adopted by MCF at our own level	National Municipal Accounting Manual (MNAM) has been adopted by MCF at our own level
3	Completion and adoption of Municipal Financial Accounting Manual, in line with NMAM or otherwise	2006-07	----	----	National Municipal Accounting Manual (MNAM) has been adopted by MCF at our own level	National Municipal Accounting Manual (MNAM) has been adopted by MCF at our own level
4	Modification of Municipal Finance Rules for migrating to double entry accounting system	2006-07	Proposal Pending with Govt for approval	Proposal pending with Govt., for approval. However MCF has started accounting system as per NMAM in addition to existing	National Municipal Accounting Manual (MNAM) has been adopted by MCF at our own level	National Municipal Accounting Manual (MNAM) has been adopted by MCF at our own level

S No	Module	Target Year as per MoA	Progress During Last Quarter of 2008	Progress During on March 2009	Progress During on June 2009	Cumulative progress
				system		
5	Training of personnel	2006-07	----	----	Under Progress (Training by APTECH)	Under Progress (Training by APTECH)
7	Notification of cut-off date for migrating to the double-entry accounting system	2006-07	----	----	Provision Balance Sheet as on 31.3.2009 prepared which is under finalization	Provision Balance Sheet as on 31.3.2009 prepared which is under finalization
8	Re-engineering of business process to align with accrual based accounting system	2006-07	----	----	BPR is an integral part of the 3-governance initiative	BPR is an integral part of the 3-governance initiative
9	Payroll, works contracts, etc.,(alignment all commercial and financial process such as procurement, revenue collection)	2006-07	Implemented	Implemented		
10	Completion of registers and Valuation of assets and liabilities	2006-07	----	----	In progress	In progress

S No	Module	Target Year as per MoA	Progress During Last Quarter of 2008	Progress During on March 2009	Progress During on June 2009	Cumulative progress
11	Drawing up of opening balance sheet (OBS)	2007-08	----	----	Provision Balance Sheet as on 31.3.2009 prepared which is under finalization	Provision Balance Sheet as on 31.3.2009 prepared which is under finalization
12	Provisional OBS	2007-08	----	----	----	----
13	Adoption of Provisional OBS	2007-08	----	----	----	----
14	Finalization of OBS	2007-08	----	----	----	----
15	Full-migration of double-entry accounting system	2008-09	----	----	Will be completed by Year 2009	Will be completed by Year 2009
16	Production of financial statements (income-expenditure accounts and balance sheet) as per the new system	2008-09	----	----	Will be completed by Year 2009	Will be completed by Year 2009
Improved Financial Management		2008-09	----	----	----	----
1	State year from which external audit of financial statements will commence	Annually	----	----	Will be completed in 2010	Will be completed in 2011
2	Frequency of such external audit cycle	2008-09	----	----	Annual	Annual

S No	Module	Target Year as per MoA	Progress During Last Quarter of 2008	Progress During on March 2009	Progress During on June 2009	Cumulative progress
3	State year from which ULB will commence preparation of outcome budgets	Annually	----	----	Will start from 2010	Will start from 2011
4	Credit Rating of ULB		ICRA has assigned an issued Rating of Ir BBB which is a moderate credit quality rating	ICRA has assigned an issued Rating of Ir BBB which is a moderate credit quality rating	ICRA has assigned an issued Rating of Ir BBB which is a moderate credit quality rating	ICRA has assigned an issued Rating of Ir BBB which is a moderate credit quality rating

7.8. Achievements

1. Provisional Balance Sheet for 2008-09

Somish Solutions Ltd has created best solution for conversion of accounting system as per Government of India drive through *Enterprise Resource Planning Solution*(ERP) (please refer Exhibit1.3), a scientific way of management. A Provision Balance Sheet has been prepared as on 31.03.2009 which is under finalization.

2. Staff Training

Training courses were conducted for all levels and for all types of officers and employees within municipal bodies, other agencies, government offices and departments dealing with the reform process. APTECH Computers has been appointed to train the municipal staff on basics of computers.

3. Field Level Consultants

WebMentorsIndia Ltd has been appointed as field level consultants for implementation at the city-level. The consultants were appointed through an open bidding process for the purpose of development of the state manual and for effective transformation to accrual accounting.

4. National Municipal accounting Manual

Corporation has mandated to adopt National Municipal Accounting Manual. Consultants adopted NMAM without any modifications.

5. Financial Reforms and Business Process Re-engineering

Regarding financial reforms and business process re-engineering, Municipal Corporation of Faridabad has made necessary changes as part of e-governance initiative. MCF has prepared assets & property database and unique ID has been given to each property. All the assets have been valued with the help of appointed consultants. Separate Accounts heads created for utilities and infrastructure by computerising income, expenditure and preparing bill database. Consultants have been appointed for computerisation of House Tax and Water Tax demand and collection registers and data base has been prepared for the same.

6. Database Preparation:

Employee's database has been created, payroll, provident fund implemented. Web based tendering system introduced and all tenders are announced online. Ward wise works is integrated with the Web-based tendering system and all works are classified ward-wise and work head wise like road, sewage, water etc. Building plans are hosted on the net and even the online objections are invited from the public.

7. Credit Rating:

In connection of credit rating, Government of India had appointed ICRA for evaluation of financial performance of Municipal Corporation of Faridabad. After analyzing all the administrative reforms, service quality, project risk, financial reforms and current financial position and strength of MCF, ICRA has awarded “Ir BBB” which is moderate credit quality rating.

7.9. Learning's

Though the attempt is yet to be realized and implemented the process of implementation thought some lessons to be followed while perceiving for conversion of the entire system.

1. Staggered or Step-by-Step Implementation

It became clear from the implementation exercise that if accounting reforms are to be introduced in a municipal environment, they have to be broken up into smaller parts, which in turn should be appropriately timed and phased. It is very difficult to introduce sweeping accounting reforms involving the whole municipal corporation or all its departments at one point of time. Accounting reforms in a municipal body should be carried out first in the central accounts department or the central accounting system, then in the linked peripheral accounting systems that is the feeder accounting system, and finally in the independent accounting systems. Another method of achieving step-by-step implementation is by adopting a fund based accounting system in place of a consolidated fund system as this helps the municipal body to introduce a modern accounting system in various funds one after the other, that is, in a piecemeal manner.

2. Application of Computer Technology from Inception

One important lesson learnt from the first exercise was that in order to successfully introduce accounting reforms in bigger municipal corporations it is a must to introduce computer technology right from the beginning. Such a measure can solve both the qualitative and quantitative problems relating to human resources. As the volume of accounting work is very large in a large municipal body, application of double entry accounting system on a manual basis leads to a sizeable increase in accounting work and an increased demand for qualified personnel, which is a very difficult to fulfil. No municipal body will be ready to support accounting reforms if they require additional staff. It was therefore felt that if the accounting reforms had been introduced with appropriate computerization right from the inception, the need for extra staff would not have arisen. Computerization also takes care of the qualitative aspects of the human resource as the accounting software frees the general staff from the application of accounting principles, totalling, classification of entries under different heads, reconciliation and formation of trial balance and final accounts. Because of this adoption of computer technology results in better support from the operating staff as it frees them from the load and complications of accounting work.

3. *User Friendly Computer Accounting Software & Training to the Staff*

The computer software selected for implementing accounting reforms or a new accounting system in a municipal body should be user friendly. It was found that readymade accounting packages were more user friendly than tailor-made accounting software.

4. Training the staff is utmost important exercise which has to be carried out in a way that they themselves feel interesting for the conversion. This could be achieved only by making aware the benefits of the system as well as learning and maintaining one to one relationship.

7.10. **Benefits Attained**

The information resulting from the reformed accounting will be mainly useful for the better decision-making. Decision-making process broadly covers all the areas or usage of the resulting information from the reformed accounting system, still let us list how one can use resulting information.

- **Better Financial Planning & Controlling** – reformed accounting will answer a fundamental question whether financial position of a municipal body has improved or worsened during the year in definite terms, which is not possible with present single entry accounting system. This information will really helpful to improve financial planning and controlling.
- **Performance Evaluation** – The most important result of the improved accounting system will be availability of information useful for performance measurement and evaluation in concrete terms. A municipal body should use such information extensively to measure performance and to fix accountability for the performance.
- **Effective Reporting** – The resultant information of the improved accounting system will be accurate, consistent with accounting norms and transparent which can be used for effective financial reporting and to create credibility about a municipal body in the people at large. A municipal body then can have financial reporting as per accounting standards and disclosure norms this will create confidence.

7.11. **Way Forward**

1. **Awareness & Training**

As per mandate role of consultants ends with conversion of cash based accounting system to accrual based accounting system and preparation of balance sheet which is supposed to end by 2009. We foresee it would be merely difficult to perform the task by Municipal Corporation on its own with the immediate effect.

Given the scenario we recommend that consultants have to be retained for one more year to perform the assessment and create opportunity to the municipal staff to get train in the

double entry system and computerization. Training the municipal staff shouldn't end to the understanding of computers and circulating training manual. It has to be the responsibility of the officers who are actually responsible for the implementation to support staff and train them at each stage of implementation.

The training has to be oriented towards

- Understanding computer applications
- Understanding NMAM
- Understanding double entry system

2. Valuation of Assets

Although initial assessment and valuation of assets has been completed by consultants with the help of Municipal Corporation, a detail assessment has to be carried out to assess the values of assets for the present date.

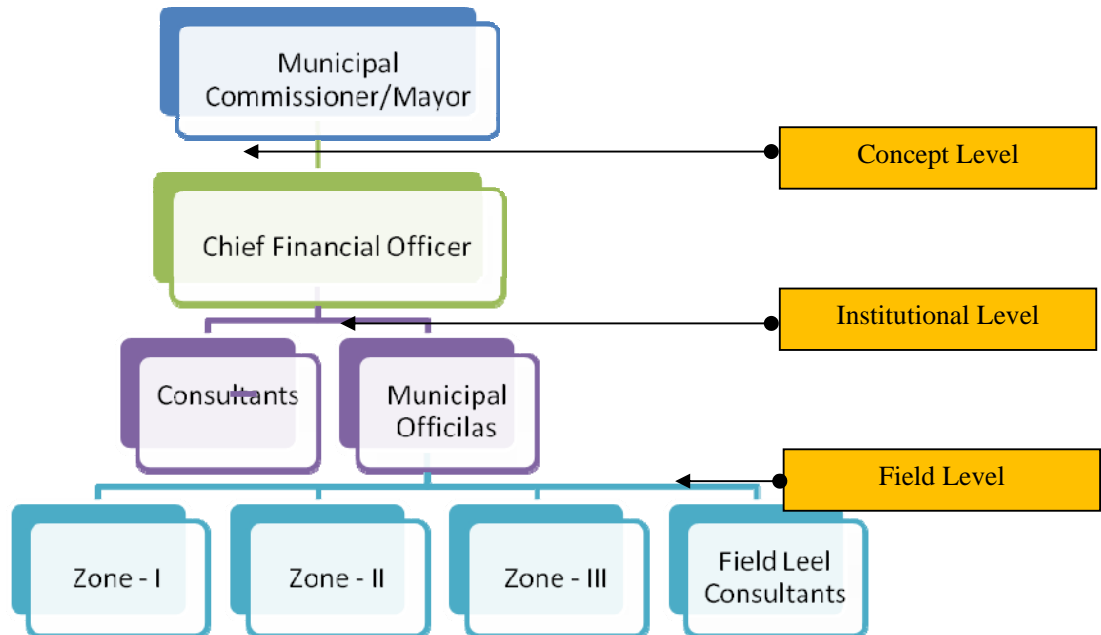
3. Create Implementation Set up

A steering committee will be formed by comprising municipal officials, elected members and consultants. Municipal Commissioner or Mayor should head the steering committee which acts a **concept level** to define strategies for implementation and overseas implementation process. At the **institutional level** chief financial officer will coordinate with the consultants and municipal officials from all the departments.

Role of consultants will be extended to educate municipal officials under purview of Chief Accounts Officer on double entry accounting system.

A parallel budget preparation will be taken place by the municipal officials with the help of consultants. Consultants have to be retained for the whole year as the accounts could be revalidated for every quarter.

Information (like daily revenue collection challans) will be forwarded to the field level consultants from the Field staff of each ward. The existing mode of storage of this information is physical vouchers. **Field level** consultants will digitise the content by feeding the data into the centralised system. Somesh Consultants who has developed ERP solutions will maintain the centralised system, thus the whole information will be computerised and updated on daily basis. Following flow chart will explain the structure for implementation could take place for the reform implementation.

Figure 7-1: Structure for Implementation

- 4. Process Mapping** - Process mapping means preparation and documentation of existing accounting system using flow chart technique. This is an important as this exercise provides information about what is wrong with existing flow of work, documents, and communication and benefits from the following the streamlined accounting system.

8. SHILLONG MUNICIPAL BOARD

8.1. Background study of Shillong Municipal Board

The Government of Meghalaya in its follow-up, on attaining the status of a full-fledged state on 21st January 1972 and in its initial years, adopted the Assam Municipal Act '1956. Owing to its limited application the government adopted the Meghalaya Municipal Act' 1973, in view of the rapid growth and development.

The powers and functions of the Shillong Municipal Board (SMB) are in accordance with the Municipal Act 1973. As such the Act of '1973, itself has become obscured and limited. Tentative efforts are underway to amend the Act. In 1987, the Government constituted the Board with eleven (11) members and re-instated what is known as Shillong Municipal Ad-hoc board and continued functioning till 19.08.98.

The city of Shillong, Meghalaya is an eligible city for funding under the JNNURM. Shillong comes under the Category C (up to I million population). The population of the Shillong Urban Agglomeration is 2.67 lakh as per the 2001 Census. The population for Greater Shillong Planning Area (GSPA) for which this CDP is being prepared is 3.31 lakh.

The Greater Shillong Planning Area comprises of the Shillong Municipal Board, Shillong Cantonment Board, 7 urban centre's and 32 villages and is a part of the Tribal Area of Khasi Hills District. It may be noted that the Meghalaya Municipal Act of 1973 is very much in place. However, municipal elections could not take place in the year 2000. Therefore, the Shillong Municipal Board is being governed by a nominated administrator of the state government.

In this regard, the state government is tandem with the implementation of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has emphasized the implementation of modern accrual based double entry system of accounting. In doing so the government has appointed and entrusted the task for the complete conversion of the present single entry system to a chartered accountant.

The initiation of JNNURM in lieu to the Finance Commission awards, a clear cut guidelines have been made mandatory towards the adoption of Modern accrual based double entry system of accounting for ULB's, with an objective of improved urban governance which will help the ULB to become financially feasible with enhanced credit rating. This will further improve the ability of the ULB to access market capital for undertaking new programmes and expansion of services in this improved environment.

In adopting this accrual based double entry accounting system of accounting, the office has instigated a new chapter in its development that would be at par with other municipal accounting procedures that would bring about to a more transparent and effective Municipal Administration. This adoption would serve as a stepping stone for the future development of

the SMB for self-sustainability and reliability which in turn would provide better community services.

The adoption of the new accounting procedures is the transaction from an old system of accounting, based on cash basis. It is rudimentary for the Shillong Municipal Board to adopt. The concept on Municipal Accounting reforms in relation to the old system under the cash basis, transactions are recorded when the related cash receipts or cash payments take place. Thus revenue is recognized when cash is collected and similarly, expenditure is recorded when payments take place.

8.2. Willingness to Undertake Mandatory Reforms

The City Development Plan addresses the issue of reforms and reveals that the Government of Shillong is committed to modernization and reform and that it is willing to undertake the mandatory reforms. At the local/city level, the Shillong Municipal Board is currently following the single entry system of accounting and they have already initiated steps for conversion to double entry system of accounting and plan to complete the process by the year 2010.

Also, the North Eastern Region Urban Development Project Report 2006 has underlined the need for improving the accounting system, records and reports by adopting accrual system of accounting and emphasized the need for the staff to undergo training in this regard. In fact, recently, the Govt. of Meghalaya has conducted capacity development programmes for personnel of urban local bodies and other agencies on the subject of double entry accounting system. Further, it is understood that the Meghalaya Urban Development Authority is already maintaining accounts in the double entry format since the year 1990.

8.3. Need for Accrual Basis of Accounting

The progress of SMB is constrained by its weak financial profile, inadequate institutional, technical and managerial capacities, inefficient cost recovery systems and its slow progress on important reforms mandated by the JNNURM programme. SMB's limitations in providing expected levels of core civic amenities, poor financial management and reporting systems as well as limited potential in raising taxes and harnessing its own sources of income also constrain the ratings. SMB is plagued by several accounting deficiencies, including the misclassification of revenue and capital items, the adoption of a cash-based accounting system and a backlog in finalizing its accounts.

Currently in Shillong Municipal Board, there is no Financial Reporting System¹ (FRS) for both the external and internal users. Even the Municipal Acts does not compel a Municipal body to publish and distribute financial results to the public. Currently for Shillong Municipal Board the system or internal control is ill-structured and underdeveloped. The solution to this deficiency lies in the adequate accounting and budgeting systems

¹ The FRS consists of three major documents viz.: The annual budget, the annual administrative report and the annual audit report

8.4. Migration to a Double Entry Accrual Based Accounting System

The accounting reform for urban service delivery improvement (the Reform) consists of three phases:

- (i) Introduction of a computerized accrual based-double entry system of accounting and computerization revenue recording,
- (ii) Management accounting for achieving efficiency in revenue collection and budget allocation using financial and management information system, and
- (iii) Computerization of citizen's access to public services. SMB has already engaged a financial services provider to complete the initial phase of reform, which includes
 - The completion of registers for assets and liabilities of the ULB as on March 31, 2009;
 - Physical verification and valuation of assets and liabilities;
 - Compilation of all entries required for preparation of Opening Balance Sheet and adoption as of 1 April 2009; and
 - Migration of accounts up to 2009.

