



The Institute of Chartered Accountants of India



NITI Aayog

TRANSITION TO ACCRUAL ACCOUNTING: MODELS AND LEARNINGS FOR URBAN LOCAL BODIES

An ICAI - ICAI ARF study for NITI Aayog | January 2023







NITI Aayog

Transition to accrual accounting: Models and learnings for Urban Local Bodies

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ICAI ACCOUNTING RESEARCH FOUNDATION

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The Accounting Research Foundation (ICAI ARF) of the Institute of Chartered Accountants of India (ICAI) is established as a core research body in the areas of accounting, auditing, capital markets, fiscal policies, monetary policies, and related disciplines. Over the years, it has accelerated its work programme as an academy for imparting, spreading and promoting knowledge, learning, education and understanding in various fields related to the profession of accountancy. The ICAI ARF has undertaken and completed many projects in the past involving basic and applied research.

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Project Management Team at Managing Urbanisation Vertical of NITI Aayog

Ms. Anshika Gupta, Specialist

Mr. Dhiraj Santdasani, Associate

Disclaimer:

The opinions/ assertions, expressed in this study are primarily based on the inputs and deliberations in interviews with serving and retired officials of multiple municipal bodies, State urban development departments and municipal administration directorates, State audit departments, and other change agents like accountancy and information technology professionals. The other (non-study) records used in the study are based on publicly available information and other sources. Every attempt has been made to ensure the accuracy and completeness of data contained in this Report. The analysis and arguments employed herein are attributed to the authors of the study only and not to the organisation they belong to.

While due care has been exercised to prepare the report using the data from various sources, NITI Aayog does not confirm the authenticity of data and the accuracy of the methodology to prepare the report. NITI Aayog shall not be held responsible for finding or opinions expressed in the document.

Message, Vice Chairperson, NITI Aayog



India is rapidly urbanizing. Over the past few years, urban development in India has received tremendous attention and greater investments than ever before. While cities are increasingly becoming responsible for instigating economic growth for the nation, they often face severe pressure to provide efficient urban services to the increasing urban population. In such a scenario, strong fiscal management at the local level becomes very critical for optimal utilization of financial resources.

One of the critical aspects of implementing strong fiscal management is the mode of accounting used for transactions at the municipal level. It is important to realize that the quality of information with regard to these transactions plays a critical role in enabling decision-makers to take conversant decisions. A large number of urban local bodies still follow the cash-based accounting system at the local level, whereas worldwide the urban local bodies are shifting to “accrual” based accounting system. Accrual based accounting method by virtue of its comprehensiveness provides a better understanding of finances for any organization. As cities grow to implement mega infrastructure development projects, the accrual accounting system would be more reliable to adopt.

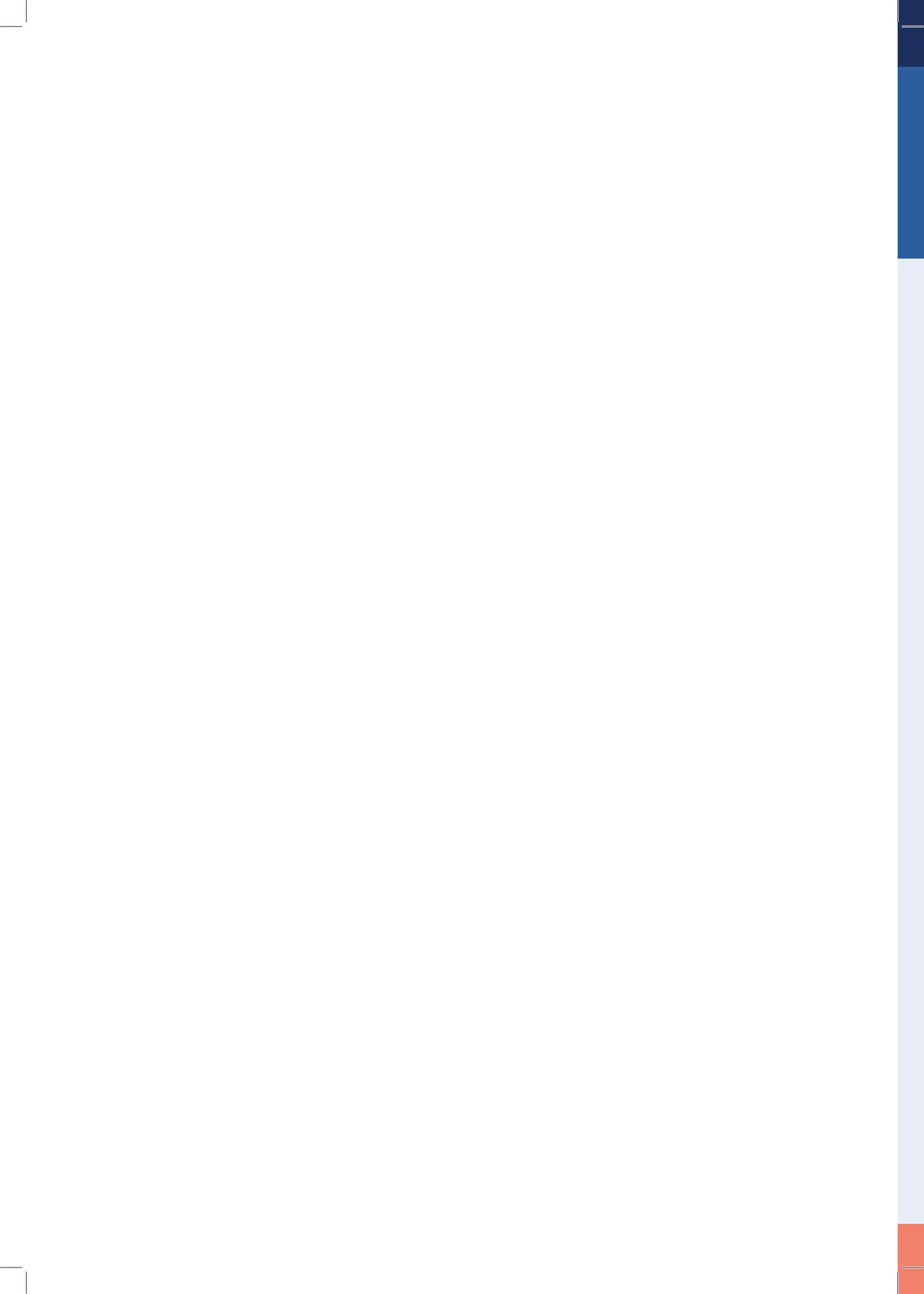
This report on “Transition to Accrual Accounting: Models and Learnings for Urban Local Bodies” is an attempt to create a knowledge product based on the wealth of experience gathered by various states while implementing the reform. 8 States including Bihar, Chhattisgarh, Delhi, Gujarat, Karnataka, Odisha, Rajasthan, and Tamil Nadu and Cantonment Boards are covered in the report. Apart from conducting primary surveys and in-depth analysis of the selected states, the team has also compiled learnings from other States through desk-based research. A stakeholder consultation with all the states concerned was also organized to improve the report findings. This report would enable greater capacities amongst the States/ULBs that are in the process or planning to implement the Accrual-based accounting system.

I compliment the efforts of the Institute of Chartered Accountants of India (ICAI) in the sector and their support in the development of this document. I would also like to compliment the Managing Urbanization vertical at NITI Aayog led by Sh Kundan Kumar, Advisor, for working on this important knowledge product and effectively leading this task along with his team consisting of Mr. Rajesh Gupta, Director, NITI Aayog, Ms. Anshika Gupta, Specialist, and Mr. Dhiraj Santdasani, Associate of the Managing Urbanisation vertical.

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Suman Bery

Vice Chairperson , NITI Aayog



Foreword, CEO, NITI Aayog



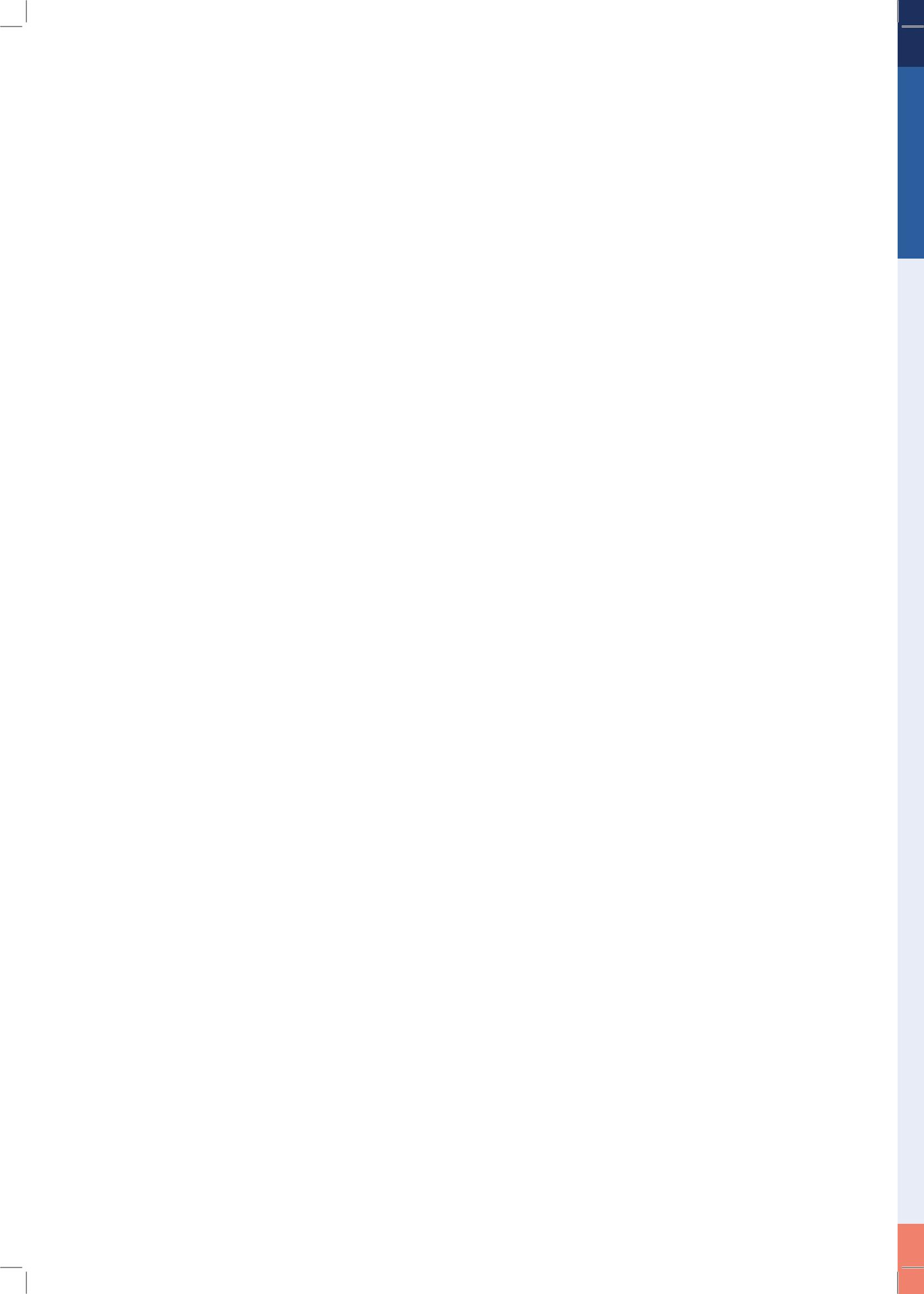
While India witnesses the unfolding of its great urban story, Urban Local Bodies (ULBs) across the country have a major role to play in the journey. With increasing urbanization, the pressure on ULBs to cater to the growing urban needs has also been rising. ULBs in India are entrusted with the mammoth task of implementing major urban infrastructure projects, ensuring efficient urban service delivery to the ever-increasing population, and enabling amenable ecosystems for economic growth of the city. While cities are considered to be the engines of economic growth, it is crucial that Urban Local Bodies (ULBs) are equipped with adequate financial resources to be able to deliver the set goals. More importantly, ULBs need to have strong fiscal management prowess with comprehensive accounting systems to ensure the most optimal utilization of financial resources.

Mode of accounting at the local level, whether cash-based or accrual-based, essentially defines the quality and clarity of fiscal information available to the decision making authorities. In order to make informed decisions regarding city finances, stakeholders need to have access to superior fiscal information including, historical financial performance, assets owned and liabilities committed, information on cash flows etc. In this regard, the accrual mode of accounting is a relatively enhanced mode of accounting as it provides the complete and correct fiscal status of the ULB compared to the cash-based accounting mode.

This report is a compilation of the reform journeys undertaken by the selected Indian states to transit to the accrual-based accounting system from a cash-based accounting system. The report is developed with an aim to provide evidence-backed learnings to ULBs that are aspiring to or implementing the transition to the accrual mode of accounting. The report focuses on 8 selected States including Bihar, Chhattisgarh, Delhi, Gujarat, Karnataka, Odisha, Rajasthan, and Tamil Nadu, and also covers Cantonment Boards separately. The report suggests 15 broad recommendations to execute a seamless transition. To refine the study findings, deliberations have also been done with stakeholders from selected States, the Comptroller & Auditor General (CAG) of India.

I hope this report will act as a strong knowledge resource for States and ULBs planning for the transition to accrual accounting systems. My compliments to the Institute of Chartered Accountants of India (ICAI) for their support in the development of this report. My special appreciation goes to Sh Kundan Kumar, Advisor, Managing Urbanisation vertical, NITI Aayog, for providing commendable leadership in its development. His team including Mr. Rajesh Gupta, Director, Ms. Anshika Gupta, Specialist, and Mr Dhiraj Santdasani, Associate deserve due recognition for their persistent efforts.

Parameswaran Iyer
CEO, NITI Aayog



Foreword, Advisor, NITI Aayog



With estimates suggesting that 50% of India's population will be living in cities by 2050, it is a matter of prodigious opportunity for the country to boost economic growth by leveraging urbanization as the lever. It is certain that such rapid urbanization in India would be accompanied by higher investments in the cities for developing infrastructure and ensuring higher quality of life for urban dwellers. Evidently, there has been a sharp increase in the Central Government's spending on the urban sector in the last eight years. The Urban Local Bodies (ULBs) being at the forefront of ensuring planned urbanization would need to develop the capacity to use these resources optimally. The ULBs would also need to attain the investment grade rating to attract investments in their cities. Therefore, it is crucial that ULBs shift to superior financial management and accounting methods to enable better decision-making regarding fiscal planning at the local level.

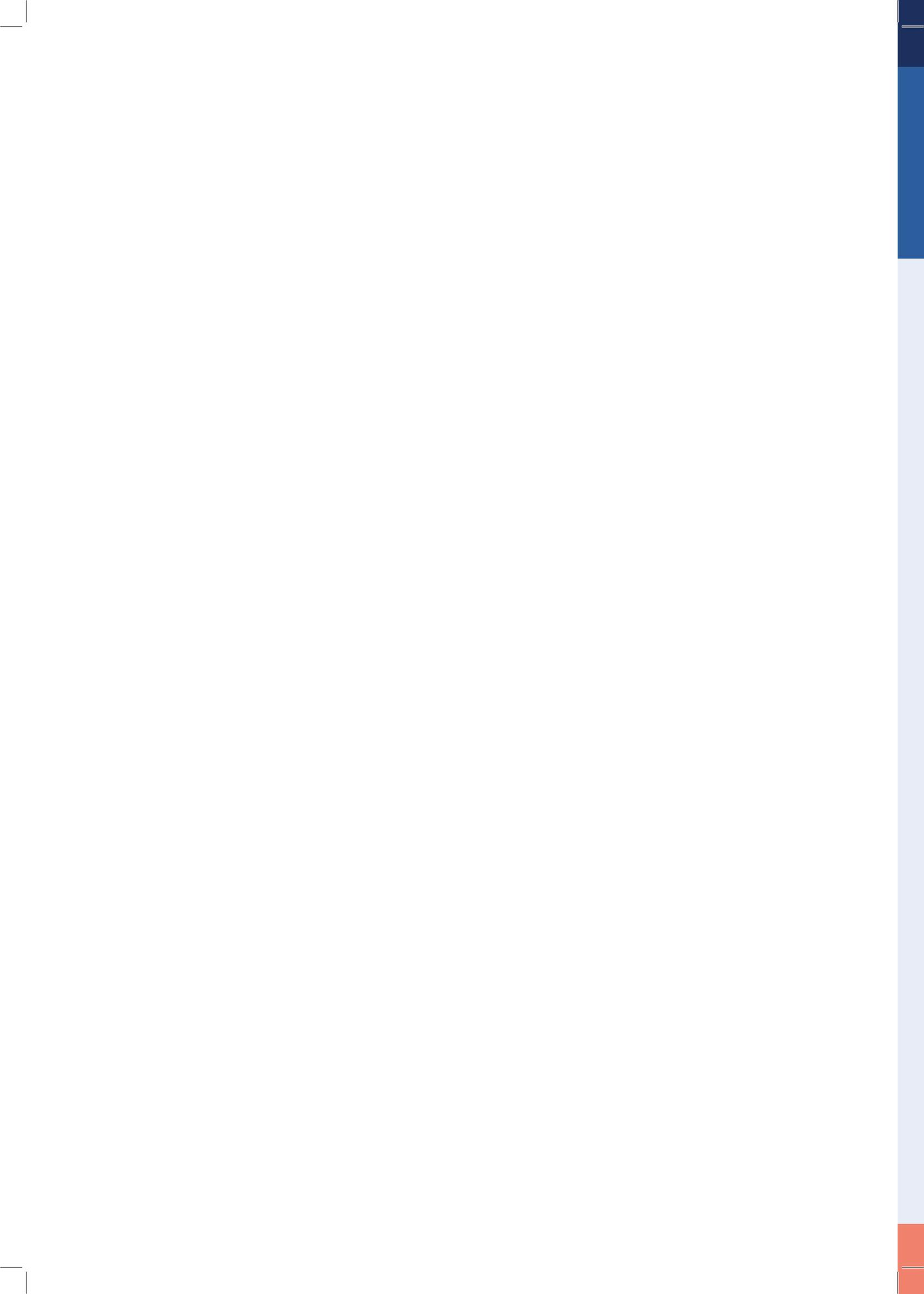
One of the critical reforms in this regard is adopting an accrual-based double-entry accounting system at the local level. Under AMRUT 2.0, adopting a double-entry accounting system for all the ULBs is part of the mission's reform agenda. The accrual-based system provides a comprehensive dataset on ULB finances, ultimately enabling better decision-making on financial matters at the local level. However, data suggests that more than half of India's ULBs still follow the cash-based system. It is with this background that NITI Aayog, in partnership with the Institute of Chartered Accountants of India (ICAI), developed this knowledge resource which encapsulates the reform journey of transitioning to accrual accounting in eight selected states, including Bihar, Chhattisgarh, Delhi, Gujarat, Karnataka, Odisha, Rajasthan, and Tamil Nadu, and Cantonment Boards.

Many States have adopted multiple municipal finance reform models and, in the process, accumulated a wealth of experiences regarding the suitability of various models at the local level. States undertaking the reforms presently could learn from these experiences, understand the critical success factors and pitfalls, and frame their strategies accordingly. This report provides 15 recommendations categorized into four aspects: Policy, Reform implementation Process, Human resources, and Use of Technology. Along with detailed reform journeys, the report also provides a set of checklists for the State and ULBs. Further, the study elaborates on the cascading benefits of accrual accounting in enabling better municipal governance.

This knowledge resource would enable stakeholders with greater capacity to implement the accrual accounting transition. I would like to compliment the team of the Institute of Chartered Accountants of India (ICAI) for their valuable support in the development of this knowledge resource. I would also like to appreciate the efforts made by the team members of the Managing Urbanisation vertical of NITI Aayog, including Mr. Rakesh Desai, Former Director, Mr. Rajesh Gupta, Director, Ms. Anshika Gupta, Specialist, and Mr. Dhiraj Santdasani, Associate.

A handwritten signature in black ink, appearing to read 'Kundan Kumar', written over a light blue dotted background.

Kundan Kumar
Advisor, NITI Aayog



Foreword, President, ICAI



A vibrant India of the 21st Century, acting as an engine of inclusive growth needs drastic reforms in municipal finance system of the country as efficient and transparent financial management is a pre-requisite to better assess the financial health of a local body. Government of India has taken several initiatives to improve financial reporting in Urban Local Bodies (ULBs) which interalia include linking grants with accounting reforms. To fast-track the reforms, recently 15th Finance Commission recommended online availability of unaudited annual accounts of the previous year and audited accounts for the year before previous year as an entry-level condition (amongst other conditions) to avail grant.

The Institute of Chartered Accountants of India (ICAI) has been shaping the national accounting scenario in several ways and working closely with the Government on matters relating to implementation issues, legislation, and risk management. In consonance with the same, ICAI Accounting Research Foundation being a premier research arm of the ICAI and the Committee on Public & Government Financial Management (CP&GFM) of ICAI along with NITI Aayog undertook a research study on “Transition to Accrual Accounting : Models and Learnings for Urban Local Bodies”. NITI Aayog, as the apex public policy think-tank of the Government of India, aims to capture the details of the reforms undertaken in different states and address the knowledge gap and guide the states that are attempting the transition now. The ICAI-ICAI ARF-NITI Aayog study attempts to compare the implementation models adopted by select Indian states for their ULB financial reforms and captures the experiences of the members of ICAI who have been involved in various capacities in municipal finance reforms across the country.