There are however a number of activities that remain pending for completion and that the consultant will undertake in SMB, including:

1. Review of existing **Municipal Financial Management Computer Software** in SMB, incorporating improvements/new functions, wherever needed and training of SMB staff on the use of this software.
2. **Re-engineering of Municipal Management processes** to align with accrual based accounting system: The objective is to re-engineer various municipal functions to bring in line with the municipal financial management process. The various functions include property tax management system, procurement system, asset management system, inventory management system, payroll management etc. The Re- engineering of the functions will be integrated with the municipal management information system (Municipal E-Governance system). Streamlining Municipal financial management system with the Municipal management information system will ease out the implementation of Double entry system.
3. **Preparation of Municipal Accounting Manual in line with NMAM:** A customized Municipal Accounting Manual for Meghalaya has to be prepared in line with NMAM depending upon the functions and type of service delivery of the ULB. Preparation of the manual will give direction to the accounting staff of the ULB towards easy understanding of the accounting procedure and accounting entries.

4. **GO/Legislation/Modification of Municipal Finance Rules** for migrating to double-entry accounting system: The consultant will assess whether all required legislative changes or amendments in the existing municipal act were conducted prior to full migration to double entry accrual based system. If not, the consultant will draft and assist Government of Meghalaya in the approval of this amendments/notifications (including the notification of cut-off date for migration to double entry accounting).
5. **Training of accounting staff:** Training of the accounting personnel has to be done in line with the accounting manual prepared for full implementation of the system in the ULB.
6. **Output financial statements** (income-expenditure accounts and balance sheet) as per the new system as on March 31, 2010: The financial disclosure has to be in line with the accounting manual to be prepared for the ULB.
7. Support SMB for appointing internal and external auditors.

It is envisaged that the consultants will have

- (i) Extensive experiences in municipal accounting reforms in India;
- (ii) Municipal accounting and financial management expertise in India,
- (iii) Extensive field knowledge of municipal accounting systems, policies and administrative guidelines in India;
- (iv) Experience and technical capacity for development of computer software required for conversion of existing municipal accounts to accrual-based double entry accounts in India and
- (v) Management expertise to provide smooth transition through improved management systems and capacity building.

8.5. Current Status of Reforms

The objective is to shift from the cash book single entry system to a modern accrual based double entry system of accounting. On this the SMB has appointed a consultant for taking up the migration from single entry accounting system to double entry system in June 2008 and for giving in house and on hands training to the accounts staff of SMB. The consultant has submitted the interim report for accounts of 1998-99 up to 2006-07. For the accounts of 2007-08 and 2008-09, the work is still in progress and hands on training are also imparted to the accounts staff of SMB. The new system is expected to be fully adopted by the next financial year. Since the state Municipal Accounting Manual is yet to be developed we have started to develop the accounting formats as per the NMAM.

Under the 11th and 12th Finance Commission Award the SMB has received infrastructure support towards computerization. About 28.00 lacs have been sanctioned for the hardware requirements and the same fully utilized for the purpose. Another 3.5 lacs was sanctioned

towards development/customization of software by NICSI Pune. The work is under progress and about 4 of the 10 modules have been completed. Out of the 4 completed modules one i.e. Births and Deaths Registration is fully functional and is being used regularly. The Property Tax Assessment Module is being used. The other two modules i.e. Water Works and License are in the testing stage and the latter would require minor modifications.

The primary relevance of converting the accounting system from cash basis to accrual basis is to ensure introduction of a proper double entry system of cash book keeping and to bring about uniformity in the method of accounting system. This in turn will facilitate smooth flow of information system.

To bring about system of accrual accounting conceptual, technical and attitudinal change is required within the system of Shillong Municipal Board.

8.6. Progress update as submitted to JNNURM as on September 2009

SMB has appointed a consultant for taking up the migration from single entry accounting system to double entry system in June 2008. The consultant has been given six months' time to facilitate the migration and he has submitted an interim report for the accounts upto 2006-07. The final report is expected before March 2009, after which we shall fully use the new system in all aspects of public finance by the next financial year. In regards to the development of the Municipal Accounting Manual the state government is likely to come up with the same.

8.7. Process of recording Transactions - Significant Accounting Policies and Notes on Accounts

1 Convention

To convert the cash basis accounting system into accrual basis accounting system and prepare the financial statements in accordance with the applicable accounting standards for local bodies in India as formulated by the Institute of Chartered Accountants of India from time to time and the guidelines of the National Municipal accounts manual issued by Ministry of Urban Development, government of India in November 2004. The accounting statements will be subject to further streamlining and adherence in the subsequent years.

2 Basis of Accounting

- a) Shillong Municipal Board follows the following three fundamental assumptions while preparing its financial statements – Going concern, consistency and accrual
- b) The accounts are prepared under the historical cost convention unless otherwise stated

3 Revenue Recognition

Tax revenue

- a) The reporting entity recognized its revenues from property tax, lighting tax, water tax etc on cash basis.
- b) In case of revised assessment, the reporting entity recognized its revenues as and when it received money
- c) The refunds, remissions in respect of taxes are shown as deduction from the current year's taxes
- d) Taxes collected in respect of prior periods (if any) have been considered as prior period items unless revenue by way of such taxes had already been taken in the accounting periods.
- e) Outstanding taxes for the current accounting period have been recognized as income as and when they become due
- f) The reporting recognizes income from octroi and toll on actual receipt basis

Non tax revenue

- a) Non tax revenue such as Rent from Municipal properties, Licensing fees, Mutation fees, Parking fees, Sale of Forms and Publications, Usage charges of Public toilets etc are accounted for on accrual and/ or receipt basis as applicable.
- b) Fines and Penalties are recognized as income as and when a demand for the same is raised and the same has been served.
- c) Any funds or remissions of the incomes should be shown as an adjustment from the gross receipts from such incomes.
- d) Income by way of Interest on Fixed Deposits, Interest on savings deposits held with Scheduled Commercial Banks, etc are accounted for on receipt basis.
- e) Incomes by way of, Interest on Savings Deposits held with Scheduled Commercial Banks are accounted for a receipt basis.

4 Employee related transactions

- a) Expenses on account of salaries and other emoluments are accounted for as and when it becomes due for payment i.e. at the end of the month.
- b) Statutory deductions such as deductions for Professional tax, Provident fund contribution; Income Tax etc are recognized as liability in the same period in which the corresponding salaries are recognized as due for payment.

- c) Bonus, Ex-Gratia, Overtime Allowance, Reimbursement to Employees etc. are recognized as an expense as and when they become due for payment
- d) Payments made on behalf of employees, under stating instructions from such employees, like EMI's on personal loans, life insurance premiums, etc are recognized as an expense as and when they are due for payment.
- e) The reporting entity does not have defined contribution plans for its employees, and hence the provisions of Accounting Standard 15 are not considered.

5 Fixed Assets

- a) Assets have been valued by the reporting entity in case of old assets in existence prior to the conversion of the accounts i.e. 1st April 2006.
- b) Additions during the year have been taken at the cost of purchase price of acquisition or construction
- c) Any addition to the assets and significant improvements in the working life of the assets, except routine maintenance, are fully capitalized and shown as addition to that asset.
- d) In case of changes or alterations identified in any subsequent years in any class of assets, due recognition will be given in the accounts of subsequent years in accordance with the guidelines prescribed by the National Municipal Accounts Manual issued by Ministry of Urban Development, Government of India in November, 2004.

The manual suggests the following:

- Any increase in the book value of the assets should be credited to Revaluation Reserve Account created under Municipal fund Ledger.
- Any decrease in the book value of the assets should be debited to the Income and Expenditure account
- The revaluation of any class of assets shall not be higher than the recoverable value of such class of assets
- The revaluation reserve account should be reduced by the depreciation attributable to the revalue portion of such class of assets.

6 Stores

- a) The reporting entity has brought the increase in stores during the current year into its books by way of adjustment with the Municipal Fund Account.

7 Investments

- a) Investments during the current year have been valued at the cost of acquisition

- b) For the purpose of categorizing the investments as long-term or short-term, any investment held for a period of more than 12 (twelve) months will be categorized as long term investment and any investment held for less than 12 (twelve) months is categorized as short term investment.

8 Government Grants and Other Grants for Deposit Works

- a) The reporting entity recognized the receipt of government grants for revenue expenditure on actual receipt basis.
- b) Separate cash books and bank accounts were maintained by the reporting entity on account of grants received from the government as a nodal agent. These grants were recognized on actual receipt basis.
- c) Grants received for revenue expenditures is recognized as income in the year of such receipt.
- d) Grants received for revenue expenditure is recognized as income in the year of receipt.
- e) Grants received for construction of fixed assets is treated as liability till such time the asset is created. Upon creation of such asset, the balance of the grant in the books of accounts is reduced to the extent of the cost of fixed asset and such amount is transferred to the Municipal Fund. The unutilized fund is carried in the books till such time the purpose for which the grant is received is not fulfilled.
- f) Any grants received other than for creating fixed assets by the reporting agency as a Nodal agent are carried in the books as liability till such time the grants are actually utilized for its intended purpose. Upon utilization, the grants stand reduced to such extent and such utilization shall not be adjusted with any other reserve or Municipal Fund.

9 Municipal Fund

- a) The balance of the corpus fund as on 1.04.2007 is matched by the fixed assets, balance of bank account, investments and the current assets as on that date.
- b) The utilization of earmarked funds in the accounts titled 'Deposit Works' in the acquisition/creation of fixed assets has been credited to the municipal fund to the extent of the value of the fixed assets thus acquired/created from such earmarked funds.
- c) Any changes in accounts in subsequent years in respect of any capital items in respect of any prior periods will be adjusted by a corresponding increase or decrease in the municipal fund account.

10 Income Tax

- a) By virtue of Section 10(20) of the Indian Income-tax Act, 1961, it is exempt from tax in respect of its own earnings and hence, no provision for taxes or accounting for deferred taxes has been made.
- b) The reporting entity did not made any provision for Fringe Benefits Tax, though it is liable as per provisions of Chapter XII-H of the Income Tax Act, 1961.

8.8. Steps Initiated for Conversion of Accounts

Conversion of accounts from a single entry system to a double entry system will entail a restructuring of the accounting systems. To begin with conversion of account upto year 2006-07 would involve tracing back the books of account for the past 7-8 years. This calls for building up of an information base by going back to the accounts of 7-8 years. The objective is to compile the accounts for the year 2008-09 and develop an in-built system for Shillong Municipal Board for the year 2009-10. For this purpose Chartered Accountants have been appointment by Shillong Municipal Board. They expected to perform the following:

8.9. Role of the Chartered Accountant

1. **Undertake conversion up to 2006-07** - To prepare the accounts, figures provided in the cash system of accounting will form the basis of accrual accounting system for SMB. Herein SMB will assist their Chartered Accountants with the figures and the relevant details
2. Once conversion of the accounts for the year 2006-07 is completed, this will form the foundation for compiling the accounts up to the year 2007-08 and going forward to the accounts of 2008-09 and 2009-10.
3. The role of Chartered Accountancy firms is to involve and educate the office of SMB in preparing the accounts. This will help the municipal board to self-sustain and implement the accrual accounting effectively 2010 onwards, when the contact duration of the chartered accountant will come to an end.
4. In the process of compilation of accounts for the year 2007-08, the officials of SMB will be directly involved to understand the nuances of preparation of accounts and their subsequent compilation. It is assumed that in this process of handholding, by the end of 2008-09 SMB's officials will be capable of undertaking preparation of accounts with the help of financial package and operate under the professional expertise of the consultants appointed. Whereas by the end of financial year 2009-10 SMB's accounting system and control mechanism will be fully operational and functioning independently with our active participation.

The process of conversion was expected to be completed as per the following timelines:

- The accounts for the year 2006-07 were expected to be completed within six months from the date of signing of the agreement
- For the year 2007-08, the expected time of completion was six months from the date of handing over the cash basis accounts, which have been prepared by the municipal board.
- For the year 2008-09 and 2009-10, it will be ongoing with the year and it is expected that the accrual basis of accounting will take over the cash basis system and can be placed for audit by Shillong Municipal Board.

8.10. Issues faced in current system of accounting

SMB's accounting systems are feeble, internal control systems poor and reporting systems not well organized. Its financials are weak and constrict its potential to borrow from the market to implement larger projects. SMB has a set of consultants to implement the system on accrual basis of accounting. The accountant has already put the system in place of double entry accounting system but the officials of Shillong Municipal Board are not well versed with the system and still follow cash based accounting. The following are the major issues faced by SMB in the process of implementation:

1. **There is no clear distinction between revenue and capital items of the accounting entries of SMB**
2. **Understatement of liabilities:** The cash-based accounting system of SMB tends to understate liabilities. This leads to issues of inter-generational equity and lack of transparency. For instance, in the case of pension and other retirement benefits payable, SMB recognizes these liabilities only as they come up for payment. This not only makes the expenses lumpy but is also conceptually not correct. As a result, the liability of these retirement benefits is borne by future generations. In many countries, this issue was one of the major drivers of change from a cash-based to the accrual system of accounting in order that inter-period and inter-generational equity is facilitated.
3. **Absence of asset accounting:** The cash-based system of SMB does not facilitate adequate control over assets created using the taxpayers' money. As accounting for assets is done at the time of their purchase, no further details are subsequently available on the state of the assets and their usage. There are no systems to ascertain whether an asset has served its useful economic life or to assess its prevailing condition. Also the value of SMB's fixed assets such as buildings, vehicles and equipments are not recorded as an asset but the purchase price of the asset is fully expensed in the year of purchase. Therefore this has an immediate impact on the annual budgetary balance.

4. Since the accounting process is not in place, the process of valuation of assets is still on hold.
5. Since purchase of assets is not recorded as a capital expenditure item, SMB cannot avail **depreciation** on these assets.
6. All the liabilities and provisions such as outstanding expenses, creditors, tax refunds, and income received in advance and unpaid bills of works contractors are recorded as a cash expense and hence no differentiation can be made for between **receivables** and other expenses of the municipal board.
7. The biggest constraint currently faced by SMB is the shortfall of trained manpower. The department is currently managed by a total of 10 employees, where all employees except for one are ordinary (not commerce) graduates. With this educational background it takes time for the employees to get well versed with the system as they don't have any prior knowledge of the accounting management. Hence, the focal point should be **building capacity** through trained manpower.

8.11. Initiatives Undertaken for Implementation

1. Computerization of the services would soon be part of the system. Computerization is already in place for accounting and property taxes and license fees and would soon cover other services as well.
2. People in the accounts department are computer savvy and there is no resistance from the employees of SMB to move to double entry system

8.12. Benefits for Shillong Municipal Board

1. In future, SMB will be able to carry out a comparative analysis using improved accounting data to find out bankable municipal projects before raising funds from the market. It will also act as a useful tool for managing the administrative aspects of the Board.
2. It will provide detailed information about the Board's receipt, progress of their recovery, item-wise expenditure, current liability towards contractor's, supplier's etc.
3. It will lend credibility and status to Board's accounts. It can offer itself for credit rating and raise money by way of issuing bonds and other instruments.
4. SMB can take necessary steps, based on its own experience, to develop performance indicators as a sequel to the introduction of Double entry accrual based accounting system.
5. It can also prepare its monthly trial balances and place them before the council.
6. It will also help them in mobilization from international agencies

8.13. Way Ahead

We expect that implementation of the JNNURM-mandated reforms would redress some of these lacunae in the medium term through the following:

1. Periodical revision of property tax assessment, improved property tax collection and improved asset inventory and asset management is assured once the conversion to double entry accounting system is fully implemented.
2. The accounts and audit department would be headed by suitably qualified and experienced staff in the field,
3. Speedy implementation of the reform, coupled with successful execution of projects 100% financed through grants available to SMB could help the city address some of its weaknesses and improve its credit profile.
4. Review the National Municipal Accounting Manual (NMAM); and Generally Accepted Accounting Practices (GAAP) in India;
5. Review the accounting reforms taken place in other places (Kerala, Tamil Nadu, Hyderabad, Maharashtra, Delhi, Kolkata, Karnataka, etc.), and report lessons learnt;
6. Identify a team of representatives from different department of Shillong Municipal Board who will assist in transition and implementation.
7. Conduct training for each pilot ULBs and local fund audit staff on understanding and mastering accrual based-double entry system of accounting and effectively implementing the system
8. Assign continuously at least two technical staff at Shillong Municipal Board to provide handholding assistance, especially for technical trouble shooting and answering questions about accrual based-double entry system in practice.
9. Obligation of Corporation when the role of consultants would end: As per mandate role of consultants ends with conversion of cash based accounting system to accrual based accounting system and preparation of balance sheet which is supposed to end by 2010. We foresee it would be merely difficult to perform the task by Municipal Corporation on its own with the immediate effect.

Given the scenario we recommend that to appoint consultants for a time span for 203 years so that an extended process of handholding can be continued for a longer duration. This would in turn help the corporation to attain accrual accounting with their employees.

10. Develop municipality accounts software (MAS) which should be multi locational, user friendly and ensure budget tracking and control.

- This software must be able to generate following reports minimum standard: Online voucher printing, Detailed and brief outputs, Journal book, Transfer book, General and sub-ledgers, Trial balance, budget and actual comparison, Location and fund wise accounts, consolidated accounts.
- The software must cover at least following accounting modules: Income accounting, Expense accounting, Assets accounting, Liability accounting.
- The software must capture income and expenditure data at following levels: fund, function, functionary, field and account head.
- The software must be able to link with other existing or future software, such as: Payroll module, Revenue module, Resource management module and Project performance monitoring module.

9. ROADMAP FOR IMPLEMENTATION

9.1. The Need for a Model Municipal Accounting System

India has around 3700 urban local bodies, out of which more than 300 municipal bodies manage a population above 0.1 million. Fifty municipal bodies manage a city with more than 1.0 million residents. At present, only about 20 percent of these urban local bodies have undertaken any sort of accounting reform.

However one may predict that various external and internal factors will compel the remaining municipalities will have to undertake accounting reforms during this decade.

9.2. The Role of Various Departments

The Role of the Central Government of India

The Government of India will have to play a role of a facilitator in ensuring adherence to unified municipal accounting system by various municipal bodies. The Ministry of Urban Development, GOI has taken the initiative to prepare a set of accounting policies and standards in consultation with the C&AG, ICAI and representatives of state and municipal governments. Recently C&AG-Urban Development Department (UDD) –Government of India (GoI) has appointed A. F. Ferguson & Co. to prepare National Municipal Accounting Manual and has taken up the task of preparation of model database formats for Urban Local Bodies.

The Role of State Governments

The State Governments have to play the crucial and leading role if municipal accounting reforms are to succeed. The different degrees of success achieved in the Gujarat and Tamil Nadu experiments clearly prove this point.

State Governments can undertake the task of revising their municipal account code, as done by the Tamil Nadu Government, based on the national level Model Municipal Accounting manual. In this exercise, Municipal Accounts Code can be developed to the third level of budget and account codes (that is, group account code or sub-budget heads). However, although the fourth level of accounting ledger or budget items may be provided in the Account Code, municipal bodies should be allowed to finalise this level at their own level.

State governments should develop a modified accrual based double entry account and ensure that municipal bodies implement the improved accounting system. The account code should also provide stipulations regarding disclosure norms and the financial statement based on ICAI guidelines. These are required by the SEBI & stock exchanges in order to access the capital market.

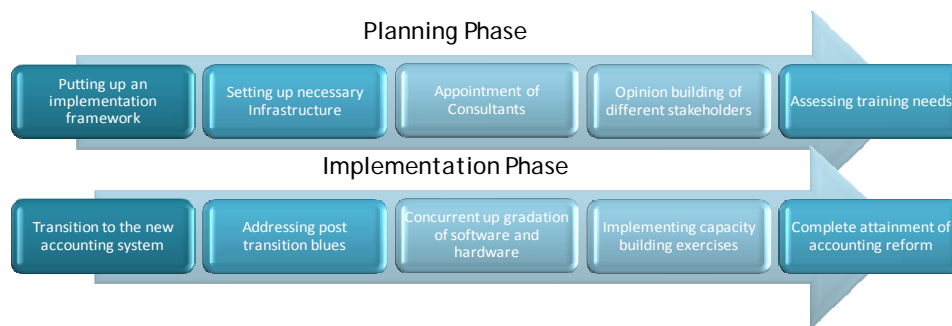
Governments have established certain controls in terms of legal and administrative changes to maintain the integrity accounting and financial reporting. These controls include:

- Legally adopted budgets - budgets that are legally controlled and formulated in a democratic way by the elected representatives are unique to the government. For each receipt and payment there needs to be a budget item and it should get accounted for.
- Mandatory adoption of new accounting manuals: As a first step in adopting the new accounting manuals statewide. The Government however, must make the necessary legal changes, specifically regarding the mandatory adoption of the new accounting manuals by the ULBs.
- The State Governments should place modified accrual based double entry account code in place because it only can provide legal mandate and compulsion to municipal bodies to implement improved accounting system.
- The Chart of Accounts should be designed with a view to classifying transaction in conformance with Legal and Statutory Requirements.

The Role of Municipal Bodies

Municipal bodies can work towards creating a conducive environment and base for accounting reforms. The following are actions that municipalities can take on own initiative to facilitate such reforms:

Figure 9-1 : Municipalities action taken



Schedule of Implementation

The key tasks involved in the implementation as outlined in the above table are as follows:

- 1. Defining Accounting Systems, Policies and Processes** - This includes developing an inventory of assets and liabilities, preparing an opening balance sheet and undertaking a parallel run of the modern system of accounting. Depending on the availability of resources an external agency can be appointed for undertake the responsibility.
 - **Identification of Assets** - This is one of the most important and painstaking tasks in moving over to the new system of accounting. It envisages the collection of information on all assets of the department/accounting entity.

- **Assessing Liabilities** - The actual liabilities need to be identified, quantified and appropriately accounted for all departments of the local body. The principal outstanding against each loan and obligation should be listed and quantified. The amount of interest overdue (due for payment, but not yet paid), and accrued interest (but not due) should also be computed and disclosed.
 - **Laying down the accounting principles, policies and standards** – It should involve a broad overview of suggested policy for accounting of various items of income, expenditure, assets and liabilities based on the study that we had conducted.
 - **Formulating accounting systems and processes** - Once the accounting principles and policies are laid down; necessary changes are to be made to the Accounting systems and processes. Comprehensive formats and statements of accounts need to be prepared to cover all aspects of corporations functioning. This is necessary to ensure enhanced transparency and user-friendliness of the statements put out by local body.
2. **Selection of a Strategy for Implementation** – The right strategy should be adopted to design an accounting and financial reporting system in a municipal body. The choice of strategy will depend on factors like the size and complexity of a municipal body. 3PT approach covering Policy, Process, People and Technology which was used in Bangalore is a good example to refer for finalizing strategy.
 3. **Initiating the Process of Reforms** – The process of accounting reforms can be initiated from a choice of three approaches either a bottom up approach, top down approach or organization wide approach. Bottom up approach involve the commitment of accounting clerks and accountants. They are exposed to the new system and they directly implement the transition between systems which is then reviewed by the top management. The second top down approach is effective when changes are initiated at the top or the central level of the organization and gradually progress downwards. The third organization wide approach is best suited when all levels of the organization are proposed for a change. This strategy is useful when a municipal body is going in for a total overhauling.
 4. **Appointing External Consultants** - Identify an external expert agency or individual consultant who will design an appropriate accounting system and provide technical guidance during the implementation period.
 5. **Preparing Guidelines for the Implementation of Reforms** - The implementation of the accounting reforms necessitates a document containing guidelines for reform management. Such a document should contain the following: A framework of the proposed reforms, A formal implementation plan, Role definition and task responsibility allocation, Reform process milestones and procedures for monitoring

progress, Delegation of authority, Formal communication and coordination mechanism, A Budget for proposed reform

- 6. Training requirements** - Given the magnitude of the changes in the accounting system, a comprehensive training programme needs to be designed and administered across a vast majority of Government employees. There will essentially be three types of training: Basic training, Officer level training, and senior level training. The above programmes have to be designed and delivered in a time-bound manner, so that the necessary skills are developed in time and in synchrony with the requirements of the implementation.
- 7. Computerizing the Process of Implementation-** A municipal body must opt for the computerization of the new system. The introduction of accrual base double entry accounting system is greatly aided by the application of computer technology. It also avoids duplication of efforts. Cost effective, user-friendly accounting software is readily available today.
- 8. Books of Accounts** - The books of accounts required should be set up and on-going training should be provided to concerned people about their maintenance.
- 9. Implementing Strategy** - A separate implementation cell should be formed to take charge of the process of transition. This implementation cell should co-ordinate with the various departments of the local body and drive the process of transition. The implementation cell should have the necessary technical personnel, who understand the new accounting system and the transition journey thoroughly. If necessary, they need to be provided with the appropriate training in areas of accounting theory, standard setting, IT, and international developments in accounting. They should also be given the necessary administrative facilities and authority to recommend or implement changes, as necessary. Needless to add, oversight of the implementation process should be strong, and entrusted to senior officers in the local body.
- 10. Communication strategy** - The strategy for communicating the purpose of and the need for introducing the new system and the expected outcome of the transition in an appropriate manner should be worked out. Lack of a coherent communication and dissemination policy will vitiate the entire implementation process and render it ineffective. The benefit that is likely to arise from the adoption of the new system should be analysed suitably and spelt out. This is an important step to ensure maximum buy in at all levels in Government.
- 11. Strategic road map** - The implementation of the new accounting system is an onerous task. In order to ensure a smooth transition, we suggest the formation of a task force which will co-ordinate the implementation. Since the work is complex and specialised, there is a need to create dedicated groups that look at specific problems

that are internally homogenous or similar enough to be grouped together. Three critical areas are to be addressed, as explained below:

- The first is to ensure **technical preparedness** which involves laying down the necessary accounting policies and principles, preparing the chart of accounts, identifying the changes required in the systems and processes etc.
- The second is to ensure **administrative preparedness**. Here the focus is on identifying the departments as to their preparedness to changeover such as suggesting necessary changes to the organisation structure and reporting relationships in consonance with the changes in the systems and processes and evaluating the adequacy of the existing information systems to handle the transition.
- The third is to address the human element. **Change management** process is an important aspect in the transition. Another area that the task force will need to focus on is assessing the training needs and designing training programmes.

To conclude, the successful conversion or full implementation of the accrual base double entry accounting system is not an end in itself, but rather a beginning of the process of reforms for a change for the better. Certain reforms can be undertaken only after the successful conversion of the accounting system from single to double entry. These include Reforming the Budgetary System, Performance Based Auditing (Efficiency Auditing), Cost Accounting and Auditing and developing the Financial Analysis and Reporting System.

10. STATE INITIATIVES

Role of the state governments play an important role for successful translation to double entry accounting system. Hence it's imperative to study the various state initiatives respectively for the shortlisted cities. In the subsequent section we will cover the following five states:

1. Karnataka
2. Orissa
3. Gujarat
4. Haryana
5. Meghalaya

10.1. The Karnataka State Initiative

ULBs in Karnataka were maintaining cash based accounting system as like any other ULB in the country. As part of its reform process, Government of Karnataka (GoK) initiated implementation of Fund based Double entry accrual accounting system to achieve better financial management, resource mobilizations and budgetary control.

Municipal Reforms Cell (MRC) was created in 2005 under the Directorate of Municipal Administration, GoK, exclusively for implementation of computerization and other reforms in all the Urban Local Bodies(ULBs) of Karnataka. These reforms are being implemented in selected 57 ULBs of Karnataka under Asian Development Bank funded "Nirmala Nagar Project" and in the remaining 164 ULBs under World Bank funded "Karnataka Municipal Reforms Project".

Approach

Following is the approach followed while implementing the accounting reforms in Karnataka.

- Review of prevailing accounting rules and introduced Karnataka Municipal Accounting & Budgeting Rules (KMABR) 2006 & Karnataka Municipal Accounting Manual (KMAM) in line with the National Municipal Accounting Manual (NMAM)
- Accountants with B.Com qualification appointed for ULBs through KPSC
- Appointment of State level consultant for technical support
- Appointment of Field Level Consultants (CA firms) for every ULB to provide professional assistance to switch over from single entry cash based accounting system to double entry accrual based accounting system.
- Deployment of eGov financial software developed by e-governments foundation to maintain accounts as per KMABR.
- Development of training modules

- Training and capacity building of staff of ULBs
- Hosting of software in all applications in web based application should come in information.

Phasing:

KMRP has classified ULBs into two phases. Phase I covers 69 ULBs in KMRP and 4 ULBs in UIDSSMT scheme. Implementation of Fund Based Double entry Accrual Accounting System began in 2007 for 69 ULBs under KMRP and in 2008 for 4 ULBs under UIDSSMT. Field Level Consultants (FLCs) have been appointed for all these ULBs. Training has been provided to all sections of ULB staff on Accounting Reforms. e-Gov financial software also been deployed in these ULBs.

Phase II covers 85 ULBs for which implementation of FBDEAAS began in 2009 with appointment of Accountants. Implementation of accrual accounting system is thus in progress in all ULBs within Karnataka.

10.2. The Orissa State Initiative

Municipal administration directorate is governed by Housing and Urban Development as an apex authority within Orissa. There are 103 ULBs in Orissa which include 2 Municipal Corporations, 35 Municipalities and 66 Notified Area Councils.

Project e-municipality is an exclusive project of Orissa Government which is under implementation. It will cover all the ULBs in Orissa and is expected to revolutionize urban governance when all its modules are implemented. Project e-municipality would provide much needed impetus in municipal accounting as it is one of the modules. Double entry accrual accounting system will thus get implemented in all ULBs with this project.

Implementation of Project e-municipality is being carried out by Tata Consultancy Services (TCS) across all the ULBs. Out of these, 44 ULBs are expected to use the new system from the year 2010.

10.3. The Gujarat State Initiative

Formulation & Implementation:

While many states are still attempting 'pilot' projects, Gujarat courageously decided to go all out for all the municipalities in the state; the logic was that Gujarat had sufficient experiential learning from some failed World Bank and ADB supported pilots, such as Anand Municipality, and successes such as the Vadodara Municipal Corporation.

The project initially started with focus of implementation in 141 municipal bodies. Due to restructuring of municipal bodies during 2006-07 and 2007-08 13 municipalities were merged with Municipal Corporations of larger cities while 30 new municipal bodies got added. Thus, the GMARP program has been expanded to total 159 municipalities of Gujarat State.

CMAG-GMFB-DoM-Stakeholders combine succeeded in overcoming the constraints and the challenges of implementing GMARP on a large, multi-hued canvass and that too working within 'the system' with a shoe-string budget, forms the gist of the success story.

Status before Initiative

As is the case with the rest of the country, the municipalities in Gujarat followed (and continues to follow as a parallel system) cash based, single entry accounting system. There was an unwieldy heterogeneity in every aspect - account code, chart of accounts, classification, formats etc.

Further, there was no software, thus resulting in lack of uniformity. The State had not updated municipal account codes for past thirty to forty years. Moreover, accounts were pending and not audited over the years. The system as a whole had a weak core and a burdensome peripheral system.

There was no bifurcation between the 'revenue' and 'capital expenditure' leading to incompleteness of accounts and lack of transparency. There was a total absence of system documentation, procedures and internal checks, as also of tree structure logic classification and grouping of cost-centers –something that helps arriving at per-capita costs for each cost center, so necessary as an attribute of good urban governance.

The financial reporting system (Annual Budget, Annual Administrative Report and Annual Audit Report) was inadequate even for the internal users. The present Municipal Act does not compel a municipal body to publish or to disseminate financial reports.

Reform Action Plan

The primary objective of the GMARP was to undertake the project implementation based on National Accounting Manual published by the Comptroller and Auditor General (C&AG) of India. The secondary objectives are:

- a) to introduce elements of efficiency and accountability in municipal accounting
- b) to make municipal accounting and budgeting as transparent as possible for citizens to ultimately participate in urban governance, and
- c) to make municipalities globally competitive and assist them in future in market borrowings for up-gradation of infrastructure.

10.4. The Haryana State Initiative

Present Scenario:

Auditing and Budgeting reforms of ULBs are followed as per Haryana Municipal Corporation Act. The accounts are maintained by ULBs in the proforma prescribed in the Accounts Code and these are audited by Director, Local Audit, who is under the administrative control of the Finance Department.

There is a pre audit system also called the Resident Audit Scheme under which pre-audit is currently being conducted in respect of 20 municipal councils and 7 municipal committees in the State. Municipal Corporation Faridabad is also covered under the pre-audit scheme as provided under section 168(3) of Haryana Municipal Corporation Act, 1994. Under the pre-audit system, day to day audit of accounts is conducted.

Shortcomings in the Existing System

The first Haryana State Finance Commission had recommended that a State level Public Accounts Committee for municipal finances should be constituted to be headed by the Secretary, Urban Development. It should have non-officials as well as officials of the concerned depts as members and Director Local Audit as the Member Secretary. The Committee shall have powers to call for and scrutinize the accounts of any municipality, examine the audit report and make suitable recommendations including dropping of objections etc. The report of this committee shall be submitted to the State Govt. for final disposal.

These recommendations have, however, not been implemented. At present there are no local, regional or state level bodies to monitor the disposal of audit objections. Also, the two regional committees, constituted in 1982, one at divisional level and the other at district level, have also become non-functional with the passage of time.

Recommendations to the Existing System

Accrual based double entry accounting system seems to have a distinct edge over the present accounting system. The switch over to the new system may, however, require the services of trained manpower. The State Commission recommends that the accrual based double entry system of accounting may be initially adopted in municipal corporation and class I municipal councils. The system, as adopted in Tamil Nadu, be adopted with suitable modifications to suit the local conditions. These local bodies may be authorized to engage chartered accountants and other accounts personnel that may be required on contract basis. This system may be extended to other ULBs depending upon the experience so gained.

A considerable part of budget of ULBs is spent on execution of capital works and operation and maintenance of civic services. A thorough analysis of various components of cost through cost audit can help reducing the cost. Thus, a system of cost audit of these expenditures may be started in municipal corporation and class-I municipal councils where the expenditure is sizeable. The services of Cost Accountants may be engaged on contract basis to initiate the system and train the staff.

10.5. The Meghalaya State Initiative

The 74th Constitutional Amendment Act does not apply to “Tribal Areas” as defined in article 244. Nearly the entire state of Meghalaya is defined as “Tribal Area” under sixth schedule of Constitution of India. However Government of Meghalaya agrees to make suitable

amendments in the existing Municipal act to blend the spirit of 74th CAA with the peculiar needs and local conditions existing in the tribal state.

The state government has constituted a working group consisting of members from traditional institutions, state government, civil societies etc to examine the existing municipal act, need for amendments keeping in view the local traditional laws and aspirations of the people as well as extending the boundary of municipality. Based on the recommendations of the working group, a decision will be taken on matter. At present state cannot give a definite time frame on implementing the recommendations.