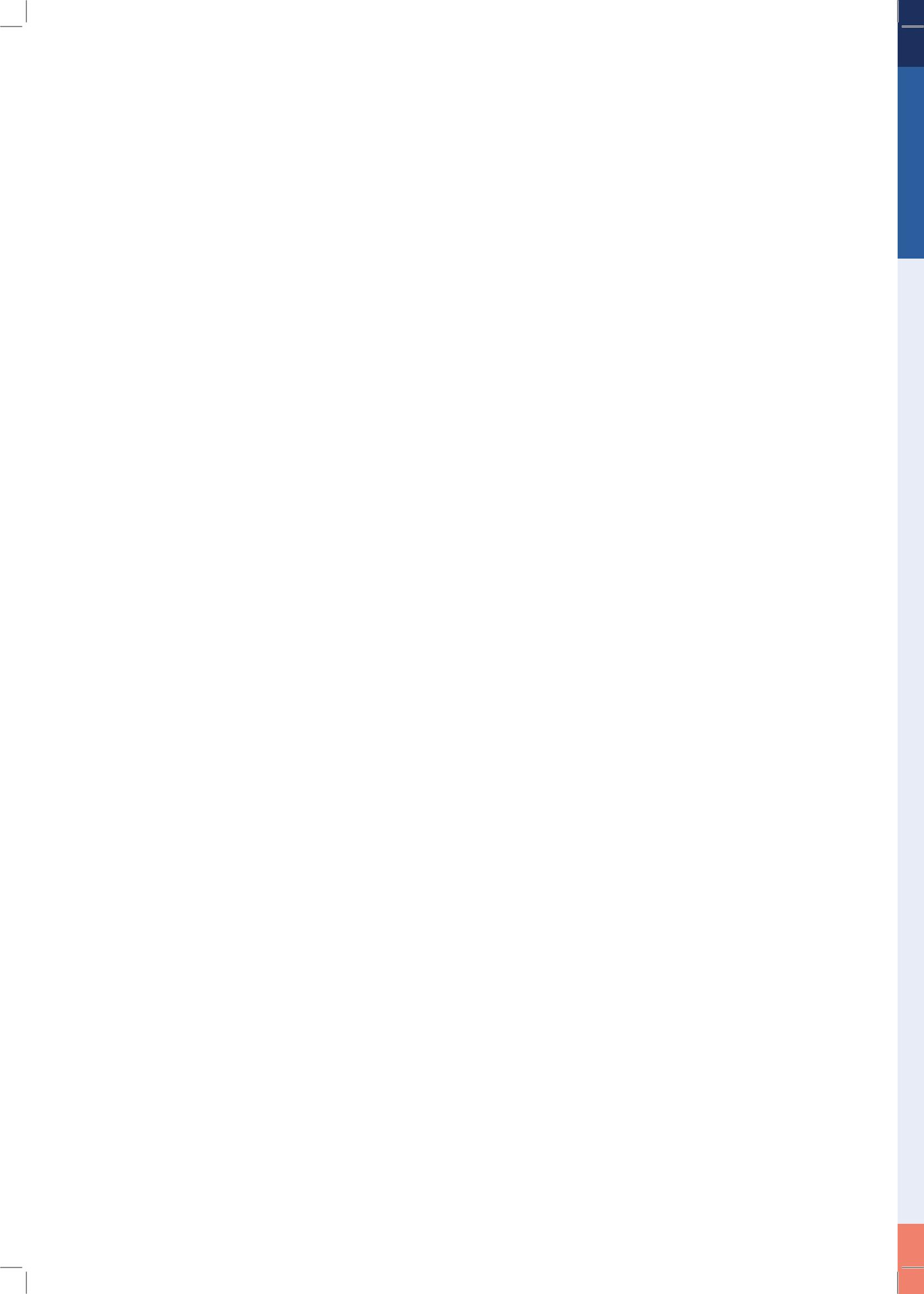
I earnestly appreciate the guidance given by CA. Nihar N Jambusaria, immediate Past Chairman, ICAI ARF and mentorship & efforts of CA. Dheeraj Kumar Khandelwal, the then Chairman and CA. Rajesh Sharma, the then Vice-Chairman, CP&GFM, CA. Kemisha Soni, Chairperson, CP&GFM, CA. Sridhar Muppala, Vice-Chairperson, CP&GFM and all members of the Committee and resource persons who have made invaluable contribution in the finalisation of this publication.

It is expected that this research study would provide insights to policymakers both at central and state level, state urban development departments, municipal administrators and other stakeholders in structuring their reform efforts.

A handwritten signature in black ink that reads "Debashis Mitra". The signature is written in a cursive, flowing style.

CA. (Dr.) Debashis Mitra

President, ICAI



Foreword, Vice-President, ICAI



Financial reforms in urban local bodies (ULB) gained a national character after the National Municipal Accounts Manual was introduced by the Central Government, and central government programmes starting with the JnNURM started linking grant eligibility to ULB financial reforms. A recent development, in which the XV Finance Commission has recommended (and the government has accepted) the publication of audited annual accounts as an entry-level condition for accessing grants for urban local bodies, has introduced a sense of urgency to this important reform.

Accounting reforms provide a vehicle for better financial management and governance through double-entry accrual-based accounting. In India, accrual accounting reform in ULBs is anchored by the state urban development departments. States that have initiated reforms in the past two decades have adopted varied implementation models to get to the same end goal of being able to produce true and fair accrual financial statements for ULBs. They have realised the hard way that while initial implementation is a challenge, sustaining the reform is a different ballgame altogether. Each state must develop its own reform model depending on its preparedness and capacities. For states starting ULB financial reforms now or those in the early stages of the reform process, there are valuable lessons to be learned on what works and what does not from the experiences of the early starters.

The Institute of Chartered Accountants of India (ICAI) and NITI Aayog undertook this study on “Transition to Accrual Accounting: Models and Learnings for Urban Local Bodies” to come out with an analysis of the implementation models adopted by select Indian states for their ULB financial reforms. This report is expected to provide state urban development departments with insights for structuring their reform efforts towards the ultimate objective of publishing audited annual financial statements for ULBs. The study would help them contextualise the experiences of states that started early and identify key risks and success factors for their initiative.

On behalf of ICAI, I hope that this Study Report inspires other collaborations with NITI Aayog in near future and helps to strengthen and lead to effective and efficient financial management at Urban Local Bodies.

A handwritten signature in black ink that reads "A. Talati".

CA. Aniket S. Talati

Vice-President, ICAI



Preface



The governance landscape in India envelops various constitutional and structural changes from time to time. One of the reasons behind the changes is to extend the reach of development to the public and society at large. Consequently, this led to the emergence of local self-governments in India, both at urban and rural levels, that is responsible to provide better access to civic needs to all citizens of India.

While providing access to more funds to local bodies, successive Finance Commissions have tried to encourage municipal financial reforms. Continuing in the same vein, the 15th Finance Commission recommended (and accepted by the Central Government) linking access to basic grants to submission of audited annual accounts. This has resulted in rush of activity amongst States Governments to comply with the grants condition.

With this background, the Committee on Public & Government Financial Management (CP&GFM) of The Institute of Chartered Accountants of India (ICAI) along with ICAI Accounting Research Foundation and NITI Aayog undertook a Research Study on “Transition to Accrual Accounting : Models and Learnings for Urban Local Bodies”. The study takes a deep look at the reforms in Bihar, Chhattisgarh, Delhi, Gujarat, Karnataka, Odisha, Rajasthan, and Tamil Nadu apart from Cantonment Boards. States were selected based on maturity level of their reforms as well as their geographical distribution. Another key factor in the State selection has also been the availability of the reform champions from the state side as well amongst the CA community who were actively involved. A comprehensive questionnaire comprising of 53 Questions covering various aspects of the reform implementation was developed. Interviewer teams were guided by the study objectives. Inputs received on the questionnaire

and deliberations in interviews with various ULBs have also been captured in this publication.

This study highlights the status of reforms undertaken for achieving efficient financial management, compares the implementation models adopted by various States, brings out the common elements amongst the models as well as the unique features of each model, summarises the lessons learned, and attempts to sensitise the readers on how municipal financial reforms contribute to the larger objective of better municipal governance drawing upon national and international evidence.

We wish to express our deep gratitude to CA. (Dr.) Debashis Mitra, President, ICAI and CA. Aniket S. Talati, Vice-President, ICAI for their guidance and encouragement for the initiative.

Further, we acknowledge the contribution of CA. (Dr.) R S Murali, CA. Ashok Rao, CA. Roopin Patel, CA. Jayant Gokhale, CA. Harsh Sarawagi, CA. Ajay Agarwal, and CA. Srikanth Viswanathan whole-heartedly contributed their inputs for finalization of the study. We also appreciate the support provided by CA. S N Gupta, Joint Director, CA. Namrata Khandelwal, Secretary, CP&GFM and Ms. Shivani Taneja, Executive Officer, CP&GFM in bringing out this publication.

We believe that the guidance provided in this publication would be immensely helpful to Urban Local Bodies and other stakeholders concerned.



CA. Kemisha Soni

Chairperson



CA. Sridhar Muppala

Vice-Chairman

Committee on Public & Government Financial Management

Study Team



CORE TEAM

CA (Dr) Murali R. S.

CA (Dr) Murali has over 30 years of public finance consulting experience. His expertise is in the areas of governance, public policy, public financial management and accountability, institutional development, information technology, and training. He has worked extensively on governance and public finance management (PFM) reforms in urban local bodies at the national level and in Tamil Nadu, Karnataka, Odisha, Chhattisgarh, and Madhya Pradesh. He has spearheaded many PFM studies and reviews. He has authored many articles and publications and presented papers in reputed forums. He has authored a book titled “*Demand Side of Accountability – A Policy and Research Perspective*” which is based on his research on the municipal sector. He has been part of several initiatives of the ICAI’s Committee on Public and Government Financial Management, including a publication on “*Municipal Bonds*” an e-lecture on Conversion from Cash to Accrual Accounting in ULBs, and an e-book on “*Role of Professional Accountants in Public Financial Management.*”

CA (Dr) Murali is a Chartered Accountant (ICAI), Chartered Public Financial Accountant (UK), and holds a Doctorate in Economics in the area of Public Finance, apart from certifications in PFM.

CA Ashok Rao

CA Ashok has close to twenty years' work experience. He specializes in PFM program design and implementation, PFM diagnostic studies, setting up of accounting, budgeting, and financial reporting systems in government, conceptualizing and implementing e-Governance initiatives and their assessment, process reengineering, and training. Ashok has worked extensively on financial reforms in urban as well as rural local bodies. He has exposure to the Policy, Process, People and Technology aspects of financial reforms. He has extensively worked in the States of Tamil Nadu, Karnataka, Himachal Pradesh, and Odisha.

He has published articles on various PFM topics in different publications including newspapers and journals. His article titled '*Commitment Control: A step towards (or beyond) accrual accounting*' appeared on IMF's PFM Blog. CA Ashok has been a part of the ICAI's Committee on Public and Government Financial Management.

CA Ashok is a Chartered Accountant and holds additional certifications in PFM.

CA Namrata Khandelwal, Deputy Secretary, ICAI, Project Coordinator

CA Namrata has almost twenty years' work experience. She has been instrumental in preparation of several reports of the ICAI submitted to various authorities/regulators like Reserve Bank of India, Ministry of Education, etc. For the past six years, she is supervising the team of professionals on the rollout of accrual accounting in Indian Railways on behalf of ICAI Accounting Research Foundation. She has worked extensively with Government Institutions at all three tiers i.e. Union, State and Local Bodies.

She has been Secretary to several Committees of ICAI including Professional Development Committee, Banking, Financial Services and Insurance Committee and is anchoring the Committee on Public & Government Financial Management for the last three years, since its inception. She has also compiled the syllabus and course content of the Certificate Course on Public Finance & Government Accounting of the ICAI.

CA Namrata is a Chartered Accountant and presently, Deputy Secretary in the ICAI.

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CA Suresh C. S.-Tamil Nadu

CA Jayant Gokhale-Cantonment
Boards

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J-Karnataka

Mr. Anindya Panda, Mr. Babu Rajendra
Prasad R-Odisha

Mr. Babu Rajendra Prasad R-Tamil
Nadu

Ms. Shivani Taneja, Executive Officer,
ICAI-Delhi

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NITI Aayog	<ul style="list-style-type: none">◆ Sh. Kundan Kumar, Advisor◆ Sh. Rajesh Gupta, Director◆ Sh. Rakesh Desai, Former Director◆ Ms. Anshika Gupta, Specialist◆ Mr. Dhiraj Santdasani, Associate
ICAI	<ul style="list-style-type: none">◆ CA. Dheeraj Kumar Khandelwal, Member, Central Council, ICAI◆ CA. Rajesh Sharma, Member, Central Council, ICAI (2016-22)
ICAI ARF	<ul style="list-style-type: none">◆ CA. Nihar N Jambusaria, Chairman (2021-22)
Bihar	<ul style="list-style-type: none">◆ CA Rakesh Kumar, Member, State Level Project Management Unit, Urban Development and Housing Department
Chhattisgarh	<ul style="list-style-type: none">◆ Mr. Shailendra Patle, Dy. CEO, State Urban Development Agency

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Karnataka	<ul style="list-style-type: none"> ◆ Ms. Janaki K. M., IAS, Joint Director (Reforms) ◆ Mr. CA Shivalingaswamy D and team, Karnataka Municipal Data Society ◆ Ms. Thulasi Maddineni, IAS, Special Commissioner (Finance), Bruhat Bengaluru Mahanagara Palike ◆ Mr. Murthy G, Accounts Superintendent, Bruhat Bengaluru Mahanagara Palike; ◆ Mr. Deepak Doreyaware, Principal Director and team, Karnataka State Audit and Accounts Department ◆ CA Tara Bevinje ◆ CA Mahesh Durga
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Tamil Nadu	<ul style="list-style-type: none"> ◆ Mr. Gagandeep Singh Bedi, IAS, Principal Secretary/Commissioner ◆ Mr. M. Raja, Financial Adviser ◆ Mr. C. Venkatasamy, Chief Accounts Officer (retd) ◆ Mr. T. Karunakaran, Chief Accounts Officer ◆ Mrs. M. V. Krishnakumari, Senior System Manager, Information Technology Cell (IT Cell) ◆ Mr. P. Ponniah, IAS, Director of Municipal Administration ◆ Mr. R. Lingasamy, PFM Specialist, Commissionerate of Municipal Administration ◆ Mr. V. Tharmaraj-Bahwan CyberTek Private Limited ◆ Mr. P. R. Krishnamoorthy, Vice-President, eGov Foundation.
Cantonment Boards	<ul style="list-style-type: none"> ◆ Mr. Ajay Kumar Sharma, DGDE, Ministry of Defence, Government of India ◆ Mr. R Prem Kumar, Programmer, Cantonment Board, St. Thomas Mount, Chennai ◆ Ms. Sonam Yangdol, Additional DG, DE, (Cantts)
Institute of Public Auditors of India	<ul style="list-style-type: none"> ◆ Dr. Subhash Chandra Pandey, Former Special Secretary, Ministry of Commerce and Industry, ◆ President, Institute of Public Auditors of India ◆ Mr. S K Chandila, Secretary, IPAI

Abbreviations



ABAS	Accrual Based Accounting System
ACF	Assistant Controller of Finance
ADB	Asian Development Bank
AFS	Annual Financial Statement(s)
AJNIFM	Arun Jaitley National Institute of Financial Management
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
ARF	Accounting Research Foundation
ASICS	Annual Survey of India's City Systems
B Sc	Bachelor of Science
BATF	Bangalore Agenda Task Force
BBMP	Bruhat Bengaluru Mahanagara Palike
BCT	Bahwan CyberTek
BPR	Business Process Reengineering
BMAM	Bihar Municipal Accounting Manual
BMAR	Bihar Municipal Accounting Rules
C&AG	Comptroller and Auditor General
CA	Chartered Accountant

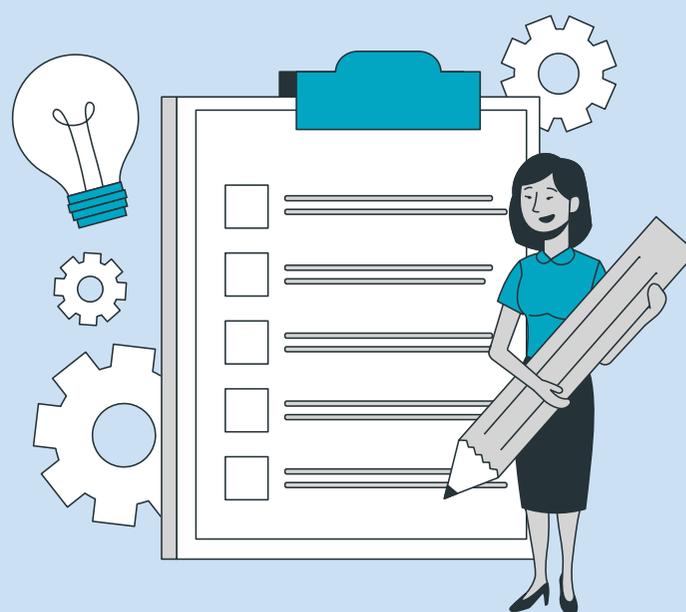
Transition to accrual accounting: Models and learnings for Urban Local Bodies

CAC	Central Accounts Cell
CAO	Chief Accounts Officer
CB	Cantonment Boards
CBAR	Cantonment Boards Accounts Rules
CEO	Chief Executive Officer
CFC	Central Finance Commission
CIPFA	Chartered Institute of Public Finance and Accountancy
CMA	Commissionerate/Commissioner of Municipal Administration
CMAG	City Managers' Association Gujarat
CMAK	City Managers' Association of Karnataka
CMC	Consultant Monitoring Committee
COTS	Commercial Off The Shelf
CP&GFM	Committee on Public & Government Financial Management
DEAS	Double Entry Accrual System
DEABAS	Double Entry Accrual Based Accounting System
DFID	Department for International Development
DGDE	Directorate General of Defence Establishments
DLB	Directorate of Local Bodies
D-LSG	Department of Local Self-Government
DMA	Directorate/Director of Municipal Administration
DoM	Director of Municipalities
DUDC	District Urban Development Centre
E-DMC	East Delhi Municipal Corporation
eGov Foundation	eGovernments Foundation
EMG	Expert Management Group
ERP	Enterprise Resource Planning
F&A	Finance & Accounts
FAS	Financial Accounting Software
FBAS	Fund Based Accounting System
FC	Financial Consultant
FIRE(D)	Financial Reforms and Expansion
FLC	Field Level Consultants
FS	Financial statements
FSD	Functional Specifications Document
GASAB	Government Accounting Standards Advisory Board
GASB	Government Accounting Standards Board
GCC	Greater Corporation of Chennai
GDP	Gross Domestic Product

GMARP	Gujarat Municipal Accounting Reforms Project
GMFB	Gujarat Municipal Finance Board
GoI	Government of India
GoTN	Government of Tamil Nadu
GST	Goods and Service Tax
H&UDD	Housing and Urban Development Department
HR	Human Resources
IC	Implementation Consultant
ICAI	The Institute of Chartered Accountants of India
ICRIER	Indian Council for Research on International Economic Relations
IFAC	International Federation of Accountants
IFMS	Integrated Financial Management System
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
JnNURM	Jawaharlal Nehru National Urban Renewal Mission
KILA	Kerala Institute of Local Administration
KMAM	Karnataka Municipal Accounts Manual
KMABR	Karnataka Municipal Accounting and Budgeting Rules, 2006
KMDS	Karnataka Municipal Data Society
KPSC	Karnataka Public Services Commission
KSAAD	Karnataka State Audit and Accounts Department
KUIDFC	Karnataka Urban Infrastructure Development and Finance Corporation
LFAD	Local fund Audit Department
MaGC	Management and Governance Consulting Private Limited
MAM	Municipal Accounting Manual
MAWS	Municipal Administration and Water Supply
MCD	Municipal Corporation of Delhi
MFRC	Municipal Finance Reforms Cell
MIS	Management Information System
MoHUA	Ministry of Housing and Urban Affairs
MoU	Memorandum of Understanding
NCMA	National Committee for Municipal Accounting
NCT	National Capital Territory of Delhi
N-DMC	North Delhi Municipal Corporation
NDMC	New Delhi Municipal Council
NIC	National Informatics Centre
NIUA	National Institute of Urban Affairs
NMAM	National Municipal Accounts Manual

OBS	Opening Balance Sheet
OECD	Organization for Economic Co-operation and Development
OMAM	Odisha Municipal Accounts Manual
PCA	Project Chartered Accountants
PFMS	Public Financial Management System
PMTU	Project Management and Training Unit
PMU	Project Management Unit
PPP	Public Private Partnerships
PROOF	Public Record of Operations and Finances
PwC	PricewaterhouseCoopers
RAB	Resource Accounting and Budgeting
RFP	Request for proposal
RMAM	Rajasthan Municipal Accounting Manual
S-DMC	South Delhi Municipal Corporation
SFC	State Finance Commission
SIUD	State Institute of Urban Development
SPUR	Support Programme for Urban Reforms
SUDA	State Urban Development Agency
TAC	Technical Advisory Committee
TMC	Town Municipal Council
TN	Tamil Nadu
TNIUS	Tamil Nadu Institute of Urban Studies
TNMAM	Tamil Nadu Municipal Accounting Manual
TNUDF	Tamil Nadu Urban Development Fund
TNUDP	Tamil Nadu Urban Development Project
TP	Town Panchayats
UDD	Urban Development Department
UIDSSMT	Urban Infrastructure Development Scheme for Small and Medium Towns
UK	United Kingdom
ULB	Urban Local Body
USA	United States of America
USAID	The United States Agency for International Development
UTIS	Urban Tree Information System
XBRL	eXtensible Business Reporting Language
WGA	Whole of Government Accounts

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कर्मणामारंभोपायः पुरुषद्रव्यसंपद् देशकालविभागो विनिपातप्रतीकारः कार्यसिद्धिरिति पञ्चाङ्गो मन्त्रः

The means of starting undertakings, the excellence of men and materials, (suitable) apportionment of place and time, provision against failure (and) accomplishment of the work - this is deliberation in its five aspects.

Kautilya's Arthasastra 1.15.42 on The Topic of Counsel

”

The quotes from Arthasastra in this report are from “The Kautilya's Arthasastra” by R. P. Kangle, Motilal Banarasidas, 1988



Executive Summary



The context

The weak financial position of municipalities in India and its consequent adverse impact on municipal governance is a widely discussed topic. The weak fiscal position is primarily on account of two factors: (i) weak position of own-source revenues of municipalities and (ii) poor fiscal management, with the latter often exacerbating the former. To service the demands of the rapidly growing urban population, there is an increasing demand on municipalities to become financially self-reliant. Municipalities are expected to increase their own-source revenue as well as raise resources from open-market through municipal bonds and other debt instruments. To float bonds, a municipality needs to obtain a credit rating to establish its credit-worthiness. Reliable financial statements are essential to be able to obtain a credit rating.