JNNURM requires certain reforms to be undertaken by state/cities in Municipal Accounting with an objective of having a modern accounting system based on double entry and accrual principles, leading to better financial management, transparency and self reliance. Currently Shillong Municipal Board (SMB) is following single entry accounting system. Whereas Meghalaya Urban Development Board (MUDA) is currently following double entry accounting system but needs upgrading for accrual system. MUDA adopted, audited and published their first accounting statements in 2002-03.

State has not yet drawn up its own accounting manual. Also no modifications have been made to its current appropriate laws and regulations to be in compliance with double entry accounting principles. In 2007-08 consultants were appointed for development of state-wide Municipal Financial Accounting Manual.

11. BUDGETING SYSTEM

11.1. Introduction

This chapter analyses the linkage between the budgeting system of Government and the accounting system, and makes recommendations to harmonise the proposed changes in the accounting system. Since there is a mutual dependence between the budgeting and the accounting systems, enhancing the transparency and user-friendliness of the accounting system would be incomplete without addressing similar and related issues in the budgetary system.

The present cash based budgeting system should be supported by the Appropriation Accounts, which can also continue on cash basis as at present. Our recommendations insofar as the budgetary system is concerned can be grouped under three heads:

- Issues of classification of expenditure
- Issues of disclosure
- Issues pertaining to presentation

All of the above derive from the changes we have recommended in the accounting system, and contribute to increasing transparency and ease of use of the budgetary documents.

11.2. Classification Issues Relating to Expenditure Management

Though the proposed changes to the accounting system will be independent of the changes to the budgeting system, it is essential that the two documents be in harmony. This necessitates certain changes to the classification in the budget. If this is not done, the accounting system that has to follow the budgeting system, will not be able to account appropriately for assets and cost of services, and is likely to arrive at erroneous results. This will undermine one of the basic objectives of the proposed accounting reform, which is to enable users to compute costs of providing goods/services.

1. Analysis of object classification

At present the budget documents and the accounting statements of local bodies group the expenditure on the basis of Programmes and Schemes. While this type of classification helps to assess the expenditure on specific Programmes and Schemes, it does not lend itself to analysis on the basis of Object Heads. The analysis on the basis of Object Heads can provide significant insights into the pattern of expenditure and the efficacy of the same, which many users including Government itself would find very useful.

An example may help to illustrate the above point. A drinking water provision programme for a particular state may have a particular amount sanctioned in the budget. The present form of the budget would give details for the total amount broken

down into individual sub-programmes and schemes. However, if the total expenditure incurred for the programme were also presented under various Object heads, i.e., Wages and salaries, interest payments, goods and services, etc., it would provide more insights to users. Continuing the same example, if the budget indicates that Wages constitute X% of the total expenditure and interest constitutes Y%, the user may be able to draw more useful conclusions about the efficacy of the programme.

The importance of the above classification becomes apparent when one finds that historically, more than 60% of the expenditure in any year is accounted for by four account heads, namely, interest payments, wages and salaries, subsidies and pensions. However, the present classification of data makes it difficult for a user to obtain the actual details of these payments easily from the accounts.

2. Classification of Revenue and Capital

From the perspective of several users, it would be highly important to lay down a clear distinction between capital and revenue expenditure in the budget, as at present, the distinction is ambiguous. The segregation of Capital and Revenue in the budget provides a better understanding of the expenditure towards capital formation and towards current consumption. Our recommendations for the reform of the accounting system include clear delineation between Capital and Revenue expenditure. The adoption of the same principles for the budget would ensure harmony and more clarity than is presently the case.

The basic principle to distinguish between Capital and Revenue items that we have recommended is as follows: Expenditure is considered Capital if the economic benefit arising on account of this expenditure is likely to arise beyond the year in which the expenditure is made. E.g. expenditure incurred on a new X-ray machine for a hospital, where the useful economic life of the X-ray machine is likely to be ten years, should be considered as Capital and not Revenue. In contrast, the expenditure incurred on a box of X-ray films to be used on the same machine which are likely to be used within a few days would be classified as Revenue.

3. Classification into Plan and Non-Plan

The outlays proposed in the budget are classified as Plan or Non-plan expenditure. The popular perception is that Plan expenditure is for development, while Non-Plan expenditure is for consumption. However at present, a major portion of Plan expenditure (more than two-thirds) comprises Revenue expenditure. Expenditure on new schemes approved under a five-year Plan is considered as Plan expenditure during the Plan period. The same expenditure is considered as Non-plan expenditure, if incurred during the next Plan period. This has some unintended consequences, such as neglect of Operations and Maintenance expenses for a particular asset after a Plan

period. The possibility of limiting Plan outlay to capital expenditure needs to be explored.

11.3. Budgetary Presentation

One of the important measures to improve the transparency and user-friendliness of the budgeting system and its outputs, and to some extent the efficacy of the budgeting process is the proper presentation. The expectations of a wide variety of users of budget documents should be borne in mind while presenting the information in the budget.

1. Enhancing readability – Aggregate classification by Object Heads

Presently, budgets are presented at the Object Head level. This makes the entire budget document unwieldy and voluminous. The powers of re-appropriation stand delegated at various levels as per the delegation of financial powers. It is perceived that the extent of delegation is not sufficient given the detailed appropriation (at Object Head level). To alleviate this problem, the budgets may be presented under a ‘Summary Object Head’, which would have the ‘Detailed Object Heads’ in an appendix. The ‘Summary Object Head’ could be, for example, Employee-related expenditure, with the ‘Detailed Object Heads’ being Basic pay, dearness allowance, other allowances, etc.

2. Shift to departmental budgeting

Departments are the principal units of operation in Government, and hence, for accountability as well. The present budgetary system has a departmental focus but is not completely aligned with it. For instance, one department may operate more than one Demand for Grant or one Demand for Grant may be operated by more than one department. This dilutes transparency and accountability to some extent, as resources for a particular end are spread across departments. On the other hand, a departmental budgeting system will help in restoring the focus on accountability.

Where more than one department operates a particular Demand for Grant, it may be divided into separate Demand for Grants for each department. This will make the head of the department responsible for the grant of the department.

3. Assumptions behind budget provisions need more disclosure

The estimates of revenue and expenditure made in the budget are based on assumptions of key economic factors, such as, growth rate of the economy, rate of inflation, and growth rate in major taxes, and other factors such as level of monsoon. The budget documents however, do not indicate these assumptions. A number of key fiscal parameters are expressed as a percentage of GDP, but the estimate of GDP is not provided in the budget document. The ‘Economic Survey’, which is published before the budget presentation contains these details. However, these are not an integral part of the budget.

11.4. Framework for Modern Municipal Accounting System

Bringing about municipal accounting reforms is not simple. It is not the mere conversion of single entry cash-based accounting into a commercial double entry accrual-based accounting system. Municipal bodies are miniature governments and ‘not for profit’ organizations, and therefore, even after reforms, municipal accounting systems should not lose the government accounting character.

They need an accounting system which has a blend of government and commercial (enterprise) accounting systems as followed internationally. Such a system may be called a modern municipal financial accounting system MMFAS. The salient features of the framework for MMFAS are discussed:

- **Double Entry Accounting:** Even a system which is not fully accrual-based can cure most of the ills of present accounting.
- **Measurement Focus and Basis of Accounting:** These two factors really make MMFAS different from the commercial financial accounting system. There can be three types of measurement focus and three bases of accounting: (i) Flow of Current Financial Resources (Cash), (ii) Flow of Economic Resources (Accrual), (iii) Flow of Total Financial Resources (Modified Accrual). The model, which should be used by governments and governmental organizations dealing with public services/public goods, falls between (i) and (ii) above. The framework of MMFAS should consist of modified accrual basis of accounting and flow of total financial resources as the measurement focus.
- **Fund Accounting:** Fund accounting must form a part of any framework of modern municipal accounting, as it effectively deals with complexities of financial reporting by governments or governmental organizations. Fund accounting simultaneously facilitates diverse objectives of government accounting like:
 - ✓ Managing resources earmarked for specific purposes.
 - ✓ Reflecting complexities of government operations encompassing activities ranging from those operated as commercial activities to normal governmental activities.
 - ✓ Supporting the accountability and transparency dictums in governmental operations
 - ✓ The balance sheet is considered as an inventory statement of assets and those restrictions applicable to the assets (liabilities).
 - ✓ Revenues represent an increase of assets in the fund and expenses represent the release of services for designated purposes specified in the objective of the fund. In the fund accounting approach distinct resources within a single governmental unit are accounted for separately in what are called funds. It

may resemble the present practice of keeping separate bank accounts, but it is not so.

- ✓ Along with separate bank accounts it ensures an integrated accounting for all resources within the statutory and budgetary mandates of public trust.

Questionnaire - Checklist of Reforms for Implementation of Accrual Based Accounting

1. Please provide a short note on the present method of accounting being followed in your city

2. Please provide the status of completion and adoption of accounts, and if they have been audited and published in the last 3 years

Year	Adopted	Audited	Published
2006-2007			
2007-2008			
2008-2009			

3. Please state whether State/city has drawn up its own accounting manual Yes No

4. Please state whether State/city has adopted National Municipal Accounting Manual
 Without modifications With modifications.

5. If National Municipal Accounting Manual (NMAM) has been adopted with modifications, please state the modifications made to the same:

6. If NMAM has not yet been adopted, please state by when is the adoption of NMAM expected to be completed

Date

7. Please state whether State has modified its current appropriate laws and regulations to be in compliance with the double-entry accrual principles. If yes, please provide date of such modification.

Yes	No	Date
<input type="text"/>	<input type="text"/>	<input type="text"/>

8. If applicable, please state by when is the system expected to be fully migrated to double-entry accounting system? Also please provide current status of implementation of double-entry accrual system.

9. Please specify training programs undertaken for implementation of accrual based accounting system. Also please state by when is the training of personnel (for working of accounting manual) expected to be completed

10. Please state when did the last audit of financial statements took place. Also how often are accounting statements prepared for the Urban Local Body?

11. Please indicate the list of statements currently prepared by the Urban Local Body?

12. What is the procedure currently followed for valuation of fixed asset management

13. Are there any separate statements prepared for Outstanding loan liability and current loan account

14. Please state whether the system to maintain financial statements manual or computerised

15. Please indicate if the Urban Local Body has a budgetary control system (In certain cases expenditure goes beyond budgetary allocation)

16. Please enumerate the problems/issues faced in the process of conversion from cash based accounting to accrual based accounting

17. Please attach the progress report for the mandatory reforms for last four quarters submitted to JNNURM cell

18. Please enumerate a list of registers currently maintained by the municipal body

19. Please describe the basic documentation process in detail

20. Please describe the form and formats of recording the transactions, the budget codes and the chart of accounts in detail

21. Please indicate if any, other steps being undertaken for successful transformation to Accrual based accounting

Table: List of Contacts

SURAT MUNICIPAL CORPORATION			
S No.	Contact Person	Designation	Contact Number
1	Ms. S Aparna	Commissioner	
2	Mr. Chetan Bhat	Assistant Commissioner	
3	Mr. Sharad Mehta	Assistant MC Finance	9724345009
4	Mr. GK Pandya	Chief Accountant	9724345222
5	Mr. Jatin Macwani	Accounts Head	9727773677
6	Mr. Ashwin Taylor	JNNURM Cell	9724345468
FARIDABAD MUNICIPAL CORPORATION			
S No.	Contact Person	Designation	Contact Number
1	Mr. C.R. Rana	Commissioner	9654909090
2	Mr. Virmani	Finance Controller	9891863231
3	Mr. Katara	Chief Engineer	9871171100
4	Mr. Rakesh Sharma	Senior Accounts Officer	
5	Mrs. Nisha Singh	Contract Arrear - GPF Advances	9312777359
6	Mrs Shashi Arya	Income and Expenditure Statement	9268909551
7	Mrs. Seema Bhatia	Loan Statement	9899982912
8	Mrs Dhama	Senior Taxation Officer	9999709285
9	Mr Ramsingh	Water Division	9958838919
10	Mr. Radhe Shyam Sharma	Sub Divisional Officer	9711005719
11	Mr. Shiv Goel	Consultant	9350875251
BRUHAT BENGALURU MAHANAGRE PALIKE			
S No.	Contact Person	Designation	Contact Number
1	Mr. Bharatlal Meena	Commissioner	
2	Mr. M Maheswar Rao	Special Commissioner	
3	Mr. Ramesh Reddy	Assistant controller (Finance)	9480683069
4	Ms. Vaani	Assistant controller (Finance)	9448183727
6	Mr. Ashok Rao	Consultant	9448372126
5	Mr. Deepak S	Consultant	9845236304
BHUBANESWAR MUNICIPAL CORPORATION			
S No.	Contact Person	Designation	Contact Number
1	Mr. Gadadhar Parida	Commissioner	2431403, 9438184649
2	Mr. Bibhu Prasad Sarangi	Deputy Commissioner	2431547, 9861470628
3	Mr Bipin Bihari Rath	Chief Auditor	9439978240
4	Mr. Labanya Sabar	Chief Finance officer	9437522701
5	Mr Barik	Accounts Officer	
6	Mr Rashmi Ranjan Senapati	Partner , Manas Dash & Co	
7	Mr. Manas Das	Partner , Manas Dash & Co	9937055311

SHILLONG MUNICIPAL BOARD			
S No.	Contact Person	Designation	Contact Number
1	Mr. B. Lyndem	Accountant	
2	Mr. Parthasarathy Choudhry	Consultant	9863061062

ANNEXURE

Status of the Implementation of the double entry accounting system

The implementation of the double entry accounting system reform has been part of the JNNURM and UIDSSMT programme. Under JNNURM, 65 cities of the country has been covered, which includes all capital cities and other important cities. While all non JNNURM cities are covered under UIDSSMT programme. To show the current status of the implementation of double entry accounting system reform in country, cities have been categorised under above mentioned programmes as shown below.

- a) **Status of the double entry accounting system reform in JNNURM towns** – this reports tries to capture almost all the JNNURM towns except towns in Jharkhand and Goa.
- b) **Status of the double entry accounting system reform in UIDSSMT towns** - as the no. of UIDSSMT towns are too many and it is very difficult to cover them in details. So in order to capture the current status of the implementation of DEAS in these towns, the state wise progress has been followed.

1. Status of the double entry accounting system reform in JNNURM towns

List of the JNNURM towns covered under this update is shown below:

S.No.	Towns Name	States/ UTs	S.No.	Towns Name	States/ UTs
1	Hyderabad	Andhra Pradesh	31	Imphal	Manipur
2	Vijayawada	Andhra	32	Shillong	Meghalaya
3	Visakhapatnam	Andhra Pradesh	33	Aizawal	Mizoram
4	Itanagar	Arunachal Pradesh	34	Kohima	Nagaland
5	Guwahati	Assam	35	Bhubaneswar	Orissa
6	Patna	Bihar	36	Puri	Orissa
7	Bodh Gaya	Bihar	37	Pondicherry	Pondicherry
8	Raipur	Chhattisgarh	38	Ludhiana	Punjab
9	Delhi	Delhi	39	Amritsar	Punjab
10	Ahmedabad	Gujarat	40	Chandigarh	Punjab & Haryana
11	Vadodara	Gujarat	41	Jaipur	Rajasthan
12	Surat	Gujarat	42	Ajmer-Pushkar	Rajasthan
13	Rajkot	Gujarat	43	Gangtok	Sikkim
14	Faridabad	Haryana	44	Chennai	Tamil Nadu
15	Shimla	Himachal Pradesh	45	Madurai	Tamil Nadu
16	Jammu	Jammu & Kashmir	46	Coimbatore	Tamil Nadu
17	Srinagar	Jammu & Kashmir	47	Agartala	Tripura
18	Bangalore	Karnataka	48	Lucknow	Uttar Pradesh
19	Mysore	Karnataka	49	Varanasi	Uttar Pradesh
20	Cochin	Kerala	50	Agra	Uttar Pradesh
21	Thiruvananthapuram	Kerala	51	Kanpur	Uttar Pradesh
22	Bhopal	Madhya Pradesh	52	Meerut	Uttar Pradesh
23	Jabalpur	Madhya Pradesh	53	Allahabad	Uttar Pradesh
24	Indore	Madhya Pradesh	54	Mathura	Uttar Pradesh
25	Ujjain	Madhya Pradesh	55	Dehradun	Uttaranchal
26	Greater Mumbai	Maharashtra	56	Nainital	Uttaranchal
27	Nashik	Maharashtra	57	Haridwar	Uttaranchal
28	Pune	Maharashtra	58	Kolkata	West Bengal
29	Nagpur	Maharashtra	59	Asansol	West Bengal
30	Nanded	Maharashtra			

Symbols used to present the current status are:

- x - not completed,**
- c - completed,**
- p-work in progress**

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
ANDHRA PRADESH									
1	Hyderabad								
a	Resolution by Government expressing commitment to establish modern municipal accounting system. (Note: this resolution should be passed within six months of signing of MOA under JNNURM and a copy submitted to MOUD)		✓					C	Resolution passed on 29-09-2006 by state govt. vide G.O Ms. No.233, MA)
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓					C	Completed. This reform was already done by the ULB in 2002
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)		✓					C	Appointed CGG as consultant vide order G.O.Ms.No.233 MA, Govt. of AP)
d	Completion and adoption of Manual		✓					C	AP Municipal Accounts Manual has been adopted and old codes have been replaced from 2006-07 onwards.
e	Commence training of personnel			✓				C	Regular training in groups are on-going for skill upgradation
f	Appointment of field-level consultant for implementation at the city-level		✓					C	Ms. Bloom Solution Consultants appointed for manual implementation in ERP environment from 1st June 06 onwards.
g	Notification of cut-off date for migrating to the double entry accounting system				✓			C	It was supposed to be implemented in 08-09 but has already achieved in 2005-06 in GHMC
h	Business Process Re-Engineering (if required)	✓						C	It was supposed to be implemented in the third year but has already been implemented in 2005-06.
i.	Valuation of assets and liabilities			✓				C	All assets and liabilities have been identified and accounted bearing Fixed Assets(FA).Account statement can be prepared at any point of time)
j	Drawing up of opening balance-sheet(OBS)							C	Achieved in 2006-07
	(i) Provisional OBS			✓				C	
	(ii) Adoption of Provisional OBS			✓				C	
	(iii) Finalization of OBS			✓				C	
k	Full migration to double-entry accounting system				✓			C	It was supposed to be implemented in 08-09 but has already achieved in 2006-07
l	Production of financial statements				✓			C	It was supposed to be implemented in 08-09 but has already achieved in 2006-07
m	Year of commencement of external audit of financial statements (after 2006-07)				✓			P	Completed upto 2005-06. 2006-07 in progress
n	Adoption of accounts				✓			C	Adopted. Accounts upto date
	Frequency of such external audit cycle	Not addressed in MOA							Though not addressed in MoA, for information pre-audit is there since 1965
o	Preparation of outcome budget				✓			P	In progress
	Year of which ULB will institute internal audit/control mechanism	Not addressed in MOA							Pre-audit established
q	Credit rating of ULB/ parastatal (if required)	✓						C	CRISIL -AAA+ and CARE AA- in 008.
p	Complete re-vamp of the Public Financial Management (PFM) cycle, which includes internal accounts				✓			C	Implemented
	2. Works contracts management	Not addressed in MOA							
	3. Payroll and wage payments								
	4. Stores and inventory management								
	5. User charges billing systems								
	6. Tax collection systems								

	Reforms	Commitments							Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12		
r	Any other reform step being undertaken		✓						C	Implementation of ERP solutions initiated with CGG support. GHMC one of the first ULB to implement ERP and go-live from 1st April onwards. Reform implemented according to time line and completed for all the circles/ zones of GHMC.
ANDHRA PRADESH										
2	Vijaywada									
a	Resolution by Government expressing commitment to establish modern municipal accounting system. (Note: this resolution should be passed within six months of signing of MOA under JNNURM and a copy submitted to MOUD)	✓							C	Since Fulfilled.
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓						C	Since Fulfilled.
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)	✓							C	Since Fulfilled.
d	Completion and adoption of Manual		✓						C	Since Fulfilled. It is the first ULB in the state to do the task.
e	Commence training of personnel	✓							C	Since Fulfilled.
f	Appointment of field-level consultant for implementation at the city-level	✓							C	Since Fulfilled
g	Notification of cut-off date for migrating to the double entry accounting system	✓							C	Migrated to double entry accounting system with effect from 01-04-2007.
h	Business Process Re-Engineering (if Required)		✓						C	Financial module in place since 01-04-2007.
i.	Valuation of assets and liabilities		✓						C	All identified assets valued & taken to Financial statement
j	Drawing up of opening balance-sheet(OBS)								C	Completed.
	(i) Provisional OBS	✓								Since Fulfilled.
	(ii) Adoption of Provisional OBS		✓							Since Fulfilled.
	(iii) Finalisation of OBS		✓							
k	Full migration to double-entry accounting system			✓					C	With effect from 01-04-2007. The new deadline is December 2009 & no amendment in the act is required by the ULB for the migration as it is not required to send to the State Government. The external auditor report has been released.
l	Production of financial statements			✓					C	Financial Statement for the year ending 31-03-2008 released.
m	Audits of financial statements			✓					P	Due by Government Auditors.
n	Adoption of accounts			✓					P	
	Frequency of such external audit cycle									Not addressed in MoA
o	Preparation of outcome budget			✓					X	Understanding is good but will be prepared only by 2011-12
p	Year in which ULB will institute internal audit/control mechanism									Not addressed in MoA
q	Credit rating of ULB/ parastatal (if required)	✓							C	Rated by CARE in 2008 as BBB+
r	Complete re-vamp of the Public Financial Management (PFM) cycle, I.e. financial Management systems integrated with the financial accounting system which includes internal accounts				✓				P	SPECK has prepared PFM & waiting for the pilot study.
	1. Procurement systems									Not in MoA
	2. Works contracts management									Not in MoA
	3. Payroll and wage payments									Not in MoA
	4. Stores and inventory management									Not in MoA

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	5. User charges billing systems	Not in MoA							
	6. Tax collection systems	Not in MoA							
	Any other reform step being undertaken								
ANDHRA PRADESH									
3	Vishakhapatnam								
a	Resolution by Government expressing commitment to establish modern municipal accounting system. (Note: this resolution should be passed within six months of signing of MOA under JNNURM and a copy submitted to MOUD)	✓						C	Resolution passed on 20-09-2006. No. G.O.Ms.No.233 M.A
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓					C	GO already issued. GO.MS No.233M08 UD [K1] Dt.22-05-2002.
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)		✓					C	State level item – CGG Hyderabad is the consultant for development of state manual. CGG Hyderabad has already prepared the manual on the basis of NMAM with minor modifications. At city level we have already appointed consultant.
d	Completion and adoption of Manual		✓					C	AP state municipal accounting manual prepared by CGG and adopted by GVMC.
e	Commence training of personnel		✓					C	Training program for 110 personnel is already completed through CGG. Further training programme commenced.
f	Appointment of field-level consultant for implementation at the city-level	✓	✓					C	e-Governance Foundation worked as consultant
g	Notification of cut-off date for migrating to the double entry accounting system		✓					P	Along with outcome budget is likely to be completed by March 2009.
h	Business Process Re-Engineering (if Required)		✓					P	Under progress
i.	Valuation of assets and liabilities			✓				C	Completed.
j	Drawing up of opening balance-sheet(OBS)			✓				C	Completed. Based on the available assets and liabilities, provisional balance sheet has been prepared
	(i) Provisional OBS			✓					
	(ii) Adoption of Provisional OBS			✓					
	(iii) Finalisation of OBS			✓					
k	Full migration to double-entry accounting system			✓	✓			C	Migrated to double entry accounting system from 1-04-2008.
l	Production of financial statements			✓	✓			C	Accomplished from April 2008
m	Year of commencement of external audit of financial statement			✓	✓			C	Commenced since October 08
n	Adoption of accounts			✓	✓			C	
	Frequency of such external audit cycle	Not addressed in MOA							
o	Preparation of outcome budget			✓	✓			P	Proposed from Dec 2008 and will be accomplished by 2009.
p	Year of which ULB will institute internal audit/control mechanism	Not addressed in MOA							
q	Credit rating of ULB/ parastatal (if required)	✓						C	The ULB is rated AA-SO by CARE and has raised Municipal Bond of Rs. 65 crores in 2007-08
r	Complete re-vamp of the Public Financial Management (PFM) cycle, which includes internal accounts				✓			P	It will be possible to complete once all the processes are in place.
	1. Procurement systems								
	2. Works contracts management								

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	3. Payroll and wage payments								
	4. Stores and inventory management								
	5. User charges billing systems								
	6. Tax collection systems								
s	Any other reform step being undertaken							C	The accounting system is currently online and right from the stage of sanction of work to part payment to issue of cheques is done under MIS.
ASSAM									
1	Guwahati								
a	Resolution by Government expressing commitment to establish modern municipal accounting system.							C	Required resolution was already passed in the corporation meeting as detailed in previous report
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system				✓			P	Under preparation
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently				✓			C	Consulting Firm M/s SREI Financial Services appointed in association of M/s NeDfi Ltd.
d	Completion and adoption of Manual				✓			P	Draft Municipal Accounting Manual is ready for adoption in Two Volumes (1 & 2). Computer System work Flow is yet to be in place. Computerised Accounting reform manual to be completed by end '09. Drafting of suitable Computer System Manual based on NMAM entrusted to consultant M/s Ne Dfi Ltd.
e	Training of personnel				✓			P	Training and capacity building of accounting personnel's will be provided after the installation of new hardware and software. Corporation has submitted e-governance DPR to SLNA for funding under JNNURM for procurement of new hardware system
f	Appointment of field-level consultant for implementation at the city-level				✓			X	To be done by the consultant
g	Notification of cut-off date for migrating to the double entry accounting system				✓			X	Notification will be made only after the installation of new system and after completion of trial run of new software for double entry system of accounting.
h	Business Process Re-Engineering (if Required)							X	To be done as per NMAM
i.	Valuation of assets and liabilities							P	Completed- Assets Register prepared
j	Drawing up of opening balance-sheet(OBS)							P	Under preparation
	(i) Provisional OBS							P	In progress
	(ii) Adoption of Provisional OBS							X	Will be adopted after approval of Government
	(iii) Finalisation of OBS								
k	Full migration to double-entry accounting system							P	Migration of Single Entry to Accrual Based Computerized Accounting system Started from 1st April, 2009 Annexure X.
l	Production of financial statements as per the new system							X	Under process
m	Year of commencement of external audit of financial statements							P	Internal Auditor Appointed and external Auditor be be appointed after legislative amendment
n	Adoption of accounts								Adoption of Accounts will be made once new system software in place, which is under trial run

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	Frequency of such external audit cycle								Annually
o	Preparation of outcome budget							P	Implementation started as mentioned in previous report.
p	Year of which ULB will institute internal audit/control mechanism							P	Already initiated
q	Credit rating of ULB/ parastatal							P	Done with assistance from MOUD
r	Complete re-vamp of the Public Financial Management (PFM) cycle i.e. Financial management systems integrated with the financial accounting system							P	Draft guidelines prepared
	1. Procurement systems							P	Draft guidelines ready, to be implemented with e governance software development
	2. Works contracts management							P	..
	3. Payroll and wage payments							C	100% computerised management syst.
	4. Stores and inventory management							P	..
	5. User charges billing systems							C	Under privatisation for MSW
	6. Tax collection systems							P	Computerised and online
s	Any other reform step being undertaken							P	New website www.myguwahati.in Annexure XI
BIHAR									
1	Patna								
A	Resolution by Government expressing commitment to establish modern municipal accounting system			✓				C	The State Government has resolved to shift to DEAS through gazette notification no: 2Y/B-12/02/1538/NVV dated 24-05-2005. This was to be made effective since 2006
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual			✓				C	The Municipal Financial Accounting Manual has been prepared and partly adopted. However, this manual has not been derived from the NMAM and has been separately prepared by the State itself
C	Completion and adoption of Manual			✓					
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting system			✓					
E	Training of personnel			✓				P	Training in DEAS has been initiated through PRUDA, Ahmedabad, which conducted its last training sessions in December 2007 for all mission cities in the State. However the PMC reported that the present staff was still incapable of implementing the DEAS and that the process of development of skilled professionals would be completed within 2009-10.
F	Appointment of field-level consultant for implementation at the city-level			✓				X	While the PRUDA has been appointed by the State Government for the purpose, the PMC reported no progress in this regard.
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)			✓				X	During the previous review the PMC had reported that it was expected to switch over to the DEAS w.e.f 01-04-2009. However, the PMC still follows a cash based single entry system with almost no change in the prevalent business processes for streamlining the

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
									system of book keeping. Also, while the PMC has undertaken the task of clarifying past records and instituting new processes of receipts and payments so as to enable the switch to the DEAS, the actual implementation will be delayed.
H	Business Process Re-engineering			✓					
I	Completion of registers and Valuation of assets and liabilities			✓				P	The process has been initiated and is expected to be completed within 2009-10
J	Drawing up of opening balance sheet (OBS)			✓				X	DEAS has not yet been implemented within the PMC. However the task of converting past data into the new system has been initiated.
M	Year of commencement of external audit of financial statements			✓				C	Annual audits are being conducted through the Comptroller and Auditor General on an annual basis
N	Frequency of such external audit cycle	Annually							
O	Preparation of outcome budgets			✓				X	
P	Year from which ULB will institute internal audit / control mechanisms			✓					The process of internal auditing has been initiated since 2007-08
Q	Undertake Credit rating			✓				C	M/s CRISIL has prepared the credit rating report for Patna
R	Financial management systems integrated with the financial accounting system			✓				X	
REMARKS: The State Government had resolved to shift to an accrual based Double Entry Accounting System (DEAS) through gazette notification no: 2Y/B-12/02/1538/NVV dated 24-05-2005. The Municipal Financial Accounting Manual has also been prepared and partly adopted. For facilitating the reform, the Government has appointed the National Informatics Centre (NIC) as an agency to implement DEAS in 49 ULBs in the State (including 7 Corporations). The Planning and Research on Urban Development Affairs (PRUDA), Ahmedabad which is the R&D division of the All India Institute of Local Self Government has been appointed as the State level agency for implementing DEAS. PRUDA has conducted training sessions for PMC and the other towns involved in the mission. The last training session was conducted for all mission cities in December 2007.									
2	Bodh Gaya								
A	Resolution by Government expressing commitment to establish modern municipal accounting system			✓				C	The State Government of Bihar has made it mandatory for ULBs to shift to an accrual based Double Entry Accounting System vide a Government Resolution dated 24 May 2005
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual				✓			C	The Municipal Financial Accounting Manual has been prepared and partly adopted. However, this manual has not been derived from the NMAM and has been separately prepared by the State itself.
C	Completion and adoption of Manual				✓				
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting system				✓				
E	Training of personnel				✓			C	Training has been imparted twice, however there is only one accountant in BNP.
F	Appointment of field-level consultant for implementation at the city-level				✓			P	Nirmal Associates have been appointed by the Bihar Urban Development Agency (BUDA). The firm has just prepared an inception report. Therefore, it will take a while to implement the accounting reforms in Bodhgaya.
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)				✓			X	All the ULBs were to migrate to a DEAS since January 2008. However, BNP is yet to migrate to DEAS. The BNP is still following single entry based accounting system.
H	Business Process Re-engineering				✓			X	
I	Completion of registers and Valuation of assets and liabilities				✓			C	

	Reforms	Commitments							Present status	Remarks	
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12			
J	Drawing up of opening balance sheet (OBS):										
1	Provisional OBS				✓				X		
2	Adoption of provisional OBS				✓						
3	Finalization of OBS				✓						
K	Full migration to DEAS										
L	Production of financial statements as per the new system										
M	Year of commencement of external audit of financial statements				✓				P	Audits are being conducted through the Comptroller and Auditor General on an annual basis.	
N	Frequency of such external audit cycle	Annually								C	
O	Preparation of outcome budgets				✓				X		
P	Year from which ULB will institute internal audit / control mechanisms				✓				C	The process of internal auditing has been initiated	
Q	Undertake Credit rating										
R	Financial management systems integrated with the financial accounting system										
1	Procurement systems				✓				X		
2	Works contracts management				✓						
3	Payroll and wage payments				✓						
4	Stores and inventory management				✓						
5	User charges billing systems										
6	Tax collection systems				✓						
REMARKS - Since the last review in January 2008, except for appointing a CA firm i.e., Nirmal Associates by Bihar Urban Development Agency (BUDA) not much has been done under this reform. The CA firm has prepared an inception report for Bodhgaya. The BNP reported in the last review that BNP will shift to DEAS by April 2008, but no such migration has taken place as of now and the BNP is still following a single entry system of accounting. However, training for DEAS has been imparted twice to the staff of Bodhgaya. It is noteworthy that there is a serious shortfall of the staff at all the smaller ULBs of Bihar.											
CHANDIGARH											
1	Chandigarh										
a	Resolution by Government expressing commitment to establish modern municipal accounting system.		✓						C	Union Territory of Chandigarh has initiated work of modernization of municipal accounting system.	
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓						C	Modification of rules not required- MCC competent to do conversion on its own. MCC is in the process of migrating to double entry accounting system.	