The quality of financial information available to decision-makers is known to have a significant bearing on the quality of fiscal management. Good financial information results when the underlying accounting system is reliable. Governments worldwide are making the shift to the “accrual” system of accounting, which is known to be more effective than the traditional “cash” system in ensuring completeness and correctness of the information provided by financial reports. It is stated that, by 2025,

governments in more than 50% jurisdictions worldwide will report on accrual¹. In India, successive Central Finance Commissions (CFC), starting with the twelfth, have recognized the need for accrual accounting in government.

In India, the transition to accrual system of accounting in government started with urban local bodies (ULB). The Comptroller and Auditor General, in its 'Report on Accounting and Budgeting for Urban Local Bodies' recommended accrual accounting as early as 2002. However, even after two decades, a large number of ULBs in the country continue to maintain accounts on cash basis. In order to provide a stronger impetus to adoption of accrual accounting, the Ministry of Housing and Urban Affairs (MoHUA), Government of India, acting on the recommendations of the 15th CFC, has made the submission of audited annual accounts an entry-level criterion for accessing basic grants². The definition of "audited annual accounts" covers Balance Sheet, Income and Expenditure Statement, and Cash Flow Statement, for which accrual accounting is a prerequisite.

This development has triggered a sudden spurt in activity by the State governments to motivate ULBs to prepare financial statements and get them audited. However, past experience of States that have attempted the transition to accrual system of accounting in ULBs shows that these reforms are complex and have a high risk of failure if not implemented properly. While a few States (for instance Karnataka, Kerala, Tamil Nadu) and Cantonment Boards have managed to sustain the change, in most other States, the transition continues to be work in progress. In certain other States, the situation has regressed subsequent to initial implementation. In most States, however, the transition has happened successfully only in some ULBs.

This study

Regardless of the outcome of their transition attempts to accrual-based accounting systems in ULBs, early-mover States have accumulated a wealth of experience that can provide valuable learnings for other States undertaking the transition now. The available literature on this topic is limited and dated. There existed a need to develop a knowledge bank of reform learnings. This study, commissioned by NITI Aayog and undertaken by ICAI Accounting Research Foundation along with the Committee on Public & Government Financial Management of the ICAI, intends to document the reform journeys of select States, assimilate learnings from them, and come up with recommendations for better structuring of future reform attempts.

Approach and methodology

The study was conducted over five months, i.e. November 2021 to March 2022. It takes a deep look at the reforms in Bihar, Chhattisgarh, Delhi, Gujarat, Karnataka,

1 International Public Sector Financial Accountability Index, 2021 Status Report (<https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/international-public-sector-financial-accountability-index-2020>)

2 Operational Guidelines for implementation of the recommendations on urban local body grants contained in Chapter 7 of the Fifteenth Finance Commission (XV-FC) Final Report (<https://cityfinance.in/assets/files/FC-XV%20recommended%20Urban%20Local%20Body%20Final%20Operational%20Guidelines%20for%202021-26.pdf>)

Odisha, Rajasthan, Tamil Nadu, and Cantonment Boards (collectively). The States³ were selected based on their demography, area, level of urbanization, and, more importantly, progress in implementation of municipal finance reforms. In each State, the study team undertook interviews using a questionnaire that comprised of 53 questions covering key dimensions of the accrual accounting transition, namely, *reform planning and project management, policy framework for accrual accounting, technology solution for accounting, implementation and change management, opening balance sheet⁴, human resources and training, and financial statements and audit*. In addition to covering the transition attempts in the States selected for an in-depth study, the study team also undertook desk-based research on experiences of other Indian States and international experiences.

The draft Report was circulated amongst the study States for comments. The Report was also discussed at a consultative workshop held in May 2022 which included representatives from NITI Aayog, ICAI, Ministry of Housing and Urban Affairs, Government of India, the Comptroller and Auditor General of India, and urban development departments of select States. Feedback collected was incorporated in the final Report.

Report Structure

This study report is organized into four chapters. **Chapter 1** sets the context for the study. It argues that a good financial management system is a prerequisite for good municipal governance. It gives an overview of the history of municipal financial reforms in India. The chapter further goes on to present the study objectives, approach and methodology, and certain limitations. It is important to note that the study is less about the technicalities of accrual accounting and more about how the transition must be implemented.

Chapter 2 presents a factual account of the transition journeys of the study States. In doing so, the Chapter addresses the objective of informing the reader on the particulars of the reforms. A summary of each State's reform is presented. Annex 4: presents the reforms in greater detail. The case study of a ULB within the State is also covered in some cases. The Chapter contains a tabular presentation of the key highlights of the transition across all study States. The Chapter also contains a section covering the transition experiences of other States other than those selected for the in-depth study. Certain cross-cutting developments that have a bearing on accrual accounting reforms in ULBs have also been discussed. These include the role played by successive Central Finance Commissions and State Finance Commissions, the National Urban Digital Mission, www.cityfinance.in – the municipal finance portal of the Ministry of Housing and Urban Affairs-Government of India, initiatives by the National Institute of Urban Affairs, and the work done by the Committee on Public & Government Financial Management of the ICAI.

Chapter 3 addresses another important objective of the study, which is to assimilate lessons from State experiences of municipal financial reforms and use them to outline

³ Study states, wherever collectively referred to in this report, include Cantonment Boards also.

⁴ A financial report that is a pre-requisite for generating the annual financial statements.

a set of recommendations for future attempts. The lessons and recommendations are grouped under **Policy** (*reform design and planning*), **Process** (*reform implementation*), **People** (*resourcing*), and **Technology** (*IT solution implementation*) aspects. An important takeaway from this Chapter are two checklists – one at the State-level and another at the ULB level – that focus on the key success factors for smooth implementation. An indicative 18-month timeline for the transition along with key milestones are also discussed.

Chapter 4 looks beyond the immediate outputs of the accrual system of accounting, namely, a set of audited financial statements. It puts forth the proposition that the ultimate outcome of municipal finance reforms must be to improve municipal governance. This is substantiated through a set of arguments and anecdotal evidence from international cases from seven countries. The Chapter outlines the architecture for a finance-integrated municipal e-Governance system and attempts to prescribe a way forward for municipal finance reforms in India.

Key findings and recommendations

An important finding of concern is that, except in the case of Karnataka (other than Bengaluru), Tamil Nadu, and 62 Cantonment boards, in all other study States, the complete transition to accrual accounting in ULBs is yet to happen. The same seems to hold true for the States covered in the desk research as well with the exception of Kerala⁵. This is the situation even as most States have set up elaborate arrangements for engaging local Chartered Accountancy firms to convert accounts maintained in the legacy system into accrual, and produce financial statements. Across States, the roadblocks to internalize accrual accounting could be attributed to multiple causes, with the two most prevalent being: (i) severe lack of capacities (absence of qualified and trained accountants in the Accounts department) at ULB level, and (ii) financial statements audit and statutory audit running as parallel sets of audit arrangements with no integration between them. Unless these are addressed on priority, incentivization through grants and other means may not result in sustainable change.

The report offers key recommendations for States to structure their municipal accounting reform initiatives. These are summarized below.

Policy: Reform design and planning

1. A State-wide implementation is most effective. This allows economies of scale in procurement and implementation and ensures capacities are created in ULBs State-wide.
2. The State Urban Development Department, Municipal Administration Directorates, and Finance Department have a crucial role to play to internalize the reforms. Leaving it to individual ULBs to manage the accounting transition is not very effective.
3. Assigning reform implementation to specialized State institutions has proven effective, provided such institutions are given the required administrative and financial autonomy.

⁵ This is not a definitive conclusion of this study

Process: Reform implementation

1. Most States are attempting the transition to accrual accounting for the second time. In this context, the reform design and implementation must be informed by learnings from past attempts – both from within the State and outside.
2. Management and supervision of the municipal finance reform initiative must be decentralized. A top-heavy project management structure results in implementation bottlenecks and delays.
3. A clear mandate for accrual accounting is critical to preclude the tendency to revert to legacy systems.
4. In addition to a legislative mandate, incentives and disincentives must be utilized effectively to encourage implementation.
5. Financial Statement audit must be integrated into external audit under the statutes governing the municipality.
6. Discontinuation of the legacy system and a complete switchover is critical for internalization and sustainability of the new accounting system.

People: Resourcing and capacities

1. Accounting is a technical matter and requires subject-matter expertise at the local level. Engaging external experts for assistance and project management for the state-wide implementation is advisable.
2. Accounting and related technology implementation involve complex procurements and long-term contracts. External expertise is valuable in design as well as implementation. However, reliance on external experts must be balanced with efforts to create internal capacities for ensuring long-term sustainability. It is important to develop such skill sets from project initiation.
3. In-house accounting and IT capabilities are crucial for ULBs to be able to implement and sustain the transition to accrual accounting. This can be ensured by recruiting qualified accountants which might require amendments to the municipal cadre and service rules.
4. ULBs would require accounting and technology support on a continuous basis after the initial implementation is complete. Necessary support arrangements must be in place to address this need.

Technology: IT solution implementation

1. Adopting a “digital first” approach is critical for success. This complements the State-wide approach and ensures that accrual accounting in ULBs is firmly rooted within a municipal e-Governance environment.
2. However, approaching technology implementation as a substitute or panacea for accounting is a short-sighted approach and increases the risk of failure.

Accrual accounting as an enabler for better municipal governance

It would be short-sighted to view audited financial statements as an end in themselves and claim reform success once ULBs are able to produce them year on year. **Chapter 4** argues how accrual-based financial statements are indispensable for municipal governance. They ensure better accountability to stakeholders, enable better fiscal responsibility, budget management and risk management, allows better utilization of scarce resources, and make service delivery costing possible. Combined with non-financial parameters, financial indicators are effective in enabling performance management, both at ULB level as well as collectively for all ULBs at the State-level. The Chapter cites instances from seven countries which have used accrual accounting to target the larger goal of better governance. The Chapter ends by drawing pointers for the way forward for municipal financial reforms in India. Certain essential characteristics that must be embraced include: outcome-driven design, technology and data-centricity, process reengineering focus, alignment to stakeholder needs with strong stakeholder engagement and communication built-in, sharp focus on capacity-building, embedding transparency and accountability considerations, and incorporation of environment, social, and governance (ESG) considerations, which are becoming increasingly relevant.



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करणीयं सिद्धं शेषमायव्ययौ नीवी च

The (revenue) estimate, accrued revenue, outstanding revenue, income and expenditure and balance (are items in accounting).

Kautilya's Arthashastra 2.6.13
On the Setting up of Revenue by the Administrator

”



1

Introduction



1.1 URBANIZATION TRENDS IN INDIA

The 74th Constitution (Amendment) Act, 1992 was a milestone in establishing urban local governments as a separate third tier of governance in the country. This coincided with the economic liberalization reforms that were initiated around the same time. Since then India has witnessed steady economic growth barring periods of downturn as a fallout of the global economic crisis of 2008 and the more recent Covid-19 pandemic. The economic growth has brought with it, rapid urbanization.

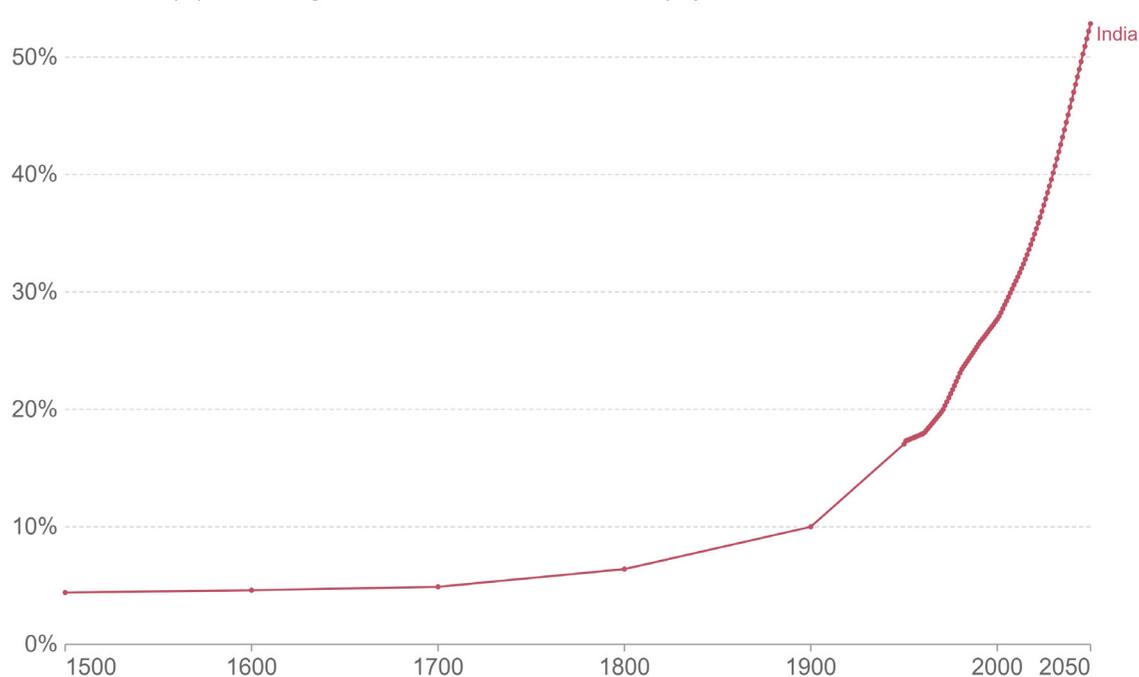
Over half of the country would live in urban areas in a few decades (see *Exhibit 1: Share of population living in urban areas*). Urban growth would constitute 73% of the total population increase by 2036 (Ministry of Health and Family Welfare, 2019) and the urban population would contribute to more than three-fourths of the country's Gross Domestic Product (GDP) by 2030 (Confederation of Real Estate Developers' Association of India, 2019). As per the 2011 Census, six States (Uttar Pradesh, Maharashtra, Bihar, West Bengal, Madhya Pradesh, and Rajasthan) house more than half the country's urban population⁶. Tamil Nadu, Maharashtra, and Gujarat are the top three most urbanized States with an urban population share of more than 40%⁷.

6 15th FC Report, Table 7.3, Volume-II, Annexes

7 Table 1.2, Handbook of Urban Statistics - MoHUA - 2019 (<https://mohua.gov.in/pdf/5c80e2225a124Handbook%20of%20Urban%20Statistics%202019.pdf>)

Share of the population living in urban areas, 1500 to 2050

Share of the total population living in urban areas, with UN urbanization projections to 2050



Source: OWID based on UN World Urbanization Prospects 2018 and historical sources (see Sources) OurWorldInData.org/urbanization • CC BY
 Note: Urban areas are defined based on national definitions which can vary by country.

Exhibit 1: Share of population living in urban areas

1.2 MUNICIPAL SECTOR IN INDIA

India has 4,867 urban centres. A breakdown of the same is given in *Table 1: Breakdown of urban centres by type*.

Table 1: Breakdown of urban centres by type

Type	Number
Municipal Corporations	247
Municipalities	1,694
City Municipal Council	269
Town Municipal Council	156
Town Panchayats	2,151
Notified Area Council	131
Municipal Board/Committee	157
Total	4,805
Source: https://lgdirectory.gov.in (last accessed on 20th Nov 2022)	
Cantonment Boards	62
Total	4,867
Source: https://www.dgde.gov.in/ (last accessed on 20th Nov 2022)	

The 12th Schedule of the Constitution of India, inserted by the 74th Amendment lists 18 functions that State Legislatures may, by law, devolve to municipalities. While the extent of devolution varies from State to State (see *Exhibit 2: Extent of devolution of municipal functions by States (Source: 15th Finance Commission Report)*), a universal problem facing municipalities is the acute shortage of technical capacities, and human and financial resources to deliver effectively on their mandate.

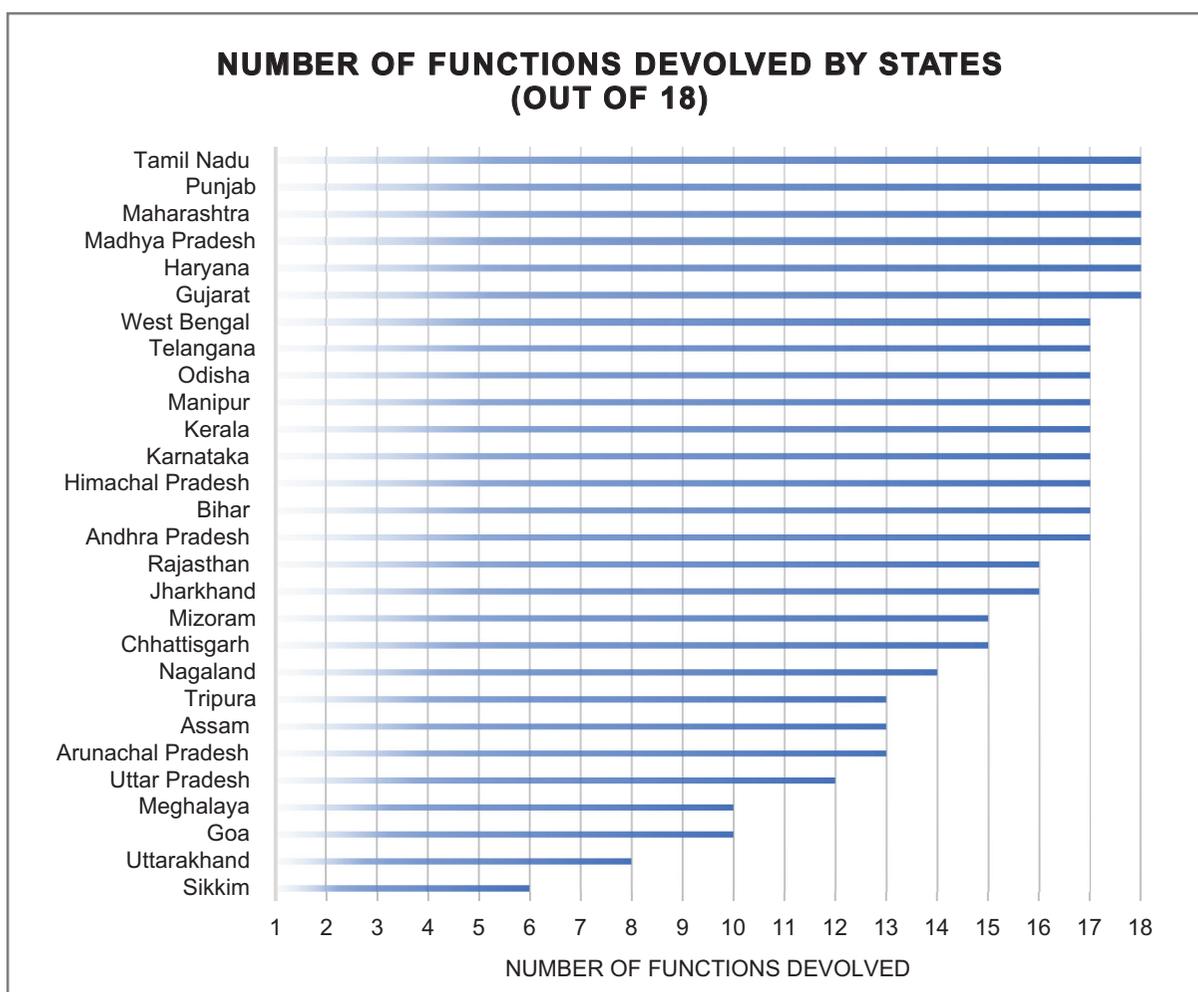


Exhibit 2: Extent of devolution of municipal functions by States

(Source: 15th Finance Commission Report)

As a consequence, large sections of the urban population face challenges to access basic municipal services such as clean air, safe and secure water supply, roads, waste management etc. Unplanned growth has made urban areas prone to disasters.

1.3 THE STATE OF MUNICIPAL FINANCES

India's "city systems" require large investments in infrastructure and services over a sustained period to enable them to deliver on the challenge of delivering good quality of life to the urban populace⁸. However, municipalities seem to be severely

⁸ The National Infrastructure Pipeline for 2020-25 released by the Government of India envisages investments of INR 111 lakh crores. Urban sector investments constitute about 17% of this investment.

constrained in their spending. Data for 37 large municipal corporations in the country for 2017-18 shows that municipal expenditure constitutes just 0.37% of GDP. This is down from 0.44% in 2012-13⁹. The declining trend in municipal expenditure in the wake of rapid urbanization is concerning.

The municipal sector is hard pressed to meet the investment needs. Barring a handful, the fiscal position of most municipalities across the country needs strengthening. One of the primary reasons is the disparity between State and local governments in their expenditure commitments and access to their own financial resources¹⁰. Own revenues of local governments (primarily from property taxes and user fees) is less than 1% of GDP¹¹. In 2016, average collections from property taxes, the largest source of own revenues for municipalities, was 0.2% of GDP in India. In contrast, the figure was 1.1% of GDP for the Organization for Economic Co-operation and Development (OECD) group¹².

Municipalities in India are largely dependent on State and central transfers even for meeting regular administrative, and operations and maintenance expenditures. While the combined revenues of the Centre and States as a percentage of GDP (see *Table 2: Key Municipal Finance Indicators (as a % of GDP)*) have increased from 16% in 2010-11 to 18% in 2017-18, municipal tax revenue to GDP has declined from 0.3% to 0.25% over the same period¹³.

Table 2: Key Municipal Finance Indicators (as a % of GDP)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Municipal Own Revenue	0.48	0.49	0.53	0.52	0.51	0.51	0.47	0.43
Tax Revenue	0.30	0.31	0.32	0.30	0.30	0.30	0.28	0.25
Non-Tax Revenue	0.18	0.18	0.20	0.21	0.21	0.21	0.19	0.18
Central Transfers	0.07	0.07	0.08	0.09	0.08	0.10	0.13	0.12
CFC Grants	0.03	0.03	0.04	0.05	0.04	0.05	0.08	0.07
Other Central Transfers	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.05
State Transfers	0.28	0.30	0.34	0.35	0.35	0.34	0.34	0.33

9 Finances of Municipal Corporations in Metropolitan Cities of India – A study prepared for the 15th Finance Commission, Indian Council for Research on International Economic Relations (ICRIER), June 2019 (https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/StudyReports/Finances%20of%20Municipal%20Corporations%20in%20Metropolitan%20cities%20of%20India.pdf)

10 The 15th Central Finance Commission notes that this is a common trend amongst developing countries and India is no exception.