	Reforms	Commitments						Present status	Remarks		
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11			2011-12	
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)		✓						C	Conversion to double entry done through independent consultant selection.	
d	Completion and adoption of Manual		✓						C	Manual completed.	
e	Training of personnel		✓						C	Training has been imparted to most cadres from time to time.	
f	Appointment of field-level consultant for implementation at the city-level								C	The consultant M/s Shridhar&Santhanam from Chennai has commenced the work of migrating to double entry accounting process from 1.4.2006 onwards.	
g	Notification of cut-off date for migrating to the double entry accounting system								C	Migrated to double entry accounting w.e. f. 1.04.08	
h	Re-Engineering of Business Process to align with Accrual Based Accounting System (if required)										
i	Valuation of assets and liabilities				✓				P	Valuation is under process.	
j	Drawing up of opening balance-sheet(OBS)				✓				P	Provisional Balance sheet has been prepared	
	(i) Provisional OBS				✓						
	(ii) Adoption of Provisional OBS				✓						
	(iii) Finalisation of OBS				✓						
k	Full migration to double-entry accounting system				✓				P	Is in process.	
l	Production of financial statements as per the new system					✓			P	Balance Sheet upto March 2007 has been prepared and is being verified.	
m	Year of commencement of external audit of financial statements					✓			X	Not yet started. Dependent on completion of above steps.	
n	Adoption of accounts		Not addressed in MOA								Following auditing system by external agency already exist as under: i) Pre auditing by a representative of State Finance Deptt. ii) Post Audit by AG (UT).
	Frequency of such external audit cycle		Not addressed in MOA								yearly basis.
o	Preparation of outcome budget				✓				P	Dependent of completion of above steps.	
p	Year in which ULB will institute internal audit/control mechanism								C	Already in vogue	
q	Credit rating of ULB/ parastatal				✓				X	According to officials not required as Chandigarh has not availed any loan for MC budget.	
r	Development and integration of Financial Management Systems with the Financial Accounting System					✓			P	The financial management system shall also be integrated with financial accounting system by the consultant engaged for double entry system. Opening Balance will be March 06 and Closing Balance March 07. The same will apply for March 07 to March 08. For balance sheet of March 08-09, entry will be under double entry accounting. So far, the one for 2006 - 07 has been done and for 2007-08, is under progress. All this is done as per General Financial Rules 2005.	
	1. Procurement systems					✓					
	2. Works contracts management					✓					

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	3. Payroll and wage payments					✓			
	4. Stores and inventory management					✓			
	5. User charges billing systems							C	Already in vogue. Regional Computer Centre(RCC) is executing the work.
	6. Tax collection systems							P	The financial management system shall also be integrated with financial accounting system by the consultant engaged for double entry system.
s	Any other reform step being undertaken								
CHATTISGARH									
1	Raipur								
	Completion and adoption of Accounting Manual	✓							E & Y prepared a manual for double entry accounting system, which was adopted by RMC and under implementation for the last three years. M/S Began and Began are supporting the process. E & Y is now appraising the Manual to bring it in consonance with the norms of NMAM. During the last one year there is no external audit as Local Fund Audit Department was barred to undertake the work by the government. CARE credit rated the RMC in 2008 and accorded BBB's.
	Training of personnel	✓							
	Undertaking of Business Process Re-engineering	✓							
	Completion of registers & Valuation of assets and liabilities	✓							
	Drawing up of opening balance sheet	✓							
	Full migration to double entry accounting system			✓					
	Production of financial statements	✓							
	Commencement of External Audit of financial statements	✓							
	Adoption of internal audit/control mechanisms		✓						
	Undertaking of Credit rating of ULB/parastatal						✓		
	Development and integration of Financial Management Systems with Financial Accounting Systems								
	1 Procurement systems								
	2 Works contract management								
	3 Payroll and wage payments								
	4 Stores and inventory management								
	5 User charge billing systems								
	6 Tax collection systems								
DELHI									
1	Delhi								
A	Resolution by Government expressing commitment to establish modern municipal accounting system								
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual							Already Present Before JnNURM	

	Reforms	Commitments						Present status	Remarks	
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11			2011-12
C	Completion and adoption of Manual			✓					C	In January 2005, Ministry of Urban Development developed a national Municipal Accounts Manual which was adopted by NDMC vide reso. No. 15 (D-13) dated 26.08.2005. NDMC is maintaining its accounts on the guidelines mentioned in the above Accounts Manual. However, a specific Accounting Manual to cater the needs of NDMC with respect to Accounts and Online Accounting System is being drafted separately on the basis of Manual Municipal Accounts Manual.
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting system	Already Present Before JnNURM						C	NDMC approved to shift to Double Entry system of Accounts vide Reso No. (3 (XII) dt. 24.04.2002	
E	Training of personnel	5%	10%	20%	30%(4)					NDMC has imparted upto date training to the staff upto the level of DDOs, Accounts Officers and Junior accounts Officers/Accountants. This is an on-going process and the training sessions are being continued from time to time to update the knowledge of all.
F	Appointment of field-level consultant for implementation at the city-level				✓					NDMC appointed M/s K B Chandana & Co in December 2003 for drafting of accounts manual. NDMC shifted to double entry accrual based accounting system with the help of K B Chandana & Co from the financial year 2004-05. The said consultants are presently working with NDMC to complete the accounts upto 2008-09.
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)	Already Present Before JnNURM							NDMC has shifted to Double Entry Accrual Based Accounting System from the financial year 2004-05	
H	Business Process Re-engineering				✓					
I	Completion of registers and Valuation of assets and liabilities				✓				C	NDMC has completed registers of Assets and taken the assets on Rs. 1 /- prior to the year 2004-05 and assets created thereafter are being maintained at their actual values.
J	Drawing up of opening balance sheet (OBS):									
I	Provisional OBS	Already Present Before JnNURM								
2	Adoption of provisional OBS	N.A								
3	Finalization of OBS			✓						
K	Full migration to DEAS				✓				C	
L	Production of financial statements as per the new system	Already Present Before JnNURM								
M	Year of commencement of external audit of financial statements	Already Present Before JnNURM								
N	Frequency of such external audit cycle	Annually								
O	Preparation of outcome budgets				✓					
P	Year from which ULB will institute internal audit / control mechanisms				✓					

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
Q	Undertake Credit rating				✓				
R	Financial management systems integrated with the financial accounting system								
NDMC entered into an agreement with E-governance Foundation for customization of their e-financial module as per requirement of NDMC and generation of MIS Reports in 2006. As on date all receipts and expenditure are being captured on line in e-financial system development of reports is in process.									
GUJARAT									
1	Ahmedabad								
a	Resolution by Government expressing commitment to establish modern municipal accounting system.	✓						P	GUDM, to establish modern municipal accounting system.
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system	✓						P	AMC is in process of modifying exiting accounting manual for Accrual Based Double Entry system.
c	Appointment of consultants for development of State Manual	✓						C	Govt. of Gujarat has appointed a nodal agency "CMAG" for completion of Accounting reform in ULBs.
d	Completion and adoption of Manual	✓	✓					P	AMC developed Accounting Manual independently in1996 and adopted it through computerized double entry cash based accounting system since 1996-97.
e	Training of personnel	✓						P	AMC has Team of accounting professionals consisting of professionals, Chartered Accountants, Cost Accountants, MBAs (Finance).
f	Appointment of field-level consultant for implementation at the city-level	✓						C	AMC has appointed consultant for the implementation of Double Entry Accrual Based Accounting System.(For Preparing Balance Sheet Purpose)
g	Notification of cut-off date for migrating to the double entry accounting system		✓					C	Already Done in the year 1996-97
h	Business Process Re-Engineering (if Required)		✓						Not required.
i.	Valuation of assets and liabilities	✓						C	The copy of the balance sheet showing the assets are published in Nov.2007.
j	Drawing up of opening balance-sheet(OBS)								
	(i) Provisional OBS	✓						C	AS ABOVE
	(ii) Adoption of Provisional OBS	✓						P	To be adopted in Current Financial Year
	(iii) Finalisation of OBS		✓					C	Steering Committee has approved
k	Full migration to double-entry accounting system			✓				C	AMC has already implemented Accrual based Double Entry Accounting System since 1995-96 vide Administrator Resolution No. 372 dated 22-05-1995
l	Production of financial statements as per the new system	✓						C	Financial Accounts of the Year 2006-07 is approved by St. Committee,
m	Year of commencement of external audit of financial statements		✓					C	
n	Adoption of accounts		✓					C	AMC has adopted 8 digit chart of Accounts and Govt. and has plans to purpose 15 digit Account Code for Chart of Account
	Frequency of such external audit cycle				✓			C	On annual basis.
o	Preparation of outcome budget			✓				C	AMC is preparing the outcome budget for the last 2 years and also carrying out review of budget works on monthly basis.
p	Year of which ULB will institute internal audit/control mechanism	✓						C	According to BPMC Act we have separate Audit Dept. under control of Municipal Board.
q	Credit rating of ULB/ parastatal	✓						C	AMC has maintained credit rating since 1996-97 for Municipal Bonds at AA from CRISIL
r	Complete re-vamp of the Public Financial Management (PFM) cycle			✓				C	Work Contracts management is still manual and is yet to be computerised.

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	1. Procurement systems								
	2. Works contracts management								
	3. Payroll and wage payments								
	4. Stores and inventory management								
	5. User charges billing systems								
	6. Tax collection systems								
s	Any other reform step being undertaken	✓	✓					C	All payments to vendors and suppliers are being made through ECS and RTGS. For the development Industrial area situated in the city, AMC has made a resolution to allocated 75% of property tax collected from that area and formed a SPV with GIDC and AMC
GUJARAT									
2	Rajkot								
a	Resolution by Government expressing commitment to establish modern municipal accounting system.	✓						C	Already done as Urban Development & Urban Housing Department, Accordingly, RMC has started the work of modernization of municipal accounting system.
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓					C	RMC has already passed resolution to adopt double entry accounting system effective from 1.04.2008. The copy of Standing committee resolution is attached as
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)		✓					C	RMC has appointed consultants for modern municipal accounting system as per the guidelines of the Institute of Chartered Accountant. M/S Virmati Software Consultant has been appointed. RMC has also appointed M/s Mittal Associate for implementation of the work.
d	Completion and adoption of Manual		✓					P	A draft manual based on NMAM is prepared & adopted by RMC.
e	Training of personnel		✓					C	Achieved. A training workshop of all ULBs was arranged by the CMAG. A module of capacity building of all accounting staff is being prepared. RMC has trained its staff for using the software. More than 35 staff members are trained.
f	Appointment of field-level consultant for implementation at the city-level		✓					C	Same as (c) above.
g	Notification of cut-off date for migrating to the double entry accounting system		✓					C	RMC has already passed resolution to adopt double entry accounting system effective from 1.04.2008
h	Business Process Re-Engineering (if Required)		✓					C	Achieved. RMC has prepared BPR
i.	Valuation of assets and liabilities		✓	✓				P	Activity delayed but to be completed during fourth year I.e. in 2008-09.
j	Drawing up of opening balance-sheet(OBS)								
	(i) Provisional OBS		✓	✓				C	Achieved. The RMC has prepared a provisional OBS for the year ending 2007 by considering assets and liabilities value as ZERO.
	(ii) Adoption of Provisional OBS		✓	✓				C	Achieved. Provisional OBS is adopted considering ZERO assets and liability.
	(iii) Finalisation of OBS			✓				P	To be achieved before December 2008. The finalization of OBS will be complete once valuation of all assets is done.
k	Full migration to double-entry accounting system			✓				P	A resolution has been passed. This is being done from 1st April 2008.
l	Production of financial statements as per the new system			✓				P	Under process.

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
m	Year of commencement of external audit of financial statements			✓				C	Implemented.
n	Adoption of accounts			✓				C	RMC has done it of its own and it is already implemented.
	Frequency of such external audit cycle							C	3 months
o	Preparation of outcome budget		✓					C	Achieved. It is prepared each year during the month of November.
p	Year of which ULB will institute internal audit/control mechanism	Not addressed in MoA.						C	The RMC has their own audit systems.
q	Credit rating of ULB/ parastatal			✓				C	Achieved. CRISIL has carried out the credit rating.
r	Complete re-vamp of the Public Financial Management (PFM) cycle			✓				C	Achieved.
	1. Procurement systems			✓				C	RMC has already started procurement through e-tendering.
	2. Works contracts management			✓				C	Works contract management through e-tendering is implemented.
	3. Payroll and wage payments			✓				C	RMC has already tied up with private bank for employee's salary deposit and wages.
	4. Stores and inventory management			✓				C	Achieved.
	5. User charges billing systems			✓				C	Achieved.
	6. Tax collection systems							C	Achieved.
s	Any other reform step being undertaken								Rajkot municipal corporation is following technical guidelines issued by ICAI. Rajkot municipal corporation has already procured hardware for customized integrated software for the system.
GUJARAT									
3	Surat								
a	Resolution by Government expressing commitment to establish modern municipal accounting system.		✓					C	SMC has completed this activity and has adopted double entry accrual based accounting system vide SMC Standing Committee Resolution number 1669/92, dated -16/01/1992.
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓					C	Same as above.
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)		✓					C	M/s Price Water House has been appointed as a Consultant through Govt. of Gujarat.
d	Completion and adoption of Manual		✓					C	Manual Adopted.
e	Training of personnel		✓					C	Training Completed.
f	Appointment of field-level consultant for implementation at the city-level		✓					C	Completed
g	Notification of cut-off date for migrating to the double entry accounting system		✓					C	SMC had adopted double entry book keeping accounting system through Standing Committee Resolution 1669/92, dated- 16/01/1992.
h	Business Process Re-Engineering (if Required)			✓				C	Completed.
i.	Valuation of assets and liabilities		✓					P	It will be completed by March-2008. Assets worth Rs.3149Cr were booked till March 07, alongwith its necessary provision were made for Depreciation Fund.
j	Drawing up of opening balance-sheet(OBS)								
	(i) Provisional OBS	✓						C	Completed.
	(ii) Adoption of Provisional OBS	✓						C	Completed Vide SMC Standing Committee Resolution no.: 1832/2006; dt.: 26/12/2006.
	(iii) Finalisation of OBS		✓					C	Completed Vide SMC Standing Committee Resolution no.: 1832/2006; dated: 26/12/2006.
k	Full migration to double-entry accounting system			✓				C	SMC had adopted double entry a/c system vide SMC Standing Committee Resol. No.

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
									1669/92, dt.: 16/01/1992.
l	Production of financial statements as per the new system	✓						C	Completed Vide SMC Standing Committee Resolution no.: 1832/2006; dt.: 26/12/2006.
m	Audit of financial statements		✓					C	Internal Auditing by Municipal Auditor and manual prepared by the consultant M/s Price Water House.
n	Adoption of accounts		✓					C	As per BPMC Act-1949,U/S.105,Municipal Chief Auditor is conducting weekly examination and audit of the municipal account.
	Frequency of such external audit cycle							C	Every year.
o	Preparation of outcome budget			✓				C	Completed. It has been prepared and adopted vide SMC General Board Resolution: 79/2007, dated -15/02/2007.
p	Year of which ULB will institute internal audit/control mechanism	Not addressed in MoA.							SMC has already adopted an internal audit/control mechanism.
q	Credit rating of ULB/ parastatal		✓					C	SMC has received "CCR AA-"(pronounced "CCR Double A Minus") Rating from CRISIL .
r	Complete re-vamp of the Public Financial Management (PFM) cycle I.e. Financial management systems integrated with the financial accounting system							C	Adopted
	1. Procurement systems			✓				C	Completed.
	2. Works contracts management			✓				C	Completed.
	3. Payroll and wage payments			✓				C	Completed.
	4. Stores and inventory management			✓				C	Completed.
	5. User charges billing systems			✓				C	Completed.
	6. Tax collection systems			✓				C	Completed.
s	Any other reform step being undertaken							C	E-payments, direct debit completed & bill tracking system under implementation. Sharing of annual accounts with various stake holders. Computer driven Project Monitoring/Billing System has been taken up.
GUJARAT									
4	Vadodara								
a	Resolution by Government expressing commitment to establish modern municipal accounting system.		✓					C	Govt. of Gujarat has intimated ULBs through SLNA (State Level Nodal Agency) namely GUDM, to establish modern municipal accounting system.
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓					C	Vide General Board Resolution No.148 dt.7-11-06, accrual base modern accounting system has been principally accorded. Double entry accounting system has been already implemented by our Corporation.
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)		✓					C	Appointed City Manager Association of Gujarat as nodal agency.
d	Completion and adoption of Manual			✓				P	A draft manual is ready.
e	Training of personnel		✓	✓		✓		P	At present need based training is imparted to the officials. However training programme shall be chalked out after adoption of State manual.
f	Appointment of field-level consultant for implementation at the city-level			✓				C	Appointment of AmrutGajjar& Co. the valuer has been made for valuation of assets & liabilities. Appointment of Chartered Accountant m/s. K.C.Mehta& Co. has been made for conversion of OBS into accrual concept from cash base accounting system. Appointment of Chartered accountant M/s. K. C. Mehta & Co. has been also made as an External Auditor.

	Reforms	Commitments							Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12		
g	Notification of cut-off date for migrating to the double entry accounting system								C	VMC had adopted cash based double entry accounting system since 1998. Full migration of accrual base of the double entry accounting systems on 31-10-2008 is completed.
h	Business Process Re-Engineering (if Required)								C	In 2007-08 speedy payment systems introduced. In 2008-09 E-payment implemented from Dec.2007 for Capital Project Payments. It is fully implemented for all Revenue as well as Capital Payments in April 2008. Appointment of consultant for internal control is made in May 2008. E-tendering system has been started in South Zone from March 2008.
l	Valuation of assets and liabilities			✓					P	Liabilities as on 31-3-2007 have been determined. For Assets valuation, physical listing of all movable & immovable assets has been started in 2007-08 & has been completed in August 2008. Tenders were floated in April 2008 for appointment of certified valuer consultant for valuation of all Fixed Assets. Tender have been finalized and Standing Committee has approved the proposal, the General Board of the Corporation has also approved the proposal & work order has been given to Govt. Certified valuer M/s. AmrutGajjar & Co, the valuer for this purpose in June 2008. The company started the work of physical verification of listed Assets & has completed the same on 10 th September 2008. Fixed assets as on 31-3-2007 valuation report is received on 26/09/2008 from the valuer. The total assets valuation of VMC is Rs. 7162 crore. Valuation of all Fixed Assets as on 31-3-2008 of VMC is under completion by an independent Government certified valuer and expected final valuation report has been submitted and is under scrutiny by VMC.
j	Drawing up of opening balance-sheet(OBS)									
	(i) Provisional OBS		✓						P	OBS as on 1.4.2007 accrual base is ready.
	(ii) Adoption of Provisional OBS		✓						P	Standing committee has already resolved for adoption vide Resolution No 532 dated 7.11.2008. The Competent Authority i.e. General Board of VMC has also adopted and approved vide Resolution No.132 dated 20-2-09. The accrual base opening Balance sheet as on 1st April 2007, prepared on Double Entry Accounting System. Balance Sheet as on 31-3-2008 on accrual base Double Entry Accounting System is expected to be ready by end of April 2009. The General Board has also approved the OBS (accrual base system) as on 1-4-2007 vide resolution no. 132 dated 20-2-2009. It is published on official website of VMC www.vadodaracity.org & www.barodacity.org.
	(iii) Finalization of OBS			✓					P	On adoption of OBS as on 1.4.2007 by competent authority, same is being finalized.
k	Full migration to double-entry accounting system			✓					C	Full migration to accrual base double entry accounting system by 31 st October 2008 is achieved. This reform stands completed.
l	Production of financial statements as per the new system								C	On adoption & finalization of OBS as on 1.4.2007 by Standing Committee & general Board, the same is being published on web site of VMC.
m	Year of commencement of external audit of financial statements								C	Internal audit by Municipal Chief Auditor is in progress. Appointment of a firm of Chartered Accountant M/s. K.C. Mehta & Co. as External Auditor has been made. They have already commenced the work. The audit report has been received in February 2009 from the external auditor.
n	Adoption of accounts			✓					C	Achieved. As per provisions of BPMC Act 1949.
	Frequency of such external audit cycle								C	K C Mehta & co, Chartered Accountant, external firm has been appointed for carrying out internal audit on monthly basis.
o	Preparation of outcome budget		✓						C	Implemented.
p	Year of which ULB will institute internal audit/control mechanism					✓			P	From 2009 onwards.
q	Credit rating of ULB/ parastatal								C	GOI has appointed CRISIL for carrying out credit rating for Vadodara

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
									MahanagarSevaSadan. CRISIL has completed Rating to Procedure and have awarded 'A' Rating to Vadodara MahanagarSevaSadan.
r	Complete re-vamp of the Public Financial Management (PFM) cycle i.e. Financial management systems integrated with the financial accounting system					✓			P A firm of Chartered Accountant M/s. K.C. Mehta & Co. has been appointed as External Auditor for the purpose of strengthening internal control & PFM.
	1. Procurement systems			✓					C E-Tendering system is commenced in VMC.
	2. Works contracts management								P Under progress
	3. Payroll and wage payments								
	4. Stores and inventory management								
	5. User charges billing systems								
	6. Tax collection systems								
s	Any other reform step being undertaken								
HARAYANA									
1	Faridabad								
A	Resolution by Government expressing commitment to establish modern municipal accounting system								C
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual			✓					P The State government has already made a request to the Accountant General, Haryana, for the development of 'State wide Municipal Financial Accounting Manual and the response of the Accountant General, Haryana, is still awaited.
C	Completion and adoption of Manual			✓					P The MCF has reported that as and when the Accountant General, Haryana will complete the manual the same will be adopted by the Municipal Corporation, Faridabad.
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting system			✓					X The orders will be passed after the completion of the manual.
E	Training of personnel			✓					P The MCF is opening the financial and technical bids of the intenders on May 6, 2008 for the training of the staff in order to shift to Double Entry Accounting System. A Qualified Chartered Accountant will also be appointed for the same.
F	Appointment of field-level consultant for implementation at the city-level			✓					P The MCF has invited expression of interest in March 2008 via newspapers. City-level consultants will be appointed soon.
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)			✓					X The MCF will notify the cut-off date after the appointment of a qualified chartered accountant. The required staff training process is expected to be completed by September 30, 2008.
H	Business Process Re-engineering			✓					X The MCF will be able to initiate the re-engineering process after the appointment of a Chartered Accountant.
I	Completion of registers and Valuation of assets and liabilities			✓					C The registers and valuation of assets and liabilities has been completed up till March 31, 2008.
J	Drawing up of opening balance sheet (OBS):								
I	Provisional OBS				✓				P
2	Adoption of provisional OBS				✓				P
3	Finalization of OBS				✓				P
K	Full migration to DEAS					✓			P
L	Production of financial statements as per the new system					✓			P

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
M	Year of commencement of external audit of financial statements					✓		P	
N	Frequency of such external audit cycle	Annually						P	
O	Preparation of outcome budgets					✓		P	
P	Year from which ULB will institute internal audit / control mechanisms						✓	P	
Q	Undertake Credit rating						✓	P	The MCF has reported that ICRA Ltd. has completed the study and initially assigned an issuer rating of Ir BBB i.e., moderate credit quality rating.
R	Financial management systems integrated with the financial accounting system								
I	Procurement systems					✓		P	
2	Works contracts management					✓		P	
3	Payroll and wage payments			✓				P	The MCF will achieve this reform after the appointment of a CA. However, the salaries have been transferred to the employees of the corporation through bank accounts.
4	Stores and inventory management					✓		P	
5	User charges billing systems				✓			P	
6	Tax collection systems					✓		P	
HIMACHAL PRADESH									
1	Shimla								
A	Resolution by Government expressing commitment to establish modern municipal accounting system			✓				c	The Double Entry Accounting System has been in place in the Shimla city w.e.f. 01/04/2007, and is fully functional.
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual			✓				c	Open bids were called, and then a Shimla- based Chartered Accounting firm named Rajesh Sood and Co. was appointed as the consultant for development of State wide Municipal Financial Accounting Manual.
C	Completion and adoption of Manual			✓				c	The Municipal Financial Accounting Manual has been prepared in consonance with NMAM and has since then been approved in March, 2007.
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting system			✓				c	
E	Training of personnel			✓				c	15 people from the Accounts Department have been trained in the Double Entry Accounting System.
F	Appointment of field-level consultant for implementation at the city-level			✓				c	The Shimla- based Chartered Accounting firm named Rajesh Sood and Co., who is appointed as the consultant
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)			✓				c	Shimla has already fully migrated to Double Entry Accounting System (DEAS) w.e.f. 01/04/2007.
H	Business Process Re-engineering			✓				x	Though promised for the 3 rd year of JNNURM, Business Process Re-engineering within Municipal Accounting has not yet been started.
I	Completion of registers and Valuation of assets and liabilities			✓				P	Work of valuation has not been completed yet. There are no records of fixed assets of municipal corporation.
J	Drawing up of opening balance sheet (OBS):								
I	Provisional OBS			✓					
2	Adoption of provisional OBS			✓					
3	Finalization of OBS			✓					
K	Full migration to DEAS			✓				c	The Opening Balance Sheet (OBS) was prepared for the fiscal year 2007-08 and financial year 2008-09 is under finalization. There has been full migration to DEAS w.e.f. 1 st April 2007. Financial statements as per the new system are also being prepared from 1 st April 2007.

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
L	Production of financial statements as per the new system			✓					
M	Year of commencement of external audit of financial statements			✓				x	Though promised for the 3 rd year of JNNURM, external audit of financial statements has not yet started in Shimla. The Accountant General (AG) conducts an internal audit of financial statements annually, and it is quite strict done by chartered accountant.
N	Frequency of such external audit cycle	Annual						x	
O	Preparation of outcome budgets			✓				x	Though promised for the 3 rd year of JNNURM, outcome budgets are yet not being prepared.
P	Year from which ULB will institute internal audit / control mechanisms			✓				c	The Accountant General (AG) conducts an internal audit of financial statements annually, and it is quite strict.
Q	Undertake Credit rating							x	There is no plan to undertake credit rating of the Shimla MC in the near future, because the SMC authorities are not in a position and even do not want to access the capital market for municipal bond issuance.
R	Financial management systems integrated with the financial accounting system								
I	Procurement systems			✓				p	Though e-tendering and e-procurement of the projects related to the engineering wing, and stores and inventory management have been started, and payroll and wage payments have already been completed, but full integration of the financial management system with the financial accounting system can be done only by 2009-10.
JAMMU & KASHMIR									
1	Srinagar								
a	Resolution by Government expressing commitment to establish modern municipal accounting system. (Note: this resolution should be passed within six months of signing of MOA under JNNURM and a copy submitted to MOUD)	✓						p	Yes, Govt. is committed to establish modern municipal accounting system. Presently, the Registries are being updated to shift to double entry system and e-accounting w.e.f. 01-04-2010. Expression of Interest invited for evolving appropriate model of accounting based on National Accounting Manual for Urban Local Bodies. The proposals are being evaluated.
b.	Appointment of consultants for development of State wide Municipal Financial Accounting Manual.		✓					c	The necessary engagement of consultant has been done both for double entry as well as e-accounting.
c	Completion and adoption of Municipal Financial Accounting Manual, in line with NMAM or otherwise.		✓					x	A copy of the National Municipal Accounting Manual (NMAM) document was required by the ULB, based on which the accounting reform leading to a modern municipal accounting system could be initiated.
d.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓					x	Currently accounts of the Corporation are maintained as per provisions of the J&K Financial Code that is by and large adopted in most government offices with local modifications.
e	Commence Training of Personnel			✓				x	Nil (Capacity building of the municipal staff is also required in the area of municipal accounting reforms along with implementation)
f	Appointment of Field-Level Consultant for Implementation at the City-Level			✓				x	Nil
g	Notification of Cut-Off date for Migrating to the Double Entry Accounting System.			✓				x	Nil
h	Re-Engineering of Business Processes to align with Accrual Based Accounting System.			✓				x	Nil
i.	Completion of Registers and Valuation of assets and liabilities			✓				x	Nil

	Reforms	Commitments						Present status	Remarks	
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11			2011-12
j	Drawing up of opening balance-sheet(OBS)									
	(i) Provisional OBS							x	Fourth Year	
	(ii) Adoption of Provisional OBS			✓				x	Nil	
	(iii) Finalisation of OBS			✓				x	Nil	
k	Full Migration to Double-Entry Accounting System.							x	Fourth Year	
l	Production of Financial Statements (Income-Expenditure Accounts and Balance Sheet) as per the new System.							x	Fourth Year	
m	Commencement of External Audits of Financial Statements							x	Fourth Year	
n	Frequency of such External Audit Cycle								half yearly	
o	Preparation of Outcome Budgets.							x	sixth Year	
p	Institution of Internal Audit/ Control Mechanisms.			✓				x	Nil	
q	Credit Rating of ULB/ Parastatal (if required)							x	Fourth Year	
r	Development & Integration of Related Financial Management Systems with the Financial Accounting System.									
	(i) Procurement Systems							x	Fourth Year	
	(ii) Works Contracts Management							x	Fourth Year	
	(iii) Payroll & Wage Payments		✓					x	Nil	
	(iv) Stores & Inventory Management							x	fourth Year	
	(v) User Charges Billing Systems							x	fourth Year	
	(vi) Tax Collection Systems							x	Fourth Year	
	(vii) Any Other							x	Fourth Year	
t	Any other Reform Steps being Undertaken							x	Nil	
JAMMU & KASHMIR										
2	Jammu									
a	Resolution by Government expressing commitment to establish modern municipal accounting system. (Note: this resolution should be passed within six	✓							C	1. Expression of Interest invited by Administrative Department. 2. Resolution Passed in General House.

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	months of signing of MOA under JNNURM and a copy submitted to MOUD)								
b.	Appointment of consultants for development of State wide Municipal Financial Accounting Manual.		✓					X	Nil
c	Completion and adoption of Municipal Financial Accounting Manual, in line with NMAM or otherwise.		✓					X	Nil
d.	GO/Legislation/Modification of rules for migrating to double-entry accounting system		✓					X	Nil
e	Commence Training of Personnel			✓				X	Nil
f	Appointment of Field-Level Consultant for Implementation at the City-Level			✓				X	Nil
g	Notification of Cut-Off date for Migrating to the Double Entry Accounting System.			✓				X	Nil
h	Re-Engineering of Business Processes to align with Accrual Based Accounting System.			✓				X	Nil
i.	Completion of Registers and Valuation of assets and liabilities			✓				X	Nil
j	Drawing up of opening balance-sheet(OBS)								
	(i) Provisional OBS							X	Fourth Year
	(ii) Adoption of Provisional OBS			✓				X	Nil
	(iii) Finalisation of OBS			✓				X	Nil
k	Full Migration to Double-Entry Accounting System.							X	Fourth Year
l	Production of Financial Statements (Income-Expenditure Accounts and Balance Sheet) as per the new System.							X	Fourth Year
m	Commencement of External Audits of Financial Statements							X	Fourth Year
n	Frequency of such External Audit Cycle							X	Annually
o	Preparation of Outcome Budgets.							X	Sixth Year
p	Institution of Internal Audit/ Control Mechanisms.			✓				X	
q	Credit Rating of ULB/ Parastatal (if required)							X	Fourth Year
r	Development & Integration of Related Financial Management Systems with the Financial Accounting System.								

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	(i) Procurement Systems							X	Fourth Year
	(ii) Works Contracts Management							X	Fourth Year
	(iii) Payroll & Wage Payments		✓					X	
	(iv) Stores & Inventory Management							X	Fourth Year
	(v) User Charges Billing Systems							X	Fourth Year
	(vi) Tax Collection Systems							X	Fourth Year
	(vii) Any Other							X	Fourth Year
t	Any other Reform Steps being Undertaken								
MAHARASHTRA									
1	Nagpur								
A	Resolution by Government expressing commitment to establish modern municipal accounting system	Already done before JNNURM						C	The Government of Maharashtra had issued GR No. Lekhasu/102004/71/P.K-5/04/UD-31 dated 6.7.2005, making it mandatory for all ULBs in the State to adopt the accrual based double entry accounting system (DEAS) even before the start of the JNNURM.
B	Development of State wide Municipal Financial Accounting Manual	No commitment						C	This task has been completed at the State level in 2005-06. At the ULB level a set of accounting codes have been adopted based on the National coding system and the same have been sent to the Directorate of Municipal Administration (DMA) for final approval.
C	Completion and adoption of Manual	Already done before JNNURM							
D	GO/Legislation/Modification of Municipal Finance Rules	No commitment							
E	Training of personnel	Already done before JNNURM						C	Training of the accounts staff in double entry book keeping has commenced since January 2005 through M/s CRISIL
F	Appointment of field-level consultant for implementation at the city-level	Already done before JNNURM						C	M/s CRISIL has been appointed for implementation of DEAS at the field level since August 2004.
G	Notification of cut-off date for migrating to DEAS	Already done before JNNURM						C	The NMC had issued a notification for migrating completely to the DEAS from April 1, 2006
H	Business Process Re-engineering		☐	✓				P	The NMC has proposed to implement an ERP solution which would include changes in the business processes of the accounts department as well.
I	Completion of registers and Valuation of assets and liabilities		✓					P	Asset listing for all zones of the NMC has been completed. However the process of valuation has been delayed due to lack of in-house technical expertise for conducting the task.
J	Drawing up of opening balance sheet (OBS):								
1	Provisional OBS	✓						P	The Corporation reported that while a provisional OBS had been prepared, the same could not be finalized due to delays in the valuation of assets and liabilities. This task is expected to be completed within 2009-10.
2	Adoption of provisional OBS		✓						
3	Finalization of OBS			✓					

	Reforms	Commitments						Present status	Remarks		
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11			2011-12	
K	Full migration to DEAS	✓							X	The NMC reported that it is presently practicing both single and double entry book keeping and that the final migration will be completed only after receiving approval from the DMA	
L	Production of financial statements as per the new system	✓									
M	Audit of financial statements		✓						C	The mechanism for pre and post auditing of all proposals has been laid down by the Municipal Act and internal audits are being conducted regularly for the NMC. A concurrent external audit is also conducted by the Auditor General and this has been completed for 2007-08.	
N	Adoption of accounts		✓						P	This task will be completed after the completion of asset valuation and preparation of final OBS.	
O	Preparation of outcome budgets			✓					X	The NMC reported that outcome budgets have been included in the budget process for 2010-11.	
P	Complete revamp of the Public Financial Management (PFM) Cycle			✓					P	The ULB has proposed to implement an ERP solution and the package is expected to enable horizontal integration across all modules. All financial integration will be achieved on implementation of this final ERP solution.	
Q	Undertake Credit rating	✓							C	The NMC has in the past accessed the capital market to raise funds for infrastructure – first in 2001, when it raised Rs.50 crore in the form of taxable bonds and again in 2007 when it raised Rs.21.2 crore in the form of non-taxable bonds. CRISIL has rated the NMC at A-(Stable), whereas FITCH has rated it as ---AA(Ind)SO.	
MAHARASHTRA											
2	Nanded										
A	Resolution by Government expressing commitment to establish modern municipal accounting system	Already done before JNNURM									The Government of Maharashtra had issued GR No. Lekhasu/102004/71/P.K-5/04/UD-31 dated 6.7.2005, making it mandatory for all ULBs in the State to adopt the accrual based double entry accounting system (DEAS) even before the start of the JNNURM.
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual	No commitment									The State level Financial Accounting Manual has been completed and adopted.
C	Completion and adoption of Manual	Already done before JNNURM									GO issued by GoM and GoI for Municipal Finance Rules for migration to double entry accounting system.
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting system	No commitment									
E	Training of personnel	Already done before JNNURM									The NWCMC has completed a training needs assessment. Trainings are under progress at YASHADA, Pune.
F	Appointment of field-level consultant for implementation at the city-level	Already done before JNNURM									The Corporation has undertaken the computerization of raw data from all departments as well as conversion to double Entry Accounting system (DEAS) through an agency called M/s FORTRESS.
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)	Already done before JNNURM									They have migrated to double entry accounting system from the financial year 2009.
H	Business Process Re-engineering			✓							
I	Completion of registers and Valuation of assets and liabilities		✓								They have completed the draft of asset registers and from 15 th July 2009 they will finalise the asset register and final valuation.
J	Drawing up of opening balance sheet (OBS):										
1	Provisional OBS	✓									Provisional OBS drawn and the same will be adopted from 1 st October 2009.
2	Adoption of provisional OBS		✓								Finalization of OBS will be done by December 2009.