11 State of Municipal finance in India – A Study prepared for the 15th Finance Commission. (<https://fincomindia.nic.in/ShowContent.aspx?uid1=11&uid2=6&uid3=0&uid4=0&uid5=0&uid6=0&uid7=0>)

12 15th Finance Commission. (<https://fincomindia.nic.in/ShowContent.aspx?uid1=3&uid2=0&uid3=0&uid4=0>)

13 State of Municipal Finances in India, A Study for the 15th Finance Commission, ICRIER, March 2019 (https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/StudyReports/State%20of%20Municipal%20Finances%20in%20India.pdf)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Borrowings	0.04	0.03	0.02	0.03	0.03	0.03	0.03	0.02
Other Sources of Revenue	0.07	0.09	0.08	0.08	0.09	0.08	0.08	0.10
Municipal Revenue Total	0.94	0.98	1.05	1.06	1.05	1.06	1.05	1.00
Municipal Expenditure	0.82	0.81	0.83	0.83	0.86	0.86	0.81	0.78

Source: *State of Municipal Finances in India, A Study for the 15th Finance Commission, ICRIER, March 2019*

While the overall position of municipal finances needs improvement country-wide, there are large variations in municipal revenue from State to State as well, with most States faring below the national average. A reflection of this variation is the per capita total municipal revenue for 2017-18, where 15 out of the 20 States covered in the ICRIER study of 2019, lie below the national average (see *Exhibit 3: Total Municipal Revenue Per Capita (INR) for 2017-18*).

(Rs.)

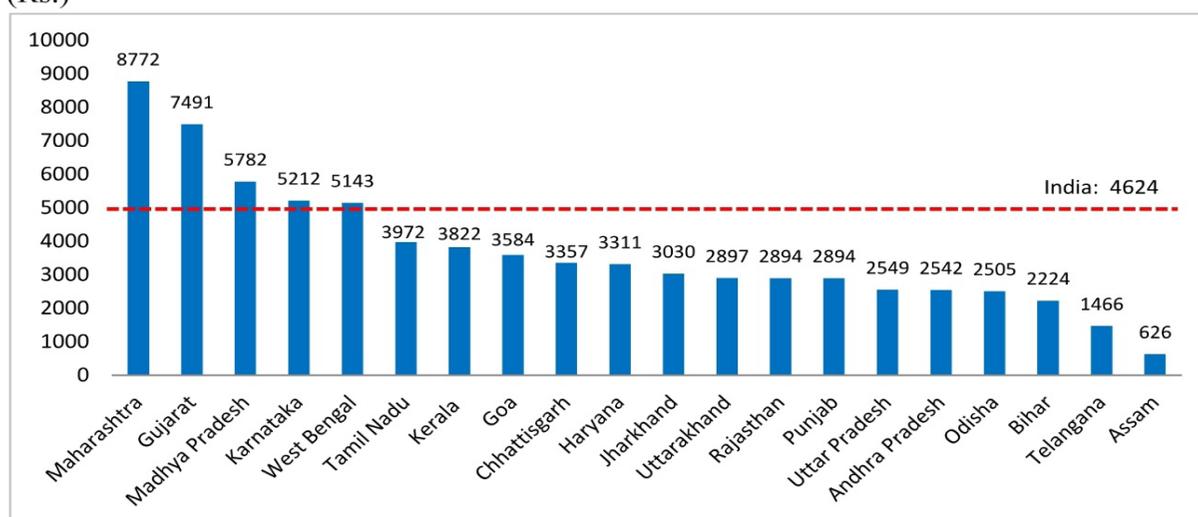


Exhibit 3: *Total Municipal Revenue Per Capita (INR) for 2017-18*

(Source: *Chart 2.6 of the State of Municipal Finances in India, A Study for the 15th Finance Commission, ICRIER, March 2019*)

The poor fiscal position of municipalities has meant that only few municipalities are able to obtain a credit rating—a pre-requisite for them to approach the municipal bond market for raising debt. Out of 223 credit ratings issued, only 95 municipalities have been able to get Investment Grade ratings¹⁴ up till September 2022, There have been only 41 municipal bond issuances totalling to INR 5,459 crore.

¹⁴ www.cityfinance.in (November 2022)

1.4 FISCAL MANAGEMENT AS AN ENABLER OF MUNICIPAL GOVERNANCE

While meagre resources are one side of the problem, lack of basic public financial management systems and processes in municipalities to effectively manage their finances is the other. This often manifests in unrealized revenue potential, inefficiencies in revenue collections, poor expenditure and asset management, and a limited understanding of fiscal sustainability considerations in governance.

In order to frame effective policies and execute them efficiently, municipal administrations need to understand the fiscal impact of their decisions and be able to measure performance against targets. Financial information needs primarily include: (i) historical information on financial performance in terms of revenues versus expenditure and the gaps between the two, (ii) information on the financial position at a point in time, which includes “what the municipality owns (assets)” and “what it owes (liabilities)” and the gap between them, and (iii) information on cash inflows and outflows over a period. Such information is contained in the annual accounts of a municipality (also called financial statements). The importance of financial statements in overall municipal governance is discussed in further detail in *Chapter 4-Leveraging financial reforms for better municipal governance*.

1.4.1 Accounting as an enabler of financial management

“Financial management begins where accounting ends” is an old axiom. Unless the accounting records are complete and accurate, the quality of financial reports coming out will be poor, which in turn affects decision-making¹⁵. Successive CFCs have noted that an underlying issue in fiscal management at the local level is the non-availability of reliable annual accounts, a prerequisite for effective decision-making.

“Cash basis” of accounting refers to a method of accounting that recognizes incomes only when cash is received and expenses when it is paid out. On the other hand, under the “accrual basis” of accounting, incomes are recognized when earned and expenses when incurred, regardless of whether there is an underlying cash movement or not. In accrual accounting, income that is earned but not yet received appears in account books as “Receivable (asset),” and an expense that is incurred, but not yet paid is shown as “Payable (liability).” As and when the cash is received (in the case of income) or paid (in the case of expense), the same is accounted and adjusted towards the receivable or payable, as the case may be.

¹⁵ See blogpost ‘Government Accounting for Effective Decision Making’ on PFM Blog dated January 05, 2022 - https://blog-pfm.imf.org/pfmblog/2022/01/-government-accounting-for-effective-decision-making-.html?utm_source=feedburner&utm_medium=email

Illustration:

1. A ULB raises a tax demand of INR 1 lakh on a property against which it receives INR 70,000 from the taxpayer. Under “cash basis” only INR 70,000 is recorded as tax income; whereas under “accrual basis,” tax revenue of INR 1 lakh is recorded as revenue, INR 70,000 is recorded as receipt, and the balance i.e., demand less collection of INR 30,000 is recorded as a receivable.
2. A ULB receives a work bill for INR 2 lakhs which is paid off after three months. Under the “cash basis” of accounting, the works expenditure is recorded only when the contractor is paid (i.e., after three months); whereas under the “accrual system,” works expenditure of INR 2 lakhs along with a corresponding payable is recorded on the day the bill is received. The payment of INR 2 lakhs is recorded when the ULB actually pays (i.e., after three months), extinguishing the liability.

Financial statements under the cash basis of accounting do not present a complete picture of an entity’s finances. The advantages of accrual accounting are:

- The financial statements present the correct financial performance in a period (surplus or deficit) and a true picture of the financial position (asset-liability) of the organization at the end of the period.
- It shows the revenues earned, the receivable position, and the actual receipts in a period.
- Likewise, it shows the actual expenses incurred, unpaid liabilities, and actual payments in a period. This information helps in better financial planning.
- It provides information on assets belonging to the ULB.
- It enables more precise financial analysis and reporting.

1.5 HISTORY OF MUNICIPAL FINANCIAL REFORMS IN INDIA

The transition to accrual system of accounting forms a significant part of the municipal finance reforms. The earliest evidence of attempts to introduce accrual accounting in municipalities points to the Greater Chennai Corporation (earlier called Chennai Corporation) where the migration to accrual basis from the cash basis of accounting happened in 1980-81. This was followed by the rollout of accrual accounting across all ULBs in Tamil Nadu in 2000-01.

After that, there have been a handful of instances of municipal bodies attempting to migrate to accrual like Bangalore and Tumkur in Karnataka, Vadodara in Gujarat, and so on.

“This manual is applicable to all urban local bodies. Accounting principles placed in the manual are primarily focused on the concept of accrual basis of accounting...

... States can develop State level manuals based on this to suit their requirements. However, the principles laid down in this manual should be complied with.”

Section 1.9, Chapter 1 of the NMAM

Following the recommendations of the 11th CFC, a Task Force of the Comptroller and Auditor General (C&AG) of India issued a 'Report on Accounting and Budgeting for Urban Local Bodies.' The report, submitted in 2002, recommended accrual accounting for municipalities. Based on this report, the then Ministry of Urban Development, Government of India, released the National Municipal Accounts Manual (NMAM) in 2004 which prescribed accrual accounting. States were expected to bring out their own Municipal Accounting Manuals (MAM) in line with the NMAM and proceed to implement accrual accounting reforms. Karnataka was one of the early movers in this regard by releasing its Accounting and Budgeting Rules and MAM. Other States followed suit and developed their municipal accounts manuals or adopted the NMAM¹⁶.

While these initiatives were taking place at the national level, at the State level there were several experiments underway. These were mainly happening in the States of Gujarat (Ahmedabad/Surat/Vadodara), Andhra Pradesh (Visakhapatnam/Hyderabad), Maharashtra (Mumbai), and Karnataka (Bengaluru/Tumkur). These experiments of financial reforms at the ULB level were beginning to show positive results. Various project interventions like the FIRE(D) of the United States Agency for International Development (USAID) were supporting decentralization initiatives in which accounting reforms at the ULB level were also included (Jabalpur in Madhya Pradesh). Despite this, municipal finance reforms still did not pick up pace nationwide.

The initial push came when the Union government made modern accrual based accounting one of the mandatory reforms for accessing funds under the Jawaharlal Nehru National Urban Renewal Mission (JnNURM) targeted at selected large cities. A similar approach was followed under the Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT, launched in March 2012), which covered other cities/towns. This prompted many States to initiate their municipal finance reform projects. While these two urban renewal schemes brought accounting reforms into the limelight, actual results on the ground were modest. Reforms were initiated in many places but did not attain completion. The Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme, launched in June 2015, introduced incentives to the extent of 10% of the scheme budget for reforms which included the completion of accrual accounting migration and publication of certified annual financial statements on the ULB website. On similar lines, performance grants under the 14th CFC were linked to the submission of audited annual accounts. While the number of ULBs producing audited annual accounts rose, the accrual transition still did not gain traction. AMRUT 2.0 also continued emphasizing accrual accounting as one of the reforms.

Subsequent to bringing out the NMAM by the Union Government, there has not been much guidance or technical resources on municipal accounting available for stakeholders. States have been following their own reform trajectories. Realizing the need for specialized skill sets and program management expertise to carry out the financial reforms, States have taken innovative approaches. These include using

16 Audit of Local Bodies – A Collaborative Approach, C&AG https://cag.gov.in/uploads/cag_pdf/thematic_history/chap_14.pdf

the power of Public-Private Partnerships (PPP)¹⁷, tying up with specialized (not-for-profit) institutions¹⁸, and seeking technical and financial support from development financial institutions, primarily the World Bank, USAID, and Asian Development Bank (ADB)¹⁹. States have also engaged external consultants in some form or the other. Some States have taken a limited view and focussed only on generating accrual based financial statements based upon cash based accounts, while certain others, realizing the centrality of financial management in municipal governance, have used the opportunity to usher in comprehensive municipal e-Governance reforms.

Acting on the recommendations of the 15th CFC, the Union government has, once again, shifted to the ‘*mandate*’ approach by linking ULBs’ access to basic grants to submission of audited annual accounts. The definition of “audited annual accounts” covers Balance Sheet, Income and Expenditure Statement, and Cash Flow Statement,²⁰ which are the primary outputs of “accrual-based” accounting. A cash-based accounting system would not be able to meet the requirement of producing the documents as mentioned above to be called as “audited annual Accounts.” This has resulted in a rush of activity amongst States to find ways to comply with the grant conditions.

Initial results look promising – the number of audited financial statements for 2019–20 uploaded by ULBs on www.cityfinance.in, the Ministry of Housing and Urban Affairs (MoHUA) portal, stands at 2,085 (out of 4,867 ULBs) as of November 2022. This represents 43% of the total number of ULBs in the country, which can be presumed to have initiated the transition to accrual. However, to conclude that the ULBs have successfully achieved the transition would require finer perusal of the related audit reports. Up till November 2022, the total number of financial statements uploaded for 2020-21 (audited as well as unaudited) stands at 1,623, indicating a positive trend. It is hoped that this time around, the reforms will attain an irreversible character.

1.6 NEED FOR THE STUDY

States have adopted multiple municipal finance reform models with varying levels of success. While initial implementation is hard, sustaining the change has proven more difficult. Even after two decades of reforms, there is no single model that can be slated to be completely successful in meeting all objectives, perhaps pointing to the inherent complexity of the reforms. There is a wealth of experience from States that have already traversed the transition path to accrual accounting. States undertaking the reforms now need to look to these experiences to understand the critical success factors and the pitfalls and frame their strategies accordingly.

17 For instance, in Karnataka, the Bangalore Agenda Task Force (BATF) was a Public Private Partnership which undertook financial reforms in Bangalore City Corporation.

18 For instance, in Andhra Pradesh, Karnataka, Odisha, and Rajasthan and Bangalore City Corporation, Greater Chennai Corporation, and New Delhi Municipal Council.

19 For instance, for the State-wide rollout in Tamil Nadu, Karnataka, Uttarakhand, Chhattisgarh, and rollout in Jabalpur Municipal Corporation.

20 Para 7.95 of the 15th Finance Commission Report.

Studies focused on capturing the experiences of States are limited. Below are listed a few studies/publications that touch upon this topic:

- Status Paper on Accrual Accounting Reforms in Local bodies in India: Overview (Revised) - The Institute of Chartered Accountants of India- February 2020²¹.
- Research Study on Accounting Reforms in Urban Local Bodies in India - The Institute of Chartered Accountants of India - February 2019²².
- Municipal Accounting Reforms in India, An Implementation Guide - South Asia Working Paper Series, ADB - October 2013²³.
- Municipal Finance Matters, India Municipal Finance Report - ADB TA 7334 IND - National Institute of Public Finance and Policy - August 2011²⁴.
- Municipal Accounting and Financial Reporting System - Research Study Series Number 96 - National Institute of Urban Affairs - March 2004²⁵.

While these publications provide valuable inputs, they are not exclusively focused on the experiences and the learnings when ULBs transitioned from cash-based to accrual-based accounting systems. There is a need to capture the particulars of reforms undertaken in different States and their experiences, draw learnings on what works and what does not, and understand the enabling factors. A publication with this exclusive focus would add to the existing body of knowledge and guide States that are attempting the transition now. The timing is also appropriate since States are looking for guidance to effectively meet the 15th CFC grant conditions.

1.7 STUDY OBJECTIVES

The objectives of the study are:

- To compare the implementation models adopted by the select Indian States for their municipal finance reforms - more specifically the transition to accrual accounting,
- To objectively bring out the common elements amongst the models as well as the unique features of each model,
- To summarize the lessons learned,
- Based on the learnings, to draw lessons for States undertaking similar reforms now, and
- To sensitize policy makers and municipal administrators on how municipal financial reforms contribute to the larger objective of better municipal governance by drawing upon national and international evidence.

21 <https://resource.cdn.icaai.org/69393cpfgm55417sp.pdf>

22 <https://resource.cdn.icaai.org/55893caslb45275c.pdf>

23 <https://www.adb.org/publications/municipal-accounting-reforms-india-implementation-guide>

24 https://www.nipfp.org.in/media/medialibrary/2013/08/IMFR_FINAL_REPORT.pdf

25 https://niu.a.in/sites/default/files/reserch_paper/RSS-96.pdf

This study is expected to provide policy makers at the Union, State, and local government levels insights for structuring their efforts towards the ultimate objective of producing audited annual financial statements for municipalities. The analysis of models would help them contextualize the experiences of the front-runner States and identify key risks and success factors. This will further help States and ULBs in identifying the stage their municipal finance reform efforts are in and use the learnings from other States to fine-tune their approach.

1.8 APPROACH AND METHODOLOGY

1.8.1 The Approach

While many Indian States have attempted municipal finance reforms, only a few can claim to have achieved the complete transition to accrual accounting in ULBs. The study design was guided by the conviction that learnings from incomplete reform efforts are equally valuable as much as the successful attempts. The coverage of States was decided accordingly. The study questionnaire was designed to cover all significant dimensions of the accrual transition. The questionnaire and physical interviews were oriented towards ensuring that the study was not relegated to a data collection exercise on the transition but was directed towards capturing the key learnings. The interview team comprised of senior CAs who had prior experience in municipal finance reforms in different capacities.

The approach to presenting the study findings is guided by the twin objectives of informing the readers on the State municipal accounting transitions on one hand and assimilating the learnings for future reform attempts on the other. Particulars of attempts are presented both in the form of a summary narrative for each study State, a comparator table across all study States in *Chapter 2*, and detailed State-wise writeups in *Annex 4*. Learnings emanating from the similarities across State models as well as unique features of individual models are presented along with recommendations under specific reform components in *Chapter 4*, which include:

- **Policy aspects**, which dictate the DNA of the reform process, encompass reform design and planning, and ensuring the right environment for accounting reforms.
- **Process aspects**, which are to do with the nuances of reform implementation and its management, stakeholder engagement, change management aspects, and benefits.
- **People aspects** cover deploying the appropriate human resources at the State and ULB levels for implementation and building capacities required for sustaining the change.
- **Technology aspects** include adopting a “digital-first” approach and deploying an appropriate technology solution as the backbone of the process.

As a value-addition, a desk-research was also conducted on the experience of other States (which were not part of the detailed study) as well as international experiences in accrual accounting transition and the learnings have been included in the narrative at appropriate places (*Chapter 3 and 4*). To enable the study learnings

and recommendations to be put into actual practice and not remain confined to “good to know” information, a set of checklists and indicative project timelines are given in *Chapter 3*. Further, the study elaborates upon how accrual-based financial statements are a critical ingredient for better municipal governance (*Chapter 4*).

1.8.2 Methodology

The following 8 States were selected for the study: Bihar, Chhattisgarh, Delhi, Gujarat, Karnataka, Odisha, Rajasthan, and Tamil Nadu. Additionally, Cantonment Boards (collectively) were also included. Based on information availability (from primary and secondary sources) and access to reform champions²⁶, the depth of coverage in this report varies from State to State. Where possible, cases of individual ULBs from the study States are also covered.

States were selected for the study based on the maturity levels of their reforms²⁷ and their geographical distribution. Thus, Karnataka and Tamil Nadu, which have progressed ahead and have managed to sustain the change, are included. Gujarat which moved fast initially in implementing the accounting reforms is also included. Odisha, which is attempting the reforms for the second time after partial success in the first attempt, and Rajasthan, which started with an approach of engaging professionals to convert the existing accounts to accrual to meet the CFC grant requirements are also included. Cantonment Boards, which started late but have successfully implemented the reforms, and are looking to sustain and build upon the success are also included.

A key factor in the identification of appropriate States for this study was the availability of reform champions as well as CA practitioners who were actively involved in the transition. Further, the States selected for the study offer a representative pick of implementation experiences. The States collectively account for close to 40% of the urban population²⁸ of the country. Apart from an in-depth study on the selected States, a desk-research was undertaken on the transition attempts of other States and the same is presented in summary form in *Chapter 2*. Likewise, a desk review of international experiences in accrual accounting transition was also undertaken.

Inputs for the study have primarily come from interviews with actors at the State level who have been at the forefront of ULB financial reforms. These include officials in the UDDs and municipal administration directorates of the selected States as well as representatives of special-purpose units that anchored the reforms. Private players who were involved in the reform exercise were also interviewed where available. In addition to State level officials, select ULBs were visited, and interactions were held. Totally, 43 persons were interviewed over 25 meetings—physical as well as virtual. The complete list of persons interviewed is given in *Annex 1: List of persons interviewed*.

26 Officials and consultants who played a part in the municipal finance reforms.

27 In the absence of any scale to establish reform maturity, the study team did a subjective assessment of the maturity of reform based on factors like the genesis of reform, the legal framework around accrual accounting in the State, the status of implementation, requirement and ability to produce annual financial statements, audit arrangements and so on.

28 Table 1.1: Demographic Profile of India from Handbook of Urban Statistics 2019

The interview questionnaire was comprehensive and comprised 53 questions covering various aspects of the implementation under the following headings:

- Planning and project management,
- Municipal Accounts Manual – its genesis, features etc.
- Technology solution,
- Implementation and change management,
- Approach to preparing the Opening Balance Sheet,
- Human resources and training,
- Key system outputs in the form of financial statements and their audit, and
- The present situation, including enhancement plans.

The interview questionnaire is given in *Annex 2: Study questionnaire*. Information captured during the discussions were compiled in the interview questionnaire and oral/written confirmations were obtained to the extent possible from the interviewees. The interviewer teams included members of the ICAI who have been closely involved with municipal reform exercises. Documents collected during the interviews were reviewed to understand the nuances of the reforms. Interviewer teams were guided by the study objective which is to capture the learnings from the implementation experience. The core study team met every week to discuss key findings and finetune the methodology in response to field realities.

1.9 CONSULTATIONS ON THE DRAFT REPORT

The draft report was circulated amongst the study States for their feedback and comments. . A consultation on the draft report was organized by NITI Aayog on 20th May 2022. The consultation, held virtually, was attended by representatives from NITI Aayog and ICAI, MoHUA, C&AG, UDDs, and Directorates of Municipal Administration (DMA) from several States. The objective was to gather stakeholder inputs on the draft report. The inputs were suitably incorporated while finalizing the report.

Important points that emerged from the feedback and consultation meeting include:

- Need for a common nationwide software for municipal accounting.
- Need to move from a Commercial-Off-The-Shelf (COTS) solution like Tally to an ERP-based solution for ULBs.
- Importance of harmonization of ULB accounts with those of the State and Union and presentation of consolidated accounts at State and national level.
- Need for a national forum for exchanging knowledge on municipal finance matters.
- Need for States to learn from the experience of States that have already transitioned to the accrual system of accounting.
- Need for an accounting cadre in municipal statutes and appointment of qualified accountants in every ULB.

The meeting notice and the list of participants along with photographs are given in *Annex 3: Consultation Meeting on draft report*.

1.10 ORGANIZATION OF THE STUDY REPORT

Chapter 2–Municipal finance reform journeys of states: Municipal finance reform journeys of select States, presents a factual representation of the municipal accounting transition journeys of the States selected for the study. The experience of each State is presented as a summary. Annexes to this chapter cover a more detailed write-up on the reforms in that State. Chapter 2 also presents a summary of the reform experiences of non-study States and an overview of key cross-cutting developments at the national level in relation to municipal finance matters.

Chapter 3–Lessons Learned and Recommendations, focusses on the key lessons learned from the experiences of States presented in Chapter 2. In other words, it focuses on what worked, what did not, and why. These lessons emerge out of experiences shared by interviewees as well as the study team’s analysis of the reforms. Along with the lessons learned, the Chapter provides inputs for a State embarking upon the reforms now to increase the chances of reform success. The lessons learned and recommendations are grouped together for better context and presented under key reform components. The Chapter also provides checklists covering critical success factors at the State-level and at the ULB level as well as an indicative reform timeline.

Chapter 4–Leveraging financial reforms for better municipal governance, demonstrates how the transition to accrual-based accounting system can meaningfully contribute to informed decision making and ultimately better municipal governance and service delivery. Benefits realized by States that have implemented accrual accounting are discussed. Lessons that international case studies have to offer are also summarized and presented.

1.11 LIMITATIONS OF THE STUDY

The study was undertaken under several constraints. To begin with, the subject of the study, namely, the transition to accrual accounting in municipalities has been an ongoing exercise for almost two decades. Contextualizing the learnings to the present scenarios was challenging at times. Considering that several States undertook the transition as long back as 2006, it meant that a large portion of the experiential learning has gone away owing to change in personnel. Poor quality of documentation also contributed to the lack of institutional memory. Towards the latter half of the field study, the Covid-19 third wave posed a limitation for the study team to conduct in-person interviews. Incessant rains in Tamil Nadu and local body elections in States like Tamil Nadu and Karnataka during the study period also restricted the availability of officials for interviews. The study team had to modify its methodology from time to time to overcome these constraints.

1.12 SCOPE FOR FURTHER STUDIES

The topic of municipal finance reforms is a multi-faceted one. Each study adds to the repository of knowledge that can help policymakers fine-tune their reforms as well as conceptualize the next set of reforms. In this connection, several related topics arise which could be the subject matter of future studies, some of which are listed below:

- **Correlation between municipal finance reforms and governance indicators:** Study to explore evidence to suggest that States that have implemented financial reforms do better on municipal governance parameters.
- **Journey from municipal accounting reforms to municipal financial reforms and way forward:** Accounting reforms are not an end in themselves. They are a steppingstone to financial reforms aimed at facilitating decision-making to enable self-sustainable municipal bodies.
- **A fact-finding study on the transition to accrual:** A study to bring on record the present (actual) state of accounting reforms in municipal bodies after two decades of reforms.
- **Usage of municipal financial analytics for decision-making:** How usage of big data analytics on financial data combined with municipal governance data can contribute to better decision-making and strategic performance management.
- **A comparative study of technology solutions used for accounting in municipalities:** Multiple approaches have been adopted to implement technology solutions for accounting in municipalities. A comparative analysis of the solutions implemented on technical and functional parameters can meaningfully inform future implementation attempts.
- **Capacity gaps in municipal financial management and ways to address them:** An analysis of capacity gaps in the urban sector in relation to accounting, technology, and leadership and administration capabilities along with recommendations on how to address them.
- **Financial management practices in municipalities:** Apart from capturing learnings for transition to accrual accounting as done under this study, a study of good practices and drawbacks of overarching financial management approaches followed in States and their impact on municipal governance and service delivery.
- **Effectiveness of financial statements audits:** An analysis of financial statement audit arrangements (engagement models, technology usage, auditor accountability) and the linkages between financial statements audit and reliability of financial information, internal controls, and stakeholder accountability of municipalities.

“

नित्यो नित्योत्पादिकोलाभोलाभोत्पादिक हति व्ययः

Current (expenditure), that arising out of current, gain (and) that arising out of gain, this is the (four-fold) expenditure.

Kautilya's Arthashastra 2.6.13
On the Setting up of Revenue by the Administrator



2

Municipal Finance Reform Journeys of States



2.1 INTRODUCTION

This chapter gives a factual summary of the municipal finance reform paths of the States covered in the study. Similarities can be seen in approaches to certain elements of the transition to accrual accounting (for instance, hiring chartered accountants for preparing accrual financial statements from cash-based accounts, for financial statements audit), in certain other aspects, striking differences can be observed (for instance in implementing the technology solution, project management arrangements and so on). For the reader interested in understanding the details of the transition path of one or more States, a detailed account is given in *Annex 4: Detailed coverage of state and ULB level reform experiences*, along with a narrative of certain ULB-level experiences, where possible.

This chapter also tries to provide glimpses of the accrual transition experiences of States apart from the selected study states through desk based research. This information is based on secondary sources, many of which are dated and may not portray the latest position. Certain national and cross-cutting initiatives that are relevant to the topic of municipal financial reforms are also presented in brief in this chapter for the information of the reader.

Note:

1. The Study interviews were held between November 2021 and March 2022. Therefore, this Chapter depicts the situation at that time as revealed from the discussion and review of documents.
2. There is reference to number of ULBs at different places in this Chapter when discussing the accounting reforms journey. The reforms were undertaken over several years and in phases. Therefore, the reference is to the number of ULBs at the time the accounting reforms were undertaken. The present number of ULBs in the State are disclosed at the beginning of the descriptive text under each State hence could be different.

2.2 BIHAR

Total population (in crores):	10.4
<i>Census 2011 (https://www.census2011.co.in/states.php)</i>	
Total urban population (in crores):	1.17
<i>(Handbook of Statistics of Indian States_ Reserve Bank of India_2020-21, Page 17, Table 1: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OHSIS241121FL7A6B5C0ECBC64B0ABFOA097B1AD40C83.PDF)</i>	
Total census towns:	120
<i>(https://censusindia.gov.in/towns/town.htm)</i>	
Number of local bodies:	250
Municipal Corporations:	16
Municipalities:	-
City Municipal Councils:	72
Town Municipal Councils:	-
Town Panchayats:	161
Notified Area Councils:	-
Cantonment Boards:	1
<i>(https://lgdirectory.gov.in/ accessed on 19th Nov 2022)</i>	
<i>(https://dgde.gov.in accessed on 19th Nov 2022)</i>	

Reform Management

Bihar implemented the ULB accrual accounting transition in three phases. In the first phase (2011-12), 29 ULBs were identified under the Support Programme for Urban Reforms (SPUR)—a partnership program between the Government of Bihar and the Department for International Development (DFID), the Government of UK. Subsequently, in phase II (2014-17), and phase III (2017 onwards), the remaining ULBs were covered for the implementation.

The process of migration to accrual accounting in all the 142 ULBs (in 2018) was outsourced to CA firms (field agencies), by dividing the ULBs into clusters. To supervise the implementation, the State established a State Level Project Monitoring Unit (SLPMU) outsourced to external consultants for a period of three years. Currently, the SLPMU is on contract with a second agency.

Policy and Regulatory Framework

The Bihar Municipal Accounting Rules 2014 mandates all the ULBs in Bihar to maintain accounts following the double-entry accrual-based accounting prescribed in the Bihar Municipal Accounting Manual. The Bihar MAM is modeled on the lines of NMAM and corresponding municipal accounting rules have been framed. The State has enacted municipal law and the necessary legal empowerment for implementing accrual accounting seems to be in place.

Implementation

The scope of work for field-level agencies covered various components like survey and physical verification of assets, listing, valuation, preparation/up-dation of fixed assets register, preparation of opening balance sheet, preparation/up-dation of property tax receivable register, and opening financial statements. These agencies were responsible to appoint registered valuers for the valuation of the opening value of the assets. The opening balance sheet was also certified by the CA firms which were appointed as the field level agencies.

The SLPMU was responsible for reviewing the deliverables submitted by field-level agencies and providing observations. After approval of deliverables from the SLPMU, it was approved by the concerned Executive Officer and submitted to the Urban Development and Housing Department. This arrangement continues even now and currently, six field agencies and one SLPMU operate.

Technology solution

The field level agencies implemented Tally ERP, a Commercial Off The Shelf (COTS) accounting software for the migration to the accrual accounting system. They also provided a full-time Accountant at the ULB to support the transition. The State is implementing an e-Municipality system across all the ULBs, but the accounting system is independent of it. During this process of implementation, no process or organizational changes were carried out. In the course of migration, few employees from each ULB were trained by the field level agencies on the basics of accounting, reconciliations, Municipal Accounting Manual, Tally, and practical training on accounting.

Present status

Primary audit of ULBs in Bihar is carried out by the C&AG office. The C&AG does not certify the financial statements. CA firms are appointed as internal auditors (on a three-year contract). However, the internal audit mandate does not include the audit of financial statements. The C&AG audit for the last few years is pending and the internal audit is stated to be on time. Financial statement audit is not happening in Bihar ULBs.

A detailed account of the Bihar experience is given in *Annex 4 - Bihar*.

2.3 CHHATTISGARH

Total population (in crores):	2.55
<i>Census 2011 (https://www.census2011.co.in/states.php)</i>	
Total urban population (in crores):	0.59
<i>(Handbook of Statistics of Indian States_ Reserve Bank of India_2020-21, Page 17, Table 1: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OHSIS241121FL7A6B5C0ECBC64B0ABFOA097B1AD40C83.PDF)</i>	
Total census towns: <i>(https://censusindia.gov.in/towns/town.htm)</i>	84
Number of local bodies:	170
Municipal Corporations:	14
Municipalities:	44
City Municipal Councils:	-
Town Municipal Councils:	-
Town Panchayats:	112
Notified Area Councils:	-
Cantonment Boards:	-
<i>(https://lgdirectory.gov.in/ accessed on 19th Nov 2022)</i>	
<i>(https://dgde.gov.in accessed on 19th Nov 2022)</i>	

Reform management

In Chhattisgarh, the reforms started around 2010. The State government appointed Project Management Consultants (PMCs) supported by Financial Consultants. 177 ULBs (in 2010) across the State were divided into five clusters, and for every cluster, one Financial Consultant was appointed. The Financial Consultants were supervised by the PMC. Both Financial Consultants and PMCs were firms of Chartered Accountants selected based on a competitive process. The implementation progress was monitored by a designated officer from State Urban Development Agency (SUDA).

Policy and regulatory framework

The Chhattisgarh Municipal Corporation Amendment Act 2011 and Chhattisgarh Municipalities Amendment Act 2011 mandate the preparation of MAM and all the ULBs to follow the double-entry accrual-based accounting prescribed in the MAM. The State MAM has been prepared based on accrual accounting. However, it is yet to get the consent of the State government. The Local Fund Audit Department (LFAD) has prepared an audit manual which is also to be approved by the government.

Implementation

The Financial Consultants supported the ULBs in the conversion of the accounts maintained on cash basis to accrual using Tally ERP. Despite a mandate to prepare accrual-based statements, ULBs continue to maintain cash-based accounting records

and produce the same for audits. Due to this, there is a time difference between the preparation of cash-based and accrual-based accounts, with the latter always lagging behind.

Technology solution

The State had earlier attempted to implement an ERP during 2011-14 but the attempt was not successful. Currently, software consultants have been selected and an e-Governance suite is under development and implementation.

During the entire reform process, there has not been any major process engineering undertaken. The PMCs have imparted training to the ULB staff in accounting and using Tally software. The cash-based accounts are stated to be updated up to 2020-21. The LFAD does not undertake a financial statement audit, nor the services of CA firms have been availed in this regard. The transaction audit of the ULBs is stated to have been completed up to the year 2019-20. The attempt to introduce an internal audit system does not seem to have taken off.

Present status

Under the ongoing Chhattisgarh Public Financial Management and Accountability Program, the State government with technical and financial support from the World Bank has initiated the rollout of the finance, budget, and accounting module of an e-Governance solution across 168 ULBs, strengthening the State Audit Department, and reducing the backlog of audits.

A detailed account of the Chhattisgarh experience is given in *Annex 4 - Chhattisgarh*.

2.4 DELHI

Total population (in crores):	1.68
<i>Census 2011 (https://www.census2011.co.in/states.php)</i>	
Total urban population (in crores):	1.63
<i>(Handbook of Statistics of Indian States_ Reserve Bank of India_2020-21, Page 17, Table 1: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OHSIS241121FL7A6B5C0ECBC64B0ABFOA097B1AD40C83.PDF)</i>	
Total census towns:	4
<i>(https://censusindia.gov.in/towns/town.htm)</i>	
Number of local bodies:	5
Municipal Corporations:	3
Municipalities:	-
City Municipal Councils:	1
Town Municipal Councils:	-
Town Panchayats:	-
Notified Area Councils:	-
Cantonment Boards:	1
<i>(https://lgdirectory.gov.in/ accessed on 19th Nov 2022)</i>	
<i>(https://dgde.gov.in accessed on 19th Nov 2022)</i>	

2.4.1 North Delhi, South Delhi, and East Delhi Municipal Corporation

Reform management

The Municipal Corporation of Delhi was trifurcated into three new bodies, the North Delhi Municipal Corporation (**N-DMC**), the South Delhi Municipal Corporation (**S-DMC**), and the East Delhi Municipal Corporation (**E-DMC**) in 2012. After the trifurcation, each of the three DMCs has an independent setup. The reforms though have followed a common pattern but have progressed differently.

Note: On 22nd May 2022, the Municipal Corporation of Delhi came into existence on account of the merger of N-DMC, S-DMC, and E-DMC. The narrative throughout this report pertains to the situation as it existed prior to the merger. The merger, however, does not influence the findings or recommendations of this study.

Policy and regulatory framework

No separate accounting manual has been prepared. NMAM is stated to be adopted as such.

Implementation

In all the three DMCs, there was no specific set-up for the accrual accounting conversion as a project. In N-DMC and S-DMC, the conversion to accrual accounting has been outsourced to CA firms. The progress is at different levels.

Technology solution

No software has been implemented for accounting. S-DMC has been considering implementing Tally for the purpose.

Accrual accounting has not been implemented in any of the three DMCs. Since Union Territories are not eligible for 15th CFC grants, the incentive to implement accrual accounting for this purpose is also absent.

ICAI ARF assisted the erstwhile Municipal Corporation of Delhi in the preparation and presentation of accrual-based financial statements for the financial year 2005-2006; restructuring and refining of budget heads, accounting process, setting up of an Asset Information System, and introduction of accrual system of accounting in different zones of the erstwhile Municipal Corporation of Delhi (MCD).

Present status

Cash basis financial statements have been prepared for 2020-21 for E-DMC and S-DMC and up to 2018-19 for N-DMC. The audit, performed by C&AG, is complete up to 2017-18 for N-DMC and S-DMC, and up to 2015-16 for E-DMC. Accrual-based financial statements have been prepared up to the year 2014-15 for E-DMC and N-DMC and up to the year 2018-19 for S-DMC.

2.4.2 New Delhi Municipal Council

Reform management

New Delhi Municipal Council (NDMC) covers important buildings like Rashtrapati Bhawan, Parliament House, Supreme Court, North and South Blocks, and buildings abutting Central Vista and almost all the diplomatic missions. The Government of India is nearly the sole landowner and also owns about 80% of the buildings in the New Delhi Municipal Council area.

Policy and regulatory framework

Necessary technical inputs were taken from a CA firm and the MAM was revised and adopted in 2005. NDMC maintains records and reports as per provisions of Maintenance of Accounts Regulations, 2010.

Implementation

There are about eighty accounting units in NDMC that are responsible for maintaining accounts and supporting records in respect of income, expenditure, liabilities, and assets. As early as 2002, the NDMC decided to move into accrual accounting, and, under the leadership of the then Financial Advisor, the project was initiated. The firm prepared the opening balance sheet and also certified it which was adopted by the competent authority.

Technology solution

Subsequently, eGov Foundation was appointed to develop software for the purpose. For the first five years (2004-05 to 2008-09), accounts were maintained in parallel on software and manually. From 2009-10 onwards, accounts were computerized with the full implementation of e-fin and the parallel run was discontinued. Financial Statements are generated on time. The entire accounting process is handled internally now.

A training needs analysis was conducted by a Committee constituted for the purpose and periodic trainings were imparted to the employees. The training was conducted on all aspects of accrual accounting including conceptual aspects and the use of e-fin software.

Present status

Statutory Audit of Financial Statements is performed by the Municipal Chief Auditor, NDMC appointed by the Council. The Municipal Chief Auditor conducts a monthly examination and audit of the accounts of the Council. Audit is complete till 2018-19.

A detailed account of the Delhi experience is given in *Annex 4 - Delhi*.

2.5 GUJARAT

Total population (in crores):	6.04
<i>Census 2011 (https://www.census2011.co.in/states.php)</i>	
Total urban population (in crores):	2.57
<i>(Handbook of Statistics of Indian States_ Reserve Bank of India_2020-21, Page 17, Table 1: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OHSIS241121FL7A6B5C0ECBC64B0ABFOA097B1AD40C83.PDF)</i>	
Total census towns:	190
<i>(https://censusindia.gov.in/towns/town.htm)</i>	
Number of local bodies:	166
Municipal Corporations:	8
Municipalities:	156
City Municipal Councils:	—
Town Municipal Councils:	—
Town Panchayats:	—
Notified Area Councils:	1
Cantonment Boards:	1
<i>(https://lgdirectory.gov.in/ accessed on 19th Nov 2022)</i>	
<i>(https://dgde.gov.in accessed on 19th Nov 2022)</i>	

Reform management

The migration to accrual accounting in the ULBs in Gujarat started in 2000 when City Managers' Association Gujarat (CMAG) engaged several agencies and organized several hands-on training programs for municipal officials including accountants and elected representatives.

The Gujarat Municipal Accounting Reforms Project (GMARP) began in November 2005. The focus of the project was on municipalities and not on Corporations or Gram Panchayats. CMAG along with the Gujarat Municipal Finance Board (GMFB) and the Directorate of Municipalities (DoM) managed the project implementation. A resolution passed in 2007 by the UDD outlined the objective and provided empowerment for the implementation. CMAG established a Project Management & Training Unit (PMTU). Subsequently, an empowered Technical Advisory Committee (TAC) was established for guiding the project. Under PMTU, CMAG started the process of recruiting professional staff that included a CA as a Program Officer and two semi-qualified staff as Program Assistants.

Policy and regulatory framework

The PMTU brought out the State MAM in line with NMAM. The draft manual was approved by the Government in 2013. However, as per C&AG Report on Gujarat in 2018²⁹, vetting by the Legislative and Parliamentary Affairs Department and publishing in the Government Gazette was pending. The PMTU also suggested some

²⁹ <https://cag.gov.in/ag1/gujarat/en/audit-report/details/46821>

amendments to Municipal Accounting Rules under the Gujarat Municipal Act. The revised draft Rules have been placed for approval as revealed during the interviews.

Implementation

Project Chartered Accountants (PCA) were appointed under GMARP for providing technical support for conversion from cash to accrual accounting, creating opening balance sheet after verifying accounts for three earlier years, training the municipal staff, supporting the implementation of Tally software, and handholding the municipalities. For preparing the opening values of assets, registered valuers were appointed.

The interview with an accounting official of Khambhat Nagar Palika clearly brings out the advantages of the computerised accrual accounting system and the support provided by the PCAs. However, due to the delay in making the accrual statements mandatory, two sets of financial statements are prepared - one on cash basis and the other on accrual basis. There is also time lag in the preparation of the accrual based statements.

Technology solution

Tally was implemented across the municipalities. Although it was independently deployed at each municipality, customization developed by Tally (Cost Centre Codes and Accounting Codes) was kept uniform across the municipalities.

An important aspect of managing the project was the blacklisting of PCAs who did not adhere to the timelines. The project was monitored continuously by the PMTU. In case of genuine hardship at the municipality level, the PMTU also provided constant support to the Municipal Chief Officer.

PMTU had a robust “Train the trainer” approach for PCAs. PMTU trained PCAs and PCAs were, in turn, expected to train their implantation staff. PMTU also trained Accountants and Chief Officers. The ground level training was left to the PCAs. Trainings were conducted at regular intervals.

Present status

Although the implementation project is complete, the municipalities have not moved fully on to the new system under GMARP (Tally based) and hence the books of accounts have not been maintained uniformly across the State. The parallel manual system continues in many municipalities. Budgets are also prepared as a separate exercise not integrated with Tally. It appears that the use of accrual accounting is minimal. The PMTU system was discontinued from 2019-20 and since then, CA firms are directly contracted by the municipalities.

The Examiner, Local Fund Audit audits the accounts maintained manually and not the Tally generated financial statements. It is stated that 2018-19 audit has been completed. The account books are compiled with accruals in Tally and certified by CAs rather than audited. There is no internal audit system in place, though larger municipalities could engage internal auditors on their own.

A detailed account of the Gujarat experience is given in *Annex 4 - Gujarat*.

2.6 KARNATAKA

Total population (in crores):	6.11
<i>Census 2011 (https://www.census2011.co.in/states.php)</i>	
Total urban population (in crores):	2.36
<i>(Handbook of Statistics of Indian States_ Reserve Bank of India_2020-21, Page 17, Table 1: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OHSIS241121FL7A6B5C0ECBC64B0ABFOA097B1AD40C83.PDF)</i>	
Total census towns:	237
<i>(https://censusindia.gov.in/towns/town.htm)</i>	
Number of local bodies:	313
Municipal Corporations:	9
Municipalities:	-
City Municipal Councils:	60
Town Municipal Councils:	120
Town Panchayats:	119
Notified Area Councils:	4
Cantonment Boards:	1
<i>(https://lgdirectory.gov.in/ accessed on 19th Nov 2022)</i>	
<i>(https://dgde.gov.in accessed on 19th Nov 2022)</i>	

Reform management

Karnataka has been among the forerunners when it comes to the transition to accrual-based accounting in ULBs after the introduction of the NMAM. The State initiated the transition to accrual accounting in ULBs in 2004 which was completed by 2012-13. This effort was initially supported by the ADB through Nirmala Nagara Programme and subsequently by the World Bank through the Karnataka Municipal Reforms Project

Strong institutional anchoring has been a key highlight of the Karnataka implementation. The transition to accrual accounting was led by the Director, Municipal Administration. The Karnataka Municipal Data Society (KMDS) was established as a special purpose vehicle for managing municipal reforms in the year 2007-08. At the State level, an implementation consultant (IC) was engaged between 2004 and 2007 to implement the municipal finance reforms. The Terms of Reference included preparation of the manual, rules, guidelines, software specifications, testing, and guidelines for the preparation of opening balance sheet. CA firms were appointed as Field Level Consultants (FLC). They verified and certified the opening balance sheets. A rigorous review mechanism was put in place with weekly reviews on key action points. The State devised incentives and disincentives to push implementation at the field level including SFC performance grants. The KMDS continues to anchor municipal reforms in the State.

Policy and regulatory framework

The Karnataka Municipal Accounting Manual was prepared on the lines of the NMAM. The Karnataka Municipalities Accounts and Budget Rules, 2006³⁰ were also notified. Later, in 2010, the Karnataka Municipal Asset Management and Valuation Methodology Manual³¹ were brought out. Karnataka has in place a Local Fund Fiscal Responsibility Act enacted in 2003, which is yet to be implemented.

Technology solution

Karnataka implemented the eGov Financials solution developed bespoke by eGov Foundation³². eGov Foundation developed the solution and maintained it until 2012-13. From 2013-14 onwards, KMDS is maintaining and enhancing the solution. KMDS has established an in-house IT team of 18 persons for this purpose.

Implementation

In 2010, the Karnataka Municipalities (Recruitment of Officers and Employees) Rules were amended. This enabled recruitment of accountants and programmers essential for the rollout. The Cadre and Recruitment Rules of the Karnataka State Audit and Accounts Department (KSAAD) mandate entry level officers to possess a Commerce background. Also, the scheme of examination and detailed syllabus for lateral entry of officers to positions of Assistant Controller and below has been prescribed.

The training manual prepared by the Implementation Consultant helped to impart training to the staff during the reform process. Necessary midterm corrections were made. Training was imparted by the KMDS and later by the State Institute of Urban Development (SIUD). District-level master trainers were identified from amongst ULB accountants and were trained as trainers, these master trainers, in turn, trained the ULBs. More than 5,000 staff were trained across the State during the initial implementation. All newly appointed ULB Accountants are sent for a week-long on-the-job training to a nearby ULB.

A key aspect of the Karnataka model is the formalization of financial statements audit. Financial statements (FS) are generated by the software. Since 2013-14, Financial Statement (FS) auditors are strictly required to audit only the system-generated FS. FS audit is undertaken by CA firms appointed by the DMA through a tendering process and KSAAD is the statutory auditor. The Karnataka Municipal Accounting and Budgeting Rules 2006 (KMABR) provides for FS audit separately by CA firms. KSAAD undertakes its audit after the completion of the FS audit by CAs. FS and KSAAD audit of ULBs are fully complete till 2018-19 and largely complete for 2019-20.

³⁰ <https://ksaad.karnataka.gov.in/storage/pdf-files/municipalities%20rules%20eng.pdf>

³¹ [http://gazette.kar.nic.in/03-02-2011/part-e.o.g-\(page-49-228\).pdf](http://gazette.kar.nic.in/03-02-2011/part-e.o.g-(page-49-228).pdf)

³² A not-for-profit entity based in Bangalore working on implementing e-Governance solutions (<https://egov.org.in/>).

Present status

The transition to accrual accounting is complete in Karnataka in all ULBs except Bruhat Bengaluru Mahanagara Palike (BBMP). Reports from the computerized accounting system are being increasingly used for decision-making at all levels; however, the usage of financial statements is minimal. While the State-wide rollout has reached an advanced stage enabling ULBs to produce audited financial statements, the transition to accrual accounting in BBMP, which commenced earlier, is still work in progress.

2.6 BENGALURU

Reform management

BBMP was one of the first few large corporations to initiate financial reforms with the implementation of the Fund Based Accounting System (FBAS) in the year 2000. In **Phase 1** (1999 to 2004), FBAS was implemented under one of the projects championed by the Bangalore Agenda Task Force (BATF) – a PPP between the Government of Karnataka and the industry. BATF assisted BBMP with technical (through external consultants, which included retired staff with ULB experience), project management, and financial support for rolling out FBAS. The support ran from 1999 to 2004 after which BBMP took over the system. In **Phase 2** (ongoing since 2015), BBMP is undertaking the implementation through an in-house team. An internal Expert Committee has been constituted for the implementation of the new accounting system.

Policy and regulatory framework

In **Phase 1**, the BMP (Accounts) Regulation, 2001 was introduced which gave legitimacy to the FBAS. An FBAS Accounts Manual was also prepared. In **Phase 2**, following the decision to modify the KMABR, 2006 to suit BBMP's requirements, an internal team worked on drafting the BBMP Accounts and Budget Management Rules, 2020, now under government approval. The Rules would provide the required guidance for accounting. No separate accounts manual is planned. The Chart of Accounts largely follows the structure prescribed in the NMAM. BBMP has decided not to follow fund accounting³³ as prescribed in the NMAM.

Implementation

Phase 1 implementation covered policy, process, people, and technology aspects. BBMP entered into important agreements with external stakeholders like the State Government (committing to financial reforms) and with bankers (for streamlining funds management). Structural changes were also introduced to facilitate smooth implementation. Business processes were reengineered to suit information flows for accrual accounting. Under **Phase 2**, a Central Accounts Cell (CAC) is being proposed for implementing the new accounting system and running it on an ongoing basis. A specialized unit at the centre along with automation of accounting entries based on transactions would ensure that BBMP is able to implement the new system with minimal glitches.

Technology solution

The software implemented in **Phase 1** was not able to produce a system-generated balance sheet. Under **Phase 2**, the financial statements audit requirement has been built into the Rules itself. Such audit is meant to be conducted by Chartered Accountants.

³³ Under Fund Accounting, separate set of financial statements are prepared for major functions of a ULB in addition to financial statements for the ULB as a whole.

The Rules also provide for internal audit. After 2015, BBMP has outsourced the task of maintaining accrual-based accounts to external consultants. The consultants take data from BBMP systems (manual as well as electronic), digitize the data, and generate financial statements. This is working as a stop-gap arrangement until BBMP implements and transitions to its own accounting software based on the new Accounts Rules.

Present status

Phase 1 was successful and earned wide acclaim³⁴. However, the successes achieved in Phase 1 could not be sustained, and the system steadily deteriorated over the past decade owing to a lack of internalization and inadequate attention to periodically upgrade the system. Realizing that a sound financial system is imperative for better governance, BBMP is now attempting its 2nd phase of financial reforms. The transition to accrual accounting can be described as a work-in-progress at best.

A detailed account of the Karnataka experience is given in *Annex 4 - Karnataka*.

³⁴ The implementation of Fund Based Accounting System was made into a case study by the Centre for Public Policy, Indian Institute of Management, Bangalore. The case also featured in *Vikalpa - the Journal of Indian Institute of Management, Ahmedabad* in July 2006 (<https://journals.sagepub.com/doi/abs/10.1177/0256090920060305>).

2.7 ODISHA

Total population (in crores):	4.20
<i>Census 2011 (https://www.census2011.co.in/states.php)</i>	
Total urban population (in crores):	0.70
<i>(Handbook of Statistics of Indian States_ Reserve Bank of India_2020-21, Page 17, Table 1: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OHSIS241121FL7A6B5C0ECBC64B0ABFOA097B1AD40C83.PDF)</i>	
Total census towns:	132
<i>(https://censusindia.gov.in/towns/town.htm)</i>	
Number of local bodies:	115
Municipal Corporations:	5
Municipalities:	47
City Municipal Councils:	-
Town Municipal Councils:	-
Town Panchayats:	-
Notified Area Councils:	63
Cantonment Boards:	-
<i>(https://lgdirectory.gov.in/ accessed on 19th Nov 2022)</i>	
<i>(https://dgde.gov.in accessed on 19th Nov 2022)</i>	

Reform management

Odisha State has made two attempts towards the transition to accrual accounting in ULBs. The first attempt was in 2012 and the second one, initiated in 2019, is currently in progress.

During the first attempt, the State brought out its State Municipal Accounts Manual and formulated the Odisha Municipal (Accounts) Rules, 2012³⁵. eMunicipality software was implemented with the help of a private vendor. Although the intention was to roll out the system Statewide, the implementation was restricted to municipal corporations only. The State also placed qualified accountants in all the municipalities. Accounts were maintained under the accrual system from the financial year 2013-14 onwards. Although the eMunicipality software was in use until recently (mid-2021), the implementation was not fully complete. A few corporations and municipalities have maintained their account books on eMunicipality (mostly the nine AMRUT cities³⁶), but the completeness and correctness of the accounts are not guaranteed. For all operational purposes, the manual cash books continue to be relied upon.

In the second phase which began in late 2019 and is ongoing, the Housing & Urban Development Department (H&UDD) of Odisha has decided to implement an integrated e-Governance solution across all ULBs in the State. The H&UDD has chosen to implement the DIGIT—an open-source urban governance solution—by eGov Foundation,

³⁵ <http://govtpress.odisha.gov.in/pdf/2012/557.pdf>

³⁶ Balasore, Baripada, Bhadrak, Bhubaneswar, Berhampur, Cuttack, Puri, Rourkela, and Sambalpur.

which includes the Finance and Accounts module. The rollout of DIGIT commenced in September/October 2021. The H&UDD has established a steering committee and has appointed project management and project implementation consultancy firms. The scope of work for the project implementing agency is comprehensive and includes solution customization, implementation, end-user training, and support. The H&UDD is also being advised by a not-for-profit organization (Janaagraha Centre for Citizenship and Democracy) in the reform exercise. Janaagraha has helped in bringing out a revised version of the Odisha Municipal Accounts Manual (OMAM).

Policy and regulatory framework

The necessary legal amendments to implement the revised manual are yet to happen. Also, the DIGIT customization and implementation are yet to incorporate the revised OMAM. Further, the State is yet to begin a fresh exercise of preparing opening balance sheets since the data on eMunicipality software is not updated.

Implementation

Starting 2013-14, the nine AMRUT cities have been engaging CA firms for audit of financial statements to satisfy CFC grant conditions. The number of municipalities engaging CA firms to audit financial statements has been increasing in recent years to satisfy the XIV and XV CFC grant eligibility conditions. Primary audit under the statute is by the Directorate of Local Fund Audit; this audit continues to be based on the cash-based accounts maintained in manual form. Financial statements audit is not integrated with the primary audit. As per the C&AG Report of 2016³⁷, migration to a double-entry accounting system has been accomplished only in the AMRUT mission cities since the financial year 2012-13. In other ULBs, cash-based manual accounting system was prevailing (March 2016).

Present situation

The implementation of DIGIT and the revised OMAM is currently in progress at the time of this report. Key activities such as legal changes, end-user training, opening balance sheet etc. are yet to happen. Going by the progress so far, it is likely that it may take anywhere from six months to one year for the new system to stabilize.

A detailed account of the Odisha experience is given in *Annex 4 - Odisha*.

³⁷ https://cag.gov.in/cag_old/sites/default/files/audit_report_files/Report_Report_No.8_of_2016_-_Local_Bodies_Government_of_Odisha.pdf

2.8 RAJASTHAN

Total population (in crores):	6.85
<i>Census 2011 (https://www.census2011.co.in/states.php)</i>	
Total urban population (in crores):	1.70
<i>(Handbook of Statistics of Indian States_ Reserve Bank of India_2020-21, Page 17, Table 1: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OHSIS241121FL7A6B5C0ECBC64B0ABF0A097B1AD40C83.PDF)</i>	
Total census towns:	216
<i>(https://censusindia.gov.in/towns/town.htm)</i>	
Number of local bodies:	242
Municipal Corporations:	10
Municipalities:	196
City Municipal Councils:	34
Town Municipal Councils:	-
Town Panchayats:	-
Notified Area Councils:	-
Cantonment Boards:	2
<i>(https://lgedirectory.gov.in/ accessed on 19th Nov 2022)</i>	
<i>(https://dgde.gov.in accessed on 19th Nov 2022)</i>	

Reform management

Rajasthan brought out the Rajasthan Municipal Accounts Manual (RMAM) early in 2007, however, the accrual transition in full earnest commenced in 2015 only, primarily with the objective of accessing XIV CFC performance grants. The State set up a Municipal Finance Reform Cell (MFRC) at the Directorate of Local Bodies in March 2016 to manage the transition. The Directorate entered into a Memorandum of Understanding with a not-for-profit organization (Janaagraha Centre for Citizenship and Democracy) in May 2015 for technical and project management support. Activities were mainly directed towards empaneling CA firms for providing two sets of services to ULBs: (1) audit of annual accounts (financial statements), and (2) accounting services for preparing the annual accounts. Starting 2017 onwards, under Phase II, the State planned to implement a performance MIS covering the financial and operating performance of ULBs.

Policy and regulatory framework

The RMAM was prepared by the Institute of Public Auditors of India, Rajasthan chapter, on the lines of NMAM. The Municipalities Accounts Rules were amended in 2007 to mandate the RMAM.

Implementation

The Local Self Government Department had directed (December 2009) all ULBs to maintain the accounts on accrual-based (double entry) accounting system from 1st

April 2010. The State did not undertake any of the other transition activities such as legislative amendments, cadre reforms, IT implementation for municipal accounting, training, or audit reforms. The books of accounts at ULBs were maintained on cash basis in manual form. CA firms were employed to convert such accounts into accrual basis and produce financial statements. The CA firms were also tasked with preparing the opening balance sheets in ULBs where they were not available. Another set of CA firms were tasked with the audit of the financial statements. The financial statements audit, however, was not integrated with statutory audit under the municipal statutes.

The focus was on getting audited financial statements out from the year 2013-14 onwards. As of July 2019, the majority of the 188 ULBs were able to publish audited annual accounts up till 2016-17. The State also brought out a Model Annual Report for Udaipur Nagar Nigam³⁸ and Balotra Nagar Parishad³⁹ as templates for other ULBs to follow. The model annual reports present operational and financial highlights in a citizen-friendly manner along with a management discussion and analysis on the city's performance. The status of reforms planned under Phase II is not available. Overall, the implementation is still under progress with significant elements including Human Resource (HR) reforms, IT implementation, and audit reforms not complete.

Present status

Under the ongoing Strengthening Public Financial Management in Rajasthan project undertaken with the support of the World Bank, the State government is improving the effectiveness of the State Audit Department through measures like organizational restructuring, an audit manual, an audit management solution, and training.

A detailed account of the Rajasthan experience is given in *Annex 4 - Rajasthan*.

³⁸ <http://janaagraha.org/files/udaipur-report-v15.pdf>

³⁹ <http://janaagraha.org/files/balotra-nagar-parishat-annualreport.pdf>

2.9 TAMIL NADU

Total population (in crores):	7.21
<i>Data from Census 2011 (https://www.census2011.co.in/states.php)</i>	
Total urban population (in crores):	3.49
<i>(Handbook of Statistics of Indian States_ Reserve Bank of India_2020-21, Page 17, Table 1: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/OHSIS241121FL7A6B5C0ECBC64B0ABFOA097B1AD40C83.PDF)</i>	
Total census towns:	668
<i>(https://censusindia.gov.in/towns/town.htm)</i>	
Number of local bodies:	661
Municipal Corporations:	21
Municipalities:	110
City Municipal Councils:	-
Town Municipal Councils:	-
Town Panchayats:	528
Notified Area Councils:	-
Cantonment Boards:	2
<i>(https://lgdirectory.gov.in/ accessed on 19th Nov 2022)</i>	
<i>(https://dgde.gov.in accessed on 19th Nov 2022)</i>	

Reform management

Tamil Nadu is the first State in India to undertake municipal finance reforms. The reforms started in Tamil Nadu as early as 1980-81 with the Corporation of Chennai, now Greater Chennai Corporation (GCC), migrating to double-entry accrual accounting. Since then, the reforms at GCC have been steadily progressing. The State-wide reforms started as early as 1998-99, and by 2000-01, all the corporations and municipalities had migrated to a double-entry accrual accounting system.

The reforms in Tamil Nadu can, for easy understanding, be understood in two phases: Phase 1: 1998-2010 and Phase 2: the year 2010 onwards. In the first phase, the reforms were completely handled internally by the government. In the second phase, the State used consultants, vendors, and experts to help consolidate the efforts into a comprehensive e-Governance implementation. At every stage of the project, several elements were funded and technically supported by the World Bank through the Tamil Nadu Urban Development Projects.

In the initial stages, the Secretary, the Commissioner of Municipal Administration (CMA)/ Director of Municipal Administration (DMA), and Project Directors took an active part in decision making and rollout. This set the pace and push for reforms. Subsequently, the responsibilities of implementation were shared between various levels. Review mechanisms were set up at all three levels: at the ULB level by the respective Municipal Commissioners, the regional level by the Joint Directors of Municipal Administration, and at the State level by the Secretary, CMA, Project Directors, etc.

Policy and regulatory framework

In the initial days, when the NMAM was not yet in place, the State had developed an accrual accounting manual internally that was vetted by the ICAI in 1999-2000. The State, with its own resources, developed a Financial Accounting Software (FAS), which was implemented across all ULBs. In phase 2, management consultants were appointed to develop MAM⁴⁰ (on the lines of NMAM), Budget Manual, and to impart training to key staff (about 700) across the State.

Technology solution

IT consultants were engaged to develop Urban Tree Information System—a software solution that integrates 35 different functional modules. During both the phases, pilot runs were carried out and necessary modifications were carried out before full rollout.

Implementation

One of the key features of the Tamil Nadu reform process was the involvement of the Local Fund Audit Department (LFAD) right from the beginning. The first accounting manual was prepared by the retired staff of LFAD and during the second manual preparation also, the LFAD was consulted. The State engaged the same consultants to develop the Audit Manual by revising the existing manual to incorporate accrual accounting and modern auditing concepts.

In both the phases of implementation, training was accorded high importance. In the first phase, training was imparted by in-house trainers pooled from the department and LFAD. During the second phase, both the management consultants and the IT consultants trained the ULB and LFAD staff in accrual accounting and software usage respectively. Supervisory staff up to the Commissioner were sensitized on the reform process as part of the training.

Karaikudi in Sivaganga district of Tamil Nadu is a heritage town. Even after various initiatives taken at the State level, Karaikudi was lagging in updating accounting records even in 2011-12, after about a decade into reforms. Though FAS software was introduced, many records were maintained manually or using MS Excel. Three years' accounting and audit was in arrears. The turnaround took place with the entry of a new accountant and the support provided by the ULB management. Past three years' accounts were updated in three months on a war footing and were ready for audit. The users were trained every weekend on the usage of the software and accounting concepts. From then on annual accounts are closed by 31st March each year and sent for audit on 1st of April. The ULB management recognizes staff and motivates them by giving positive remarks in their personal record for their achievement and commitment.

⁴⁰ <https://www.tnurbantree.tn.gov.in/wp-content/uploads/2020/10/Municipal-Account-Manual.pdf>

In more than 80% of the ULBs, annual accounts closure is stated to be complete by 31st March every year, after which permission for making entries is not given except in genuine cases like corporations where the volumes of transactions are large. In 2014, the Tamil Nadu Local Fund Audit Act⁴¹ was passed which defines the duties and powers of the LFAD as the statutory auditor of ULBs.

Present status

In 2014, the LFAD Act was passed and LFAD is the statutory auditor of ULBs. The financial statements are certified by the LFAD. The audit of accounts for all the Corporations is under progress for 2020-21, and for 60 out of the 121 ULBs, the audit for 2020-21 is under progress. Many ULBs still take the help of external consultants for preparing financial statements under accrual accounting.

As in any reforms of this nature and size, whether all the objectives have been completely achieved need to be examined. However, in the two decades of reforms, the State seems to have set an example in migrating to a technology-based solution in the reform process.

Town Panchayats

The 528 town panchayats (TPs) in Tamil Nadu are under the administration of the Municipal Administration and Water Supply (MAWS) department headed by a director. Accrual accounting was introduced in TPs during 2002-03, and an accounting manual was prepared which continues to be used presently. The TPs have made periodic attempts at computerization in the past and currently, there is a project underway in each of the 17 regions of the State for this purpose. The accounts are stated to be up to date and the audit completed by LFAD up to the year 2019-20. The financial reforms implemented at ULBs have not been extended to TPs.

Greater Chennai Corporation

GCC was the first Municipal Corporation in India to move to a double-entry accounting system. GCC has been on accrual accounting from 1st April 1980. After attempts to computerize the accounting and related records, starting in 2008, there has been a large-scale introduction of IT infrastructure and culture with the support of eGov Foundation. At present, 100% of the accounting activities are carried on electronically with over 2,000 internal users and about 14,00,000 taxpayers (including professional taxpayers) interacting and benefiting from the system. During this period, there has been massive training support provided for running the accounting function.

The MAM that was originally prepared when GCC moved to accrual accounting was helpful in migrating to the requirements of NMAM like the Chart of Accounts. Effective project management, and regular review by the senior staff at the level of Commissioner through the different stages of implementation clearly established the tone at the top for reforms. The training was provided both on the conceptual aspects

⁴¹ <https://lfad.tn.gov.in/aimslfad/lfadact>

of accrual accounting, revised accounting processes, and the usage of the software in different stages. There were innumerable process improvements throughout the implementation and this continues even now.

The MIS provided by the ERP addresses various reporting requirements. Both the internal (LFAD) and external audit (C&AG) teams have been provided appropriate access to the eGov-ERP to conduct the audit. The audit of the GCC is complete up to 2019-20 and the audit for 2020-21 is in progress.

Currently, the GCC has a plan of enhancing both the hardware and software capabilities and improving the business continuity, disaster recovery, and cyber security aspects.

A detailed account of the Tamil Nadu experience is given in *Annex 4 - Tamil Nadu*.

2.10 CANTONMENT BOARDS

Reform management

The decision to move to accrual accounting was taken in 2012. The process was handled by the Directorate General of Defence Establishments (DGDE) with the help of external advisors.

Policy and regulatory framework

The DGDE went about getting the Cantonment Boards Accounts Rules 2020⁴² (CBAR) in place. It followed an elaborate process of requirement analysis, taking into account the accrual accounting considerations, legal vetting by the concerned ministries, and obtaining the opinion of stakeholders including the public in the drafting of the Rules. The process was technically sound although time intensive. The CBAR were passed in 2020. This paved way for the official implementation of the accrual-based accounting system across all the CBs from 2020-21.

Implementation

Project implementation was under the supervision of a Consultant Monitoring Committee (CMC) formed for this purpose. The preparation of the Cantonment Account Code (Manual) and software for accounting were outsourced. Two pilot Cantonment Boards (CBs): Agra and St. Thomas Mount cum Pallavaram (Chennai), were chosen for a trial run before replication to the other 60 CBs.

Technology solution

Two main technological considerations were the development of the software and also hosting it for use by all the 62 CBs. The software was developed based on the accrual accounting requirements by an external consultant and rolled out across all the 62 CBs after user acceptance testing.

Training on accrual accounting as well as the software was given to accounting staff, the programmers, and also the CEOs of the CBs. Twenty-nine detailed schedules were circulated for collection and validation of required data for preparing the opening balance sheet.

Present status

The software generates the financial statements for all the CBs. The Local C&AG's office conducts the audit. Audit of the accrual-based accounts is in progress.

A detailed account of the experience in Cantonment Boards is given in *Annex 4 - Cantonment Boards*.

⁴² <https://www.mod.gov.in/sites/default/files/CBAR2020-9.pdf>

2.11 HIGHLIGHTS OF REFORM INITIATIVES OF SELECT STATES

A quick snapshot of the highlights of the reform journeys of the States included in this study (described in the earlier sections) is given in Table 3: *Highlights of reforms of select States*.

Table 3: Highlights of reforms of select States

	Planning and Project Management	Municipal Accounts Manual (MAM) & Rules (MAR)	Technology solution	Implementation	Opening Balance Sheet	Human Resources and Training	Financial Statements and Audit	Present situation
1. Bihar	Project structure established under SPUR with PMU. PMU outsourced to consultants.	BMAM prepared by UD&HD based on NMAM. BMAR also available	Tally implementation by CA firms. E-Municipality under implementation.	142 ULBs divided into clusters and CA firms appointed through RFP. One Accountant is provided by CA firm for implementation. CA firm converts the accounts to accrual and prepares the FS.	Prepared for all ULBs by the CA firms.	The CA firms trained a few personnel in each ULB.	The ULBs maintain accounts on cash basis which are audited by the C&AG. FS are not audited. Accounts for 2019-20 for more than 25% of ULBs will be complete by March 2022.	Accrual accounting not implemented. Audit is still in the backlog.
	<i>BMAM – Bihar Municipal Accounting Manual, BMAR-Bihar Municipal Accounting Rules-FS – Financial Statements, RFP – Request for Proposal, SPUR-Support Programme for Urban Reforms with DFID support, UD&HD-Urban Development & Housing Department;</i>							
2. Chhattisgarh	Government appointed PMC and Financial Consultants with review by SUDA.	Draft MAM prepared in-house yet to get Government consent.	Tally ERP was implemented with the support of Financial Consultants and supervision of PMC, both CA firms. e-Governance suite under implementation.	168 ULBs were divided into five clusters and one Financial Consultant was appointed in each cluster. Technical supervision by PMC.	Financial Consultants prepared and certified the opening balance sheets.	The PMC trained the ULB staff in accrual accounting, MAM	The ULBs maintain accounts on cash basis which are audited by LFAD. FS are not audited. Accounting up to 2019-20 for most ULBs is complete.	Accrual accounting reforms were initiated strongly but complete transition could not be implemented.
	<i>PMC-Project Management Consultants, SUDA-State Urban Development Agency</i>							

	Planning and Project Management	Municipal Accounts Manual (MAM) & Rules (MAR)	Technology solution	Implementation	Opening Balance Sheet	Human Resources and Training	Financial Statements and Audit	Present situation
3. Delhi-MCD	In 2002-03 reform process began with support from ICAI ARF. After trifurcation into East, North, and South no major reform attempt.	No MAM or rules prepared. NMAM was adopted as such.	No software implemented so far. Manual Cash basis of accounting.	No implementation of accrual accounting has taken place.	The OBS prepared before trifurcation by ICAI ARF has been trifurcated. However, some issues persist in this regard.	No specific training has been imparted.	E-DMC & S-DMC cash basis of FS completed up to 2020-21; N-DMC up to 2018-19.	Accrual accounting not implemented.
NDMC	After decision in 2002, the project led by Financial Advisor commenced with support from a CA firm.	MAM for NDMC based on NMAM prepared.	Software for accrual accounting was developed with the support of eGov Foundation and implemented in 2009-10.	Implemented in-house with software support from eGov Foundation. After the parallel run initially, the system has been fully implemented. Post June 2021 the IT department of NDMC maintains the software.	OBS prepared as on 01.04.2004 by CA firm and certified.	Training was given by consultants, eGov Foundation, and AJNIFM on various aspects of accrual accounting and software usage.	Accrual-based financial statements are prepared by NDMC and audited by Municipal Chief Auditor from C&AG.	Accrual accounting has been implemented. Audit for 2019-20 and 2020-21 is under progress.
	<i>ARF - Accounting Research Foundation, MCD-Municipal Corporation of Delhi</i>							
	<i>NDMC-New Delhi Municipal Corporation, AJNIFM - Arun Jaitley National Institute of Financial Management</i>							

	Planning and Project Management	Municipal Accounts Manual (MAM) & Rules (MAR)	Technology solution	Implementation	Opening Balance Sheet	Human Resources and Training	Financial Statements and Audit	Present situation
4. Gujarat	<p>Impetus provided initially by CMAG in 2000, the GMARP began in 2005 addressing municipalities (not all ULBs). A project management structure was established with PMTU under CMAG by GMFB. Based on a resolution passed by UDD in 2007, the project management was strengthened.</p>	<p>MAM was prepared based on NMAM by PMTU. Amendments to Rules under Gujarat Municipal Act-yet to get government approval.</p>	<p>Under the PMTU Project, CA firms were appointed to implement accrual accounting. PCAs implemented accrual accounting using Tally software with certain modifications made at the central level embedded with accounting and cost centre codes.</p>	<p>PMTU reviewed progress periodically, based on timelines given to municipalities.</p>	<p>The OBS was prepared and certified by the PCAs.</p>	<p>PMTU trained the PCAs and municipal staff. PCAs trained the accounting staff</p>	<p>Cash basis manual books are being prepared; accrual accounting Tally based FS are also prepared in parallel. However, the accrual statements are in process of receiving legal backing. There is backlog in accrual statements. The LFA also audits the day book maintained on cash basis.</p>	<p>Accrual accounting needs to be further strengthened. Audit up to 2018-19 is stated to be complete.</p>
	<p>CMAG-City Managers' Association Gujarat; GMARP-Gujarat Municipal Accounting Reform Project; GMFC-Gujarat Municipal Finance Board, PMTU-Project Management & Training Unit</p>							

	Planning and Project Management	Municipal Accounts Manual (MAM) & Rules (MAR)	Technology solution	Implementation	Opening Balance Sheet	Human Resources and Training	Financial Statements and Audit	Present situation
5. Karnataka	The reforms commenced in 2004 were driven by DMA by conceptualizing KMDS (2007). Steering committee at the level of ACS with the formation of an Expert Management Group supervised and coordinated reforms. DUDCs took care of the district level coordination. Initially funded by ADB later on by WB.	KMAM and Municipal Accounting and Budgeting Rules were made.	Software by eGov Foundation. After 2012-13 is being maintained by KMDS with an internal IT team. The data centre is maintained by STPI. F&A module was first implemented and then integrated into all modules. The same software is used across all the ULBs in the State, except Bengaluru Corporation.	An implementation consultant was appointed at the State level to draft the manual, rules, software user manual, etc. CA firms were appointed as field level consultants. Tally was implemented till the e-Gov financial software was implemented. Manual system dispensed from 2013-14. Weekly reviews were made on key points.	OBS were prepared by FLCs, who also certified them. OBS for the newly formed ULBs are in progress.	Recruitment rules were amended in 2010 to bring in Accountants, senior & junior programmers, IT nodal officers to the ULBs through the Karnataka PSC. The training of the ULB staff was conducted by the FLCs.	FS are generated by the software since 2013-14. KSAAD is the statutory auditor. CA firms audit the accrual-based FS of ULBs, and their observations are to be considered by the KSAAD. There is no internal audit system.	Transition to accrual accounting is complete and is in a steady state now. Improvement projects are in the anvil. Audit for 2019-20 is largely complete.
	ACS-Additional Chief Secretary, DUDC-District Urban Development Centre, F&A - Finance and Accounts, FLC - Field Level Consultants, KMAM - Karnataka Municipal Accounting Manual, KMDS-Karnataka Municipal Data Society also the Municipal Reform Cell (MRC), KSAAD-Karnataka State Audit & Accounts Department.							

	Planning and Project Management	Municipal Accounts Manual (MAM) & Rules (MAR)	Technology solution	Implementation	Opening Balance Sheet	Human Resources and Training	Financial Statements and Audit	Present situation
6. Odisha	Steering Committee at the H&UDD. Project Management Unit is outsourced.	MAM and MAR were originally prepared in 2012. Revised manual prepared in 2021. Amendments to Act and rules are yet to be taken up.	eMunicipality software implemented in 2012. Currently, DIGIT platform by eGov Foundation is being implemented.	Implementation is ongoing. Software customization and implementation are outsourced to consultants. Janaagraha is advisor.	Needs to be taken up for all ULBs.	Training on software is part of implementing consultant's responsibility. Accounts and process training to be taken up by the State.	DLFA is the primary auditor who audits the cash-based manual records only. FS audit is undertaken by engaging CA firms separately.	Implementation is currently under progress. Legal changes, opening balance sheet, extensive training to be taken up.
7. Rajasthan	MFRC created within the DLB under DLSG with an Officer from Jaipur Municipal Corporation (CA) with the support of Janaagraha. Between 2015 and 2021 the State empanelled Accountants and Auditors to complete the accounts of the ULBs and for audit of FS.	MAM was prepared by the Institute of Public Auditors of India, Jaipur Chapter based on NMAM. Amendments were made to Municipal Accounts Rules.	Technology not part of this reform.	The reform was covering all the ULBs in the State. MFRC monitored the completion of accounts and also FS audit by CAs as per plans. The process was funded by the respective ULBs as far as engaging the CA for accounts and audit.	CA firms providing accounting services were responsible for preparing the opening balance sheet as well.	No particular training was envisaged as the accounts and audit were done by the CA firms.	The accounts are prepared manually on cash basis. From the year 2013-14 the financial statements are being audited by empanelled CA firms, enabling the ULBs access to grants.	Implementation is still under progress.
<i>DLB - Directorate of Local Bodies, DLSG-Director Local Self Government, Janaagraha-Janaagraha Centre for Citizenship & Democracy, MFRC-Municipal Finance Reforms Cell;</i>								

	Planning and Project Management	Municipal Accounts Manual (MAM) & Rules (MAR)	Technology solution	Implementation	Opening Balance Sheet	Human Resources and Training	Financial Statements and Audit	Present situation
8. Tamil Nadu	The earliest starter of the reforms. The process commenced in 1999 with a GO. The Secretary (MAWS), CMA, Project Director TNUDF, Director LFAD, and Finance Specialist were involved. Regular review and implementation supervision followed through both phases of the project. The project was funded by both the State Government and World Bank (components).	The MAM was prepared in 1999-2000 by retired officials. In phase 2 (2013-14) the MAM was enhanced to address NMAM requirements. Budget Manual was also prepared, both using consultants. The LFAD Audit Manual was also revised to include audit of accrual accounting FS and certifying them.	In phase 1 FAS was implemented with internal IT resources and with the support of assistant programmers recruited for every ULB. In phase 2 the support of a software consultant was taken to make a web-based comprehensive software-uniformly for all the ULBs (except Chennai Corporation).	In phase 1 the implementation was handled in-house with identified manpower and retired officials. In phase 2 external PMC was used to design software, software development/maintenance was outsourced. Consultants were also appointed to ensure the functionality of the software and linkages of modules to financial modules. LFAD was involved right from the beginning.	The opening balance sheet was prepared as on 1.4.2000 by the ULBs. The OBS was verified and certified by the LFAD.	A cadre rule for accounting staff was approved in 2016, yet to be implemented. Extensive training was given to both ULB and LFAD staff in both phases. The infra of TNIUS was made use of for training. However, many ULBs still use external consultants for preparing accrual based financial statements.	The software generates the FS, and it is stated that for most of the ULBs the accounts are ready by 1 st week of April for the previous year. LFAD is the statutory auditor. Login for LFAD has been given for audit, though not used. LFAD does the audit and certifies the FS.	The audit for 2020-21 is under way. The State has planned for improving the system including a massive training drive, improving information security and privacy aspects, and reporting.
	MAWS–Municipal Administration and Water Supply, TNIUS–Tamil Nadu Institute of Urban Studies, TNUDF – Tamil Nadu Urban Development Fund							

	Planning and Project Management	Municipal Accounts Manual (MAM) & Rules (MAR)	Technology solution	Implementation	Opening Balance Sheet	Human Resources and Training	Financial Statements and Audit	Present situation
9. Cantonment Boards	Project supervision and monitoring was handled by a Consultant Monitoring Committee established by the DGDE.	Cantonment Boards Account Rules was introduced in 2020 after an elaborate consultative process. A Cantonment Account Code was also developed.	Solution was developed by M/s ABM Knowledge ware Mumbai. It was centrally hosted on the NIC Cloud for all the 62 CBs.	Project management tools (Gantt charts) were used for planning the implementation. Pilot implementation was carried out in two CBs and later rolled out to all CBs. A project consultant was appointed centrally. Each CB engaged a local CA firm to help in the implementation.	Data was collected in 29 different forms for preparing Opening Balance Sheet.	Training on accrual accounting and software was given to accounts staff, programmers, and CEOs of CBs.	Financial statements are system-generated. Audit is undertaken by the C&AG.	Implementation is complete in all 62 CBs. The software modules are being used. Budgets and financial statements are system-generated.
	<i>CB - Cantonment Board, DGDE - Director General of Defence Establishment, NIC-National Informatics Centre</i>							

2.12 OTHER STATES

Most Indian States in India have attempted municipal finance reforms in the past or are in the process of implementing them now. For instance, in the last two years, Haryana, Jammu & Kashmir, Madhya Pradesh, Odisha, Uttarakhand, Uttar Pradesh, and Nashik Municipal Corporation have floated Requests for Proposals for implementing accrual accounting in ULBs). The renewed interest in this topic is prompted by the 15th CFC grant requirement of audited annual accounts for availing ULB grants. As explained in Section 1.8.2, the States for this study were selected keeping in mind their demographic mix, geographies, and the stage of reform implementation. This section presents the key highlights of transition attempts by States not taken up for the in-depth study under this report. The discussion in this section is based on desk research of available documentation on the internet and other secondary sources, and therefore, may not reflect the latest and most accurate position. It is however hoped that the reader will benefit from the facts gathered by the study team and presented here concisely.

2.12.1 Reform implementation

Initiation and management of the municipal financial reform project is housed in the office of the Director, Municipal Administration under the UDD in almost all States. A separate unit for managing municipal reforms (like the KMDS in Karnataka or the GMFB in Gujarat) is not a prevalent practice⁴³. Of late, States are exploring the idea of setting up a Municipal Shared Service Centre (MSSC), which, in addition to providing shared services, can anchor the implementation of special projects⁴⁴. In certain States (for instance Goa), the SUDA and the State Urban Infrastructure and Development Finance agencies have played a role in the reform implementation.

From the information available based on web research, it is gathered that **Kerala** has successfully transitioned to accrual accounting in all ULBs. The implementation started in 2007 and covered all ULBs by 2010-11. **Maharashtra** was one of the earliest States to initiate the reforms in 2001 but information on the present status is inconclusive. **Madhya Pradesh** also implemented accrual accounting in all ULBs in 2013-14. **Uttarakhand** is in the process of revising its MAM and implementing accrual accounting software across all ULBs; this appears to be its second such attempt. **Uttar Pradesh** initiated the accrual accounting implementation in 2019, which continues to be work in progress. **West Bengal** took up the implementation in 2007-08.

Many States have undertaken the reforms under externally aided projects, for instance ADB in Manipur, DFID in West Bengal, USAID in Madhya Pradesh through the FIRE-D project, and Maharashtra, and World Bank in Uttarakhand). The rationale seems to be two-fold: to secure funding for the reform project and to capitalize on the technical expertise that such agencies bring. This model has helped in retaining reform focus and better quality of implementation; however, it is seen that in many cases, the reforms are not sustained once the project comes to an end. Among the study States,

⁴³ The Jharkhand Municipal Act provides for the constitution of a State Chamber of Municipal Councils. However, there is no information on its constitution and functioning

⁴⁴ The 15th CFC has also set aside exclusive grants for states setting up the MSSC.

Karnataka and Tamil Nadu seem to be exceptions where the reforms have survived well beyond the project timeframe.

A summary of the status of adoption of accrual accounting by ULBs in different States as reported in C&AG audit reports has been compiled and presented in *Annex 5: Status of accrual system adoption in different states from C&AG reports*.

2.12.2 Statutory provisions and MAM

Many States have either amended their statutes or introduced new legislation to facilitate accrual accounting reforms. A case in point is Andhra Pradesh which introduced the Andhra Pradesh Municipalities (Preparation of Accounts) Rules 2017, which contain detailed accounting procedures for accrual accounting including the chart of accounts and templates for books and registers. Jharkhand introduced the Jharkhand Municipal Accounts Preparation Guidelines under the Jharkhand Municipal Accounts and Finance Rules, 2012. West Bengal amended its Municipal (Financial and Accounting) Rules, 1999 to suit them to accrual accounting.

On similar lines, several States have either introduced their own State Municipal Accounts Manuals (for instance Bihar, Chhattisgarh, Jammu & Kashmir, Karnataka, Madhya Pradesh, Sikkim, Tamil Nadu, Uttarakhand Uttar Pradesh) on the lines of NMAM or adopted NMAM directly (for instance Assam, Maharashtra, Manipur, West Bengal).

A comparative analysis of the statutory provisions of different States pertaining to municipal finance matters is available on www.cityfinance.in⁴⁵. This was reviewed as part of the study. The key findings are given in *Annex 6: Statutory provisions in State laws empowering accrual accounting in ULBs*.

2.12.3 Technology solution

A common thread running across all States is that the municipal finance reforms have been undertaken concurrently with technology implementation. However, the scope and scale of the implementation vary widely. While some States (for instance, Andhra Pradesh, Punjab, Telangana, Uttarakhand, Uttar Pradesh) have opted for a comprehensive municipal e-Governance solution that includes the finance and accounts module as well, certain others (Jharkhand, Madhya Pradesh, Meghalaya, Mizoram) have taken an approach of only using COTS accounting packages like Tally at the ULB level. Among the former States, many States (including Andhra Pradesh, Uttarakhand, Uttar Pradesh) have gone in for the DIGIT⁴⁶ – an open-source e-Governance platform by eGov Foundation. Andhra Pradesh took up DIGIT implementation in 2018. A key feature of the implementation is claimed to be the integration between different modules and an elaborate dashboard and reporting system with drill down available to the lowest level (which could be the ward or a bill collector depending on the information being viewed). Kerala has implemented

⁴⁵ <http://www.cityfinance.in/municipal-law>

⁴⁶ <https://www.digit.org/>

the Saankhya solution⁴⁷ developed by the Information Kerala Mission under the Local Self Government Department. The solution integrates various other municipal e-Governance applications.

2.12.4 Training

In States where external parties have been tasked with the implementation of accrual accounting, the contracts encompass initial training. It is common to see the State training institutes getting involved for refresher and regular training in years following the original implementation (for instance the Kerala Institute of Local Administration and so on).

2.12. Financial Statement Audit arrangements

The State Audit Department is the statutory auditor of urban local bodies in most States. In some States, the statutory audit function is performed by the C&AG. In all States (except for Tamil Nadu), the statutory auditor does not undertake audit of financial statements. Many States engage CA firms to undertake financial statements audit. In some States (for instance Goa) audit of financial statements is not happening either because ULBs do not prepare financial statements or audit arrangements are not in place.

⁴⁷ <https://ikm.gov.in/en/application-software>

2.13 CROSS-CUTTING INITIATIVES

In the context of this study, it is useful to take note of certain cross-cutting initiatives that do not emanate from any State. These include reform actions undertaken at the national level as well as initiatives by professional institutions and think tanks. This section provides a brief account of some of such significant initiatives.

2.13.1 Role of Finance Commissions

Successive Finance Commissions have raised concern over the poor state of local body finances (both urban as well as rural) in the country and the lack of reliable financial information to realistically assess the requirements of local bodies. The recommendations of CFCs have been instrumental in prodding governments to roll out some key reform initiatives like the NMAM, linking audited annual accounts to grants etc. On the same lines, SFCs have also been giving recommendations for strengthening local body financial systems. A snapshot of the recommendations of CFCs and select SFCs with regard to financial management arrangements of local bodies is given in *Table 4: Key recommendations of CFCs and SFCs on municipal finance matters*.

Table 4: Key recommendations of CFCs and SFCs on municipal finance matters

XV CFC	Availability on the public domain of unaudited annual accounts for previous year and audited accounts for the preceding previous year as an entry-level condition for accessing grants; consolidation of local body accounts with State and Union government accounts; notification of floor rates of property tax.
XIV CFC	C&AG to continue to provide technical guidance and support; States to facilitate local bodies in timely accounts compilation and audit; performance grants linked to publication of audited annual accounts.
XIII CFC	C&AG to provide technical guidance and supervision over local body audit; audit to be the primary responsibility of local fund audit departments; State governments to strengthen their local fund audit departments; setting up of Property Tax Boards.
XII CFC	Creation of a database of financial information of local bodies; maintenance of accounts through use of technology.
XI CFC	Maintenance of accounts and audit; Development of a financial database; C&AG to exercise supervision over maintenance of accounts and audit of all local bodies; C&AG report to be placed before a committee of the State Legislature.
SFCs	<p>Odisha 4th SFC—Need for management information system linking local body budget, accounts, and performance management; mandating maintenance of asset inventory for grant release.</p> <p>Tamil Nadu 3rd SFC—Enactment of fiscal responsibility and budget management act for ULBs; deletion of written off assets from asset register; comprehensive review of debt bearing capacity and ceiling on borrowing for ULBs; introducing pre-audit in place of concurrent audit.</p> <p>Rajasthan 4th SFC—Credit rating of ULBs; fiscal disclosures</p> <p>Bihar 5th SFC—Preparation of outcome budget and disclosure on ULB website; action taken report on audit reports.</p> <p>Kerala 4th SFC—Procedures to be followed by Finance Standing Committee to be issued as Rules; fiscal accountability chapter in the Municipality Act; participatory planning and budgeting.</p>

A detailed listing of the recommendations of CFCs and SFCs on municipal finances is given in *Annex 7: Key recommendations on municipal finance matters in CFC and SFC reports*. Furthermore, starting with the twelfth, all CFCs have spoken about the advantages of accrual accounting and highlighted the need for the union as well as State governments to transition to accrual accounting.

2.13.2 Government Accounting Standards Advisory Board (GASAB)

The GASAB was set up by the C&AG of India in 2002 in the wake of emerging developments in public finance and to keep pace with international developments. The Board of GASAB has representation from the finance heads of different government departments and institutions and reputed accounting and research organizations. The key role of GASAB is to formulate Indian Government Accounting Standards (IGAS) for cash as well as accrual accounting in government. The GASAB has brought out several publications including a Primer on Accrual-based Accounting in Government⁴⁸, Reports on piloting accrual accounting in Andhra Pradesh⁴⁹ and Madhya Pradesh⁵⁰, and a Concept Paper on Natural Resource Accounting in India⁵¹.

On the recommendations of the 12th Finance Commission, GASAB was requested to recommend an operational framework and detailed roadmap for adoption of accrual accounting for the Union and the State Governments. Apart from the Central Government, eight State Governments (Assam, Bihar, Kerala, Madhya Pradesh, Maharashtra, Sikkim, Uttarakhand and West Bengal) had accepted the idea of accrual accounting in principle.

2.13.3 National Urban Digital Mission (NUDM)

Recognizing the need for a paradigm shift in the speed and scale at which digital solutions are deployed for urban service delivery in the country, the MoHUA has launched the NUDM. NUDM aims to provide the shared digital infrastructure as a public good that will enable the urban ecosystem players across the country to build technology solutions at speed and scale. NUDM would leverage the current public digital infrastructure comprising of Jan Dhan, Aadhaar, Unified Payment Interface (UPI) and the wide reach of internet and mobile. The NUDM will be driven by the Centre for Digital Governance of the National Institute of Urban Affairs (NIUA). The Mission will involve a wide range of ecosystem partners within the government as well as industry, academia, civil society, and global networks working together to co-create workable solutions.

Launched in February 2021, the MoHUA has written to all States to onboard on to NUDM. In the coming years, NUDM will increasingly become the backbone over which State urban e-Governance solutions, including the municipal accounting solution,

48 <http://gasab.gov.in/gasab/pdf/Primer.pdf>

49 <http://gasab.gov.in/gasab/pdf/Piloting-Accrual%20Accounting-in-AP.pdf>

50 <http://gasab.gov.in/gasab/pdf/IPAI-Final-Report-MPv2.pdf>

51 <http://gasab.gov.in/gasab/pdf/NR-Accounting-final.pdf>

will be built. There is already some action seen in few States around this⁵². More information on NUDM can be accessed at <https://nudm.mohua.gov.in/>.

2.13.4 Cityfinance.in

www.cityfinance.in is a portal launched by the MoHUA⁵³ which serves as a national framework of standardized, timely and credible financial information on Indian cities. The portal is set to become a one-stop repository for urban financial datasets in the years to come. The portal hosts multiple datasets which include:

- Summary financial statements of ULBs – as of November 2022, the portal hosts 8,426 financial statements of 2,971 ULBs across multiple financial years;
- Financial analytics across five different categories – own revenues, revenue sources, revenue expenditure, cash and bank balances and outstanding debt (see *Exhibit 4: Analytics tab of cityfinance*);
- A comparison of the statutory provisions relating to accounts, budget, audit and related matters across all Indian States;
- ULB credit rating information including 223 credit rating reports;
- Details on 41 municipal bond issuances worth INR 5,459 crores;
- A host of other resources.

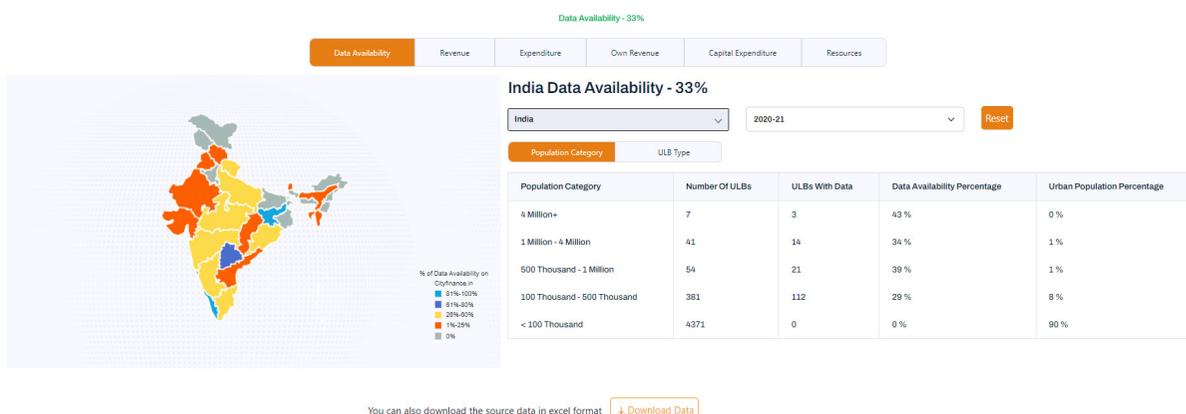


Exhibit 4: Analytics tab of cityfinance

The number of datasets on the portal is proposed to be increased in the coming years. Additionally, the portal hosts a 15th CFC grant management system for managing submissions from ULBs across the country and their processing at State and MoHUA level.

2.13.5 National Institute of Urban Affairs

The National Institute of Urban Affairs (NIUA, <https://niua.org/>) is a think tank focused on urban planning and development established under the aegis of the MoHUA. NIUA has been working since 1976 in cutting-edge research and developing innovative

⁵² <https://www.dailypioneer.com/2021/state-editions/nudm-to-be-launched-soon-in-state.html>

⁵³ In partnership with Janaagraha with MaGC as the knowledge partner and Dhvani as the technology partner

solutions in the urban development space. Urban governance and finance is one of the five thematic concerns around which NIUA's work revolves. NIUA has established internal centres around the themes and one of them is the Centre for Municipal Finance & Governance. The centre focusses on building capacities and providing technical assistance in municipal finance matters to ULBs. The Centre operated a support cell for the 14th CFC which undertook various municipal finance studies for the FC.

NIUA brings out publications of relevance to the urban sector which includes a List of Urban Policies and Schemes (2021) and a Handbook of Urban Statistics (2019). Earlier, NIUA worked with USAID on the Financial Reforms and Expansion (FIRE-D) project, which ran from 1994 to 2010.

2.13.6 Committee on Public and Government Financial Management of the Institute of Chartered Accountants of India

The ICAI represents is one of the largest bodies of professional accountants in the world. The ICAI has worked with multiple State governments including Delhi, Maharashtra, and Tamil Nadu in designing and implementing their municipal finance reform initiatives. The Committee on Public and Government Financial Management (CP&GFM) of the ICAI aims to work with the national, state and local governments, offering cutting-edge technical support for public finance reform in the country. The Committee has brought out a complete set of Accounting Standards for Local Bodies (ASLB) which comprises of 29 accrual-based standards and one cash-based standard. The ASLBs are modelled on the International Public Sector Accounting Standards (IPSAS)⁵⁴ and are currently recommendatory in nature.

The Committee has also undertaken a slew of initiatives to build capacities in public finance, both amongst government personnel as well as CAs. For government personnel, the Committee regularly organizes training programmes - physical as well as online-in collaboration with the governments of most States and makes available e-lectures on several topics related to accounting reforms in local bodies⁵⁵. It runs a Certificate Course on Public Finance & Government Accounting for its members⁵⁶. As of May 2022, more than 1,300 CAs have obtained this certification. The Committee has undertaken a number of studies and brought out publications related to public finance in general and local body accounting in particular.

More details on the Committee, its activities, and publications⁵⁷ can be accessed at <https://www.icai.org/post/committee-on-public-and-government-financial-management>

⁵⁴ https://www.icai.org/post.html?post_id=1527 https://www.icai.org/post.html?post_id=1527

⁵⁵ <http://icaiv.com/category/local-bodies>

⁵⁶ https://www.icai.org/new_post.html?post_id=16586

⁵⁷ For a complete list of publications by the Committee on Public and Government Finance Management (CP&GFM) of ICAI, see <https://www.icai.org/post/icai-publications-cpgfm>,

“

**ततः सर्वाधिकरणानां करणीयं सिद्धं शेषमायव्ययौनीविमुपस्थानं
प्रचारं चरित्रं संस्थानं च निबन्धेन प्रयच्छेत्**

From that he should handover in writing the (revenue) estimate, accrued revenue, outstanding revenue, income and expenditure, balance (the time for) attendance (for audit), (sphere of) activity, customs, and fixed rules, to all the departments.

**Kautilya's Arthashastra 2.7.3 on THE TOPIC OF ACCOUNTS IN THE
RECORDS AND AUDIT OFFICE**

”



3

Lessons Learned and Recommendations



3.1 INTRODUCTION

The discussion on State implementation experiences in Chapter 2 brings out the fact that States have followed different paths to get to the same objective of implementing accrual accounting in ULBs. Karnataka, Tamil Nadu, Cantonment Boards among the study States and Kerala among the other States have adopted a State-wide approach and can claim to have achieved the transition and sustained it. A few other States such as Andhra Pradesh, Odisha, and Uttarakhand have also taken the State-wide approach and the transition is ongoing. Most other States have adopted the faster route of devising workarounds to produce audited financial statements for accessing grants. Chapter 4 argues that producing audited financial statements should not be pursued as an end but must be viewed as a means to enable better fiscal management in ULBs. With this backdrop, it is imperative that States will have to transition to a stable State-wide accrual-based accounting system for ULBs at the earliest. It is in achieving this transition that the learnings from State experiences presented in this Chapter are expected to be of value.

Two sets of learnings emerge: one from the common elements in the accrual transition approaches of different States and another from certain unique reform experiments in specific States. These are summarized and presented here under fifteen aspects of reform design and implementation.

3.2 REFORM DESIGN AND PLANNING

3.2.1 State-wide reform approach is most effective

Essential characteristics of a State-wide approach include: a common State municipal accounts (and budget) manual, a common technology platform for all ULBs, a central project management unit for reform management, centralized procurement, and uniform audit arrangements (see *Exhibit 5: Essential characteristics of a State-wide approach*).

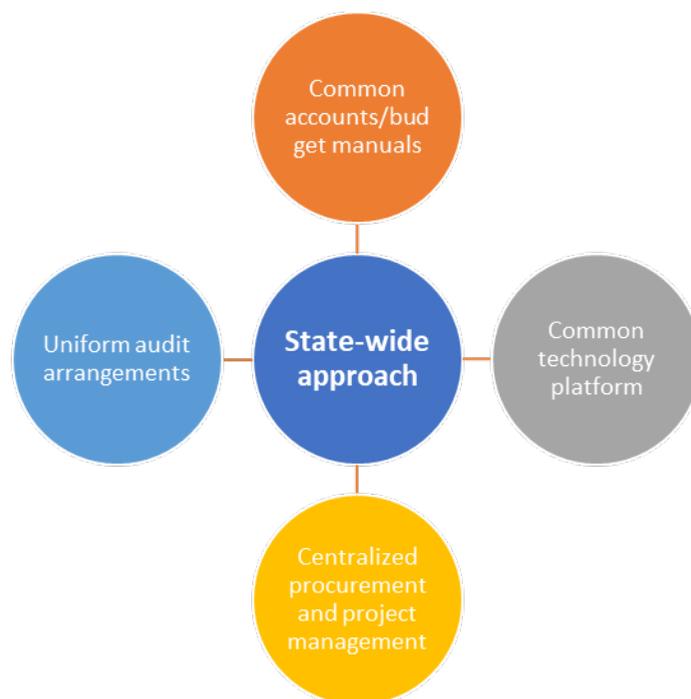


Exhibit 5: Essential characteristics of a State-wide approach

The benefit of this approach is that it binds all ULBs in the State to one system, generates economies of scale in procurement, and subsequent system improvements are available for all ULBs to implement.

Karnataka, Tamil Nadu, and Cantonment Boards have taken a State-wide approach from the beginning. Doing so has ensured that the policy changes, the accounts manual, process reengineering, and software design take into consideration the requirements of all types of ULBs in the State. Most other States, have adopted one or more of the essential characteristics of the State-wide approach (State MAM being the most popular), but not all. This has resulted in the absence of a common thread binding all the ULBs to one system and the efforts getting dissipated over time. In the 2012 reforms in Odisha, the focus seemed to be on municipal corporations only, which made it challenging to achieve a State-wide rollout later. Even in the case of Tamil Nadu, where the State-wide approach is strongly evident, town panchayats were excluded initially; they are being brought into the fold now.

The most common roadblock to adopting a State-wide approach is the relatively longer time it takes to get ULBs to produce audited financial statements. The most

prevalent alternative model has been for the State to issue the MAM and get ULBs to engage CA firms for conversion of legacy accounts maintained on cash basis into accrual and for audit of the financial statements. This is being followed in Bihar, Goa, Gujarat, Odisha, and Rajasthan. This model ensures that individual ULBs are able to quickly produce audited financial statements in satisfaction of grant eligibility conditions. However, it has meant a lack of standardization and disparities amongst ULBs, and thus reliability of financial statements suffers. Also, comparing the financial performances of different ULBs becomes difficult. In such States, there is a strong likelihood that once external compulsions like mandates and incentives (like grant eligibility conditions) are no longer there, there will be no motivation for the ULB machinery to undertake the effort of preparing financial statements and get them audited on its own.



Recommendation 1: Adopt a State-wide approach

A State-wide approach to ULB accounting reforms is strongly recommended. This would ensure uniformity and standardization across ULBs in a State and is critical to longer-term sustainability. It can also generate significant economies of scale in procurement of resources, trainings, institutional memory, and services.

3.2.2 Role of State UDD is crucial for reform success

It is a known fact that technical and managerial capacities to undertake accounting reforms are limited in many of the Indian municipalities. In such a low-capacity scenario, the role of the State UDD assumes greater importance. In almost all the study States, where the State UDD was observed to be actively involved from beginning, the reforms attained a high level of internalization. Furthermore, active involvement of the State UDD helps to prevent the tendency to revert to legacy systems.

Key interventions by the State UDD for successful implementation of the accounting reforms is shown in *Exhibit 6: Key Interventions by the State UDD*

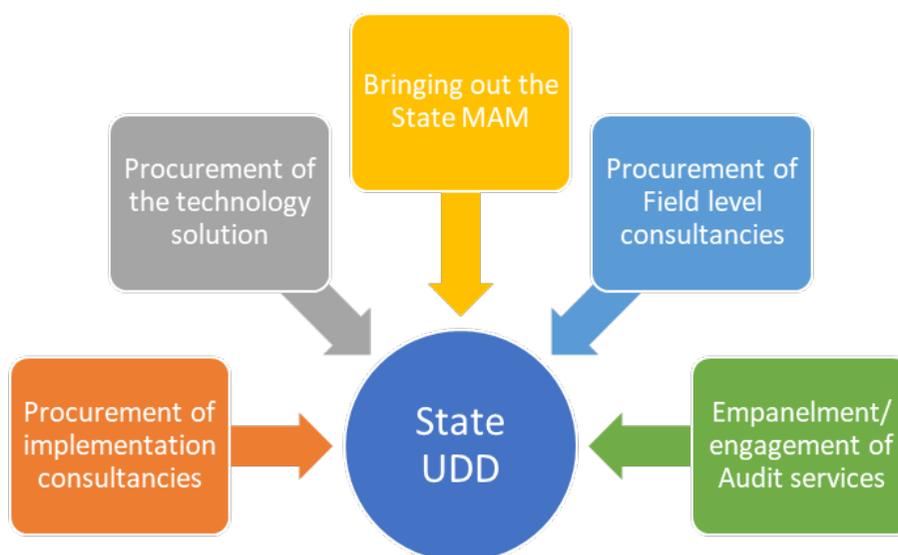


Exhibit 6: Key Interventions by the State UDD

The extent of UDD involvement also matters. In Karnataka and Tamil Nadu, all aspects of the reforms were (and continue to be) driven by the UDD including procurement of the implementation consultancies, technology platform, field level consultancy services and audit services. In other States like Bihar, Gujarat (in recent years) and Rajasthan, the State UDD has adopted a light touch approach. Support from the State UDD in these States is limited to bringing out the State MAM, empanelling CA firms for field level consultant services and so on. There is clear evidence to show that the internalization is better in the States where the UDD is fully invested in the transition. Even in Gujarat, which was the front-runner in implementing the transition, the role of the central PMTU was crucial in reform implementation.

Experience has shown that, issuing the State MAM and expecting individual ULBs to navigate the transition to accrual with the help of local consultants often does not work. It fosters a practice of running the new system in parallel and subsequently reverting to the legacy system once the change agents disengage.

The duration of engagement of the UDD is also important. Karnataka, Kerala, and Tamil Nadu have ensured that the State anchorage has continued even after project completion. However, in Gujarat and Maharashtra, after the initial few years, the responsibility of initiative at the State UDD reduced and the major implementation responsibility was passed on to individual ULBs, thereby posing a potential challenge to sustainability.

In certain cases, where the urban mandate is divided between two departments, there is a need for the departments to work together. For instance, the Directorate of Town Panchayats in Tamil Nadu is implementing an accounting system in town panchayats that is independent of the system being run by the Commissionerate of Municipal Administration. On the contrary, adopting the already successful system running in municipalities for town panchayats or aligning both the systems would be more effective. Alignment could be achieved by adopting the same key elements like the accounting policies, chart of accounts, financial statement formats, accounting software etc. with required changes to suit town panchayats. This would help the State cut down on the implementation timelines, save costs, and avoid reinventing the wheel.

The State Finance Department can play a supportive role to the UDD in reform implementation in two ways: (i) as the domain expert in matters of accounting, and (ii) as the parent department of the State audit department.

Recommendation 2: State UDD to play an active role

Municipal finance reforms are inherently complex, and, if left to individual ULBs too early in the reform process, the chances of success seem to reduce drastically. ULBs need extensive technical assistance and handholding for a sustained period before the system can run on an auto-pilot mode. The State UDDs would need to be prepared for a long-haul effort in terms of change management, technology implementation, and capacity building efforts. The UDD needs to acquire the required technical and administrative capacities and secure the necessary funding to be able to spearhead the reform project at least for three to five years. It also must work closely with the State Finance Department in matters requiring domain expertise on accounting matters.

3.2.3 State level special purpose agency can ensure reform continuity

Reform anchorage at the State level can take different forms. While a Project Management Unit (PMU) is the most widely used arrangement, States have experimented with assigning the responsibility to special purpose entities with exclusive reform mandates. Notable examples are the Karnataka Municipal Data Society (KMDS), the Gujarat Municipal Finance Board (GMFB), the Municipal Finance Reform Cell (MFRC) in Rajasthan, and the Kerala Institute of Local Administration (KILA). These entities have surpassed the limited purpose for which they were originally established and are contributing to the State's larger urban reform agenda.



Exhibit 7: Advantages of Special Purpose Entities

A special purpose agency offers several advantages as shown in *Exhibit 7: Advantages of Special Purpose Entities*:

- a. It helps retain reform focus and channelize efforts which are otherwise likely to get dissipated when undertaken alongside the usual business of the UDD,
- b. Given the required autonomy, the agency is able to build and retain specialized capacities (finance, IT, procurement, project management and so on),
- c. Knowledge and experience get institutionalized over time and can be applied to scale up the reforms, and
- d. The agency can aspire to become self-sustaining in the long run by providing services to ULBs on a membership/subscription model.

On the flipside, unless such special purpose agencies are empowered with the

required administrative autonomy and financial resources, they can quickly turn into 'white elephants' and become hotspots of inefficiencies and malpractices. The Society structure of KMDS, with ULBs and parastatals as its members, and an independent management and governing structure, ensures the requisite autonomy while retaining the umbilical cord with the parent UDD. The entry fee and membership fee subscription model are also an attempt towards making the KMDS self-sustaining in the long run.

Recommendation 3: Special purpose entities as reform champions are effective

A State-backed entity for anchoring municipal reforms over the long term, with the required administrative autonomy and budget support lends stability and continuity to the reform attempts. Such an entity can house the specialized skill sets and resources required for reform implementation. The reform focus helps such entities imbibe best practices and roll them out to ULBs. The Municipal Shared Service Centre (MSSC), an idea supported by the 15th Finance Commission, can also be adopted to shape the special purpose entity role.

3.3 REFORM IMPLEMENTATION

3.3.1 Past experiences have valuable learnings to offer and must be considered while developing the reform strategy

Several States, including a few study States, are undertaking the transition to accrual accounting for the second time, either building upon the success of the first round (as in the case of Tamil Nadu) or reattempting after a previous unsuccessful attempt (as in the case of Maharashtra, Odisha). There are mixed learnings on how States have capitalized past experiences. In Tamil Nadu, the success factors of the earlier attempt (for instance, the close involvement of the LFAD, prioritizing policy changes before technology introduction, adoption of a State-wide technology solution to name a few) were largely replicated in the second attempt. On the other hand, Odisha had rich experience of the 2012 reform implementation, which, ideally, should have formed the basis for the strategy for the current implementation. However, key success factors (like policy changes before implementation, accounts manual before software customization, conceptual and procedural training before software training, and commencing the opening balance sheet exercise well before rollout) do not seem to have been fully addressed in the present implementation. Karnataka followed a different approach and analyzed best practices and experiences of other States, which helped shape its municipal finance reform path.

Recommendation 4: Imbibe learnings from past experience

While devising the reform strategy, it is important to look back at the State's past reform efforts, if any, and the learnings