	Reforms	Commitments							Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12		
3	Finalization of OBS			✓						
K	Full migration to DEAS	✓								They have fully migrated to Double entry accounting system from 1 st April 2009.
L	Production of financial statements as per the new system	✓								They will produce financial statement in December 2009.
M	Audit of financial statements		✓							Audit of the financial statement will start from December 2009.
N	Adoption of accounts		✓							
O	Preparation of outcome budgets			✓						For this year they have proposed outcome budget. They will produce it in April 2010.
				✓						They have started preparing "P-budget" from this financial year 2009-10.
P	Undertake Credit rating	✓								The work of credit rating has been completed by CRISIL who has assigned 'BBB-' rating to the Corporation in 2007-08.
REMARKS Nanded-Waghala City Municipal Corporation has started double entry accounting system from the financial year 2009. They have not completed the process of valuation yet. They will finally complete all reforms under municipal accounting system within 1 st April 2010. They have also started preparing "P-budget" from the financial year 2009-10.										
MAHARASHTRA										
3	Nasik									
A	Resolution by Government expressing commitment to establish modern municipal accounting system									The Government of Maharashtra had issued GR No. Lekhasu/102004/71/P.K-5/04/UD-31 dated 6.7.2005, making it mandatory for all ULBs in the State to adopt the accrual based double entry accounting system (DEAS) even before the start of the JNNURM.
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual		✓							The State level Financial Accounting Manual has been completed and adopted.
C	Completion and adoption of Manual			✓						GO issued by GoM and GoI for Municipal Finance Rules for migration to double entry accounting system.
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting system			✓						
E	Training of personnel									They have made a training need assessment lists through interactive sessions with the accounts department. However, no such trainings have been initiated by them.
F	Appointment of field-level consultant for implementation at the city-level									
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)									They have migrated to double entry accounting system from the financial year 2009, 1 st April.
H	Business Process Re-engineering			✓						
I	Completion of registers and Valuation of assets and liabilities			✓						NMC appointed consultant M/s. Superintendence Co. of India Private Ltd., for valuation of assets and liabilities. Assets register and valuation of assets has been completed and the same has been included in the provisional opening balance sheet of NMC.
J	Drawing up of opening balance sheet (OBS):									
1	Provisional OBS			✓						Adoption and finalization of opening balance sheet will be completed after the verification of the provisional opening balance sheet.
2	Adoption of provisional OBS			✓						
3	Finalization of OBS			✓						
K	Full migration to DEAS				✓					In the last year they were practicing both the single entry and double entry. However,

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
									from this year NMC has completely migrated to double entry accounting system. It has commenced from 1 st April 2009
L	Production of financial statements as per the new system	✓							
M	Audit of financial statements		✓						
N	Adoption of accounts		✓						
O	Preparation of outcome budgets			✓					Resolution has been made for outcome budget. They have gender budget and just introduced P-budget in this year.
P	Complete revamp of the Public Financial Management (PFM) Cycle			✓					
MAHARASHTRA									
4	Pune								
A	Resolution by Government expressing commitment to establish modern municipal accounting system	Already done before JNNURM							The Government of Maharashtra had issued GR No. Lekhasu/102004/71/P.K-5/04/UD-31 dated 6.7.2005, making it mandatory for all ULBs in the State to adopt the accrual based double entry accounting system (DEAS) even before the start of the JNNURM.
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual		✓						This process has been initiated and the State level Financial Accounting Manual is in the final stages of development.
C	Completion and adoption of Manual		✓						
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting system	✓							
E	Training of personnel		✓						Pune Municipal Corporation has given training to 25 staffs in double entry book-keeping.
F	Appointment of field-level consultant for implementation at the city-level	✓							M/s Batliboi and Company has been appointed as the filed level consultant for implementing DEAS within the PMC.
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)	✓							The PMC has announced March 2010 as the cut-off date for migrating to accrual based DEAS.
H	Business Process Re-engineering		✓						M/s Batliboi and Company along with M/s PWC (ERP consultant to the PMC) has undertaken the necessary re-engineering of business processes of the Corporation.
I	Completion of registers and Valuation of assets and liabilities			✓					Valuation of assets and liabilities of the Corporation has been completed.
J	Drawing up of opening balance sheet (OBS):								
I	Provisional OBS		✓						They have prepared the balance sheet of 2001-02 and 2002-03. They have prepared and finalised the Opening balance sheet (OBS) of the financial year 2006-07.
2	Adoption of provisional OBS			✓					
3	Finalization of OBS			✓					
K	Full migration to DEAS			✓					They will be fully migrated to accrual based double entry accounting system from March 2010.
L	Production of financial statements as per the new system			✓					They have started preparing the financial statement as per new system.
M	Audit of financial statements			✓					AG has been completed till the financial year 2007-08 and they are also undertaking

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
									external audit through chief auditor.
N	Adoption of accounts			✓					
O	Preparation of outcome budgets			✓					They have just taken the initiatives to prepare the outcome budget, but there exist some disclosure in it.
P	Complete revamp of Public Financial Management Cycle			✓					
Q	Undertake Credit rating				✓				The work of credit rating has been completed by M/s Fitch who has assigned 'AA+' rating to the Corporation.
R	Any other reform								
I	Training and capacity building of staff		✓						The PMC had appointed M/s Crisil to undertake a training needs assessment for increasing the efficiency and capacity of its staff. The agency has submitted its final report and this is presently being reviewed for adoptability.
2	Disclosure of public information	✓							Public information relating to municipal accounting such as total municipal budget, annual accounts, QPR of budget etc. is disclosed through the PMC website on a regular basis.
REMARKS - The Government of Maharashtra had issued GR No. Lekhasu/102004/71/P.K-5/04/UD-31 dated 6.7.2005, making it mandatory for all ULBs in the State to adopt the accrual based double entry accounting system (DEAS) even before the start of the JNNURM. Pune Municipal Corporation (PMC) still not enables to complete the process of accrual based double entry accounting system. It will be completed within March 2010.									
MAHARASHTRA									
5	GREATER MUMBAI								
A	Resolution by Government expressing commitment to establish modern municipal accounting system								The Government of Maharashtra had issued GR No. Lekhasu/102004/71/P.K-5/04/UD-31 dated 6.7.2005, making it mandatory for all ULBs in the State to adopt the accrual based double entry accounting system (DEAS) even before the start of the JNNURM.
B	Appointment of consultants for development of State wide Municipal Financial Accounting Manual								No commitment This process has been initiated and the State level Financial Accounting Manual is in the final stages of development.
C	Completion and adoption of Manual								
D	GO/Legislation/Modification of Municipal Finance Rules for migrating to double-entry accounting								No commitment

	Reforms	Commitments							Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12		
	system									
E	Training of personnel								p	They haven taken initiatives to give training to accounting staffs.
F	Appointment of field-level consultant for implementation at the city-level									They have appointed "Ferguson" as a consultant for preparing the opening balance sheet.
G	Notification of cut-off date for migrating to Double Entry Accounting System (DEAS)									They have shifted to double entry accounting system from the financial year 2002-2003.
H	Business Process Re-engineering			✓						
I	Completion of registers and Valuation of assets and liabilities		✓							They have listed all the assets and completed valuation of those assets. They have done it of their own. No outside consultant has been appointed for this work.
J	Drawing up of opening balance sheet (OBS):									
I	Provisional OBS	✓								NMMC has completed the opening balance sheet (OBS) for the year 2005-06. Opening Balance Sheet of the year 2006-07 will be completed within end of June 2009.
2	Adoption of provisional OBS		✓							They have adopted the OBS of 2005-06.
3	Finalization of OBS			✓						They have finalised the OBS of the financial year 2005-06.
K	Full migration to DEAS	✓								They have migrated to accrual based double entry accounting system from the year 2002-03.
L	Production of financial statements as per the new system	✓								They have produced the financial statements as per the new system.
M	Audit of financial statements		✓							AG has been completed till the financial year 2007-08 and they are also undertaking external audit through chief auditor.
N	Adoption of accounts		✓							
O	Preparation of outcome budgets			✓						They have completed the outcome budget of the financial year 2009-10.
P	State year from which ULB will institute internal audit/control mechanism			✓						
Q	Undertake Credit rating	✓								The work of credit rating has been completed by M/s Fitch who has assigned 'AA+' rating to the Corporation. It has been done in the year 2008-09.
PUDDUCHERRY										
1	Puducherry									Not Achieved – LAD is preparing accounting manual for double entry accounting system in both the municipalities.
	Completion and adoption of Accounting Manual				✓					
	Training of personnel				✓					
	Undertaking of Business Process Re-engineering				✓					
	Completion of registers & Valuation of assets and liabilities				✓					
	Drawing up of opening balance sheet					✓				
	Full migration to double entry accounting system				✓					
	Production of financial statements					✓				

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	Commencement of External Audit of financial statements					✓			
	Adoption of internal audit/control mechanisms				✓				
	Undertaking of Credit rating of ULB/parastatal					✓			
	Development and integration of Financial Management Systems with Financial Accounting Systems						✓		
	1 Procurement systems								
	2 Works contract management								
	3 Payroll and wage payments								All the employees have been issued ATM cards – 75%
	4 Stores and inventory management								
	5 User charge billing systems								
	6 Tax collection systems								
	7 Any other								
PUNJAB									
1	Amritsar								
a	Resolution by Government expressing commitment to establish modern municipal accounting system.		✓					c	Local Govt. vide its Memo No. DLG-DCFA-2003/9413-9533 dated 31 March 2003 has issued instructions for switching over to double entry accounting system.
b	GO/Legislation/Modification of rules for migrating to double-entry accounting system				✓			c	GO No. Acctt-3-DCFA-08/9147-9310 dated March 17, 2008 has been issued stating the effective date as 1st April 2008
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)							c	Local Govt. vide its order No. Acctt-3-DCFA-DLG-08/spl dated 14 Nov 2008 has constituted a committee under the chairmanship of Deputy Director, ULB, Bhatinda to recommend amendments in NMA code in accordance with the requirement of Urban Local Bodies. The National Municipal Accounts Manual (NMAM) has been prepared by MOUD with support from CAG to promote the implementation of improved financial management through electronic means leading to improvement in internal government operations to support and stimulate good governance.
d	Completion and adoption of Manual		✓					p	Manual has been sent to the legal department for vetting
e	Training of personnel			✓				p	Continuous training programmes have been on since the implementation of the G.O No. Acctt.3/DCFA/DLG/08/9197-9310 dated 17 March 2008.
f	Appointment of field-level consultant for implementation at the city-level			✓				c	CA has been appointed vide letter no. Acctt.3/DCFA/DLG/08/15015 - 15025 dated April 22, 2008.
g	Notification of cut-off date for migrating to the double entry accounting system				✓			p	G.O.No.Acctt.3/DCFA/08/9147-9310 dated March 17 2008 has been issued stating the effective date as 1st April 2008.It is expected that shift to double entry system will be completed in the next 6 months.
h	Business Process Re-Engineering (if Required)				✓			p	The agreement has been prepared for the Chartered Accountants firm for implementation of double-entry system of accounting.
i	Valuation of assets and liabilities							p	
j	Drawing up of opening balance-sheet(OBS)							p	
	(i) Provisional OBS							p	
	(ii) Adoption of Provisional OBS							p	

	Reforms	Commitments						Present status	Remarks	
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11			2011-12
	(iii) Finalisation of OBS								p	
k	Full migration to double-entry accounting system				✓				p	Expected to be complete by December 2009
l	Production of financial statements as per the new system				✓				p	
m	Year of commencement of external audit of financial statements				✓				p	
n	Adoption of accounts								p	Dependent on above (points k to m)
	Frequency of such external audit cycle	Yearly							p	
o	Preparation of outcome budget				✓				p	
p	Year of which ULB will institute internal audit/control mechanism				✓				p	
q	Credit rating of ULB/ parastatal								c	Credit rating of MCA was conducted by ICRA (March 31, 2008).
r	Complete re-vamp of the Public Financial Management (PFM) cycle i.e. Financial management systems integrated with the financial accounting system								x	yet to be undertaken
	1. Procurement systems				✓					
	2. Works contracts management				✓					
	3. Payroll and wage payments									
	4. Stores and inventory management									
	5. User charges billing systems									
	6. Tax collection systems				✓					
s	Any other reform step being undertaken									
PUNJAB										
2	Ludhiana									
a	Resolution by Government expressing commitment to establish modern municipal accounting system.		✓						c	Government has issued circular to establish new accounting system from 01-04-2008.
b.	GO/Legislation/Modification of rules for migrating to double-entry accounting system			✓					p	Draft MMS has been drawn up and has been sent to LR for vetting. Once vetted shall be placed before the cabinet for approval.
c	Appointment of consultants for development of State Manual (Either based on NMAM or independently)			✓					c	IPE has developed the accounting manual for MCL.
d	Completion and adoption of Manual			✓					p	Ludhiana Municipal Corporation (LMC) has prepared its own accounting manual with the help of a consultant - Infrastructure Professional Enterprises (IPE), New Delhi, in August 2000. The manual was prepared in 2001 and NMAM was implemented in 2004. The accounting manual prepared by IPE for LMC has been modified incorporating

	Reforms	Commitments							Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12		
										changes and has been brought it in line with NMAM.
e	Training of personnel			✓					p	A number of training programmes are being conducted for capacity building of personnel for ULBs. A Chartered Accountant has been appointed.
f	Appointment of field-level consultant for implementation at the city-level			✓					c	Chartered Accountant R.K Aggarwal& Co.appointed vide M C Reso. no 459 Dt. 10.03.2008
g	Notification of cut-off date for migrating to the double entry accounting system			✓					p	The switch over has started w.e.f. Apr. 2008. At present, both the system are running. The cut-off date for migrating to double entry system is 01-04-2010
h	Business Process Re-Engineering (if Required)				✓				p	LMC has taken steps for re-engineering of Business Processes to align with Accrual Based Accounting System. At present, in the transitory phase, both systems are running parallel to each other.
i	Valuation of assets and liabilities				✓				p	Completion of Registers and Valuation of assets and liabilities has been done upto 31-3-2008.
j	Drawing up of opening balance-sheet(OBS)				✓					
	(i) Provisional OBS				✓				p	Provisional balance sheet will be completed shortly for the period upto 01.04.08
	(ii) Adoption of Provisional OBS				✓				p	Provisional balance sheet will be adopted by April 2010
	(iii) Finalisation of OBS				✓				p	Provisional balance sheet will be finalised by Dec. 2009
k	Full migration to double-entry accounting system				✓				p	As per Government directions, full migration must be done from 01.04.2010 . LMC has taken steps for the same to comply with the directions of the Government.
l	Production of financial statements as per the new system				✓				p	Data entry has been made from cash books for the period 01-02-2008 to 02-03-2008 and provisional trial balance is being generated.
m	Year of commencement of external audit of financial statements				✓				p	Internal audit has been in practice. External audit will be done after data entry is completed in 2010.
n	Adoption of accounts				✓				p	Is on accrual basis.
	Frequency of such external audit cycle				✓				p	Annual
o	Preparation of outcome budget					✓			p	Under process.
p	Year in which ULB will institute internal audit/control mechanism				✓				p	Already in place.
q	Credit rating of ULB/ parastatal								c	Rating has been carried out - LBBB+(SO) by ICRA Ltd.
r	Complete re-vamp of the Public Financial Management (PFM) cycle i.e. Financial management systems integrated with the financial accounting system									The points mentioned below (1 to 6) will be done once the switch over the new accrual based accounting system is complete.
	1. Procurement systems				✓					
	2. Works contracts management				✓					
	3. Payroll and wage payments			✓						
	4. Stores and inventory management			✓						

	Reforms	Commitments						Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11		
	5. User charges billing systems			✓					
	6. Tax collection systems				✓				
s	Any other reform step being undertaken								
ORISSA									
1	BHUBANESWAR								
	Completion and adoption of Accounting Manual		✓						Manual was prepared and adopted in 2006-07 , Government is preparing rules under the manual and USAID is expected to support the process
	Training of personnel		✓						Continuous activity
	Undertaking of Business Process Re-engineering			✓					Completed
	Completion of registers & Valuation of assets and liabilities			✓					Assets valuation is completed
	Drawing up of opening balance sheet		✓						Prepared for the years 2006-07 and 2007-08 and released
	Full migration to double entry accounting system		✓						Full Migration has taken place from (Still the accounts are being maintained on both the accounting systems)
	Production of financial statements		✓						Yet to be completed
	Commencement of External Audit of financial statements		✓						AG Audit completed for the year 2008-09
	Adoption of internal audit/control mechanisms		✓						Both pre and post audit by the LFA Department
	Undertaking of Credit rating of ULB/parastatal			✓					Completed
	Development and integration of Financial Management Systems with Financial Accounting Systems			✓					Not yet integrated
	1. Procurement systems			✓					
	2. Works contracts management			✓					
	3. Payroll and wage payments			✓					
	4. Stores and inventory management			✓					
	5. User charges billing systems			✓					
	6. Tax collection systems			✓					
	7. Any other			✓					
ORISSA									
2	PURI								
	Completion and adoption of Accounting Manual			✓					Manual was prepared and adopted in 2006-07 , Government is preparing rules under the

	Reforms	Commitments							Present status	Remarks
		2005-2006	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12		
				✓						manual and USAID is expected to support the process
	Training of personnel			✓						
	Undertaking of Business Process Re-engineering			✓						
	Completion of registers & Valuation of assets and liabilities			✓						The Double Entry Accounting System introduced Municipality in 2006-07 was discontinued after two years i.e., from 2008-09 after the consultant's contract ended. The Municipality, in the absence of technical support has reverted back to Cash Based Single Entry Accounting System.
	Drawing up of opening balance sheet			✓						
	Full migration to double entry accounting system			✓						
	Production of financial statements			✓						
	Commencement of External Audit of financial statements			✓						
	Adoption of internal audit/control mechanisms			✓						

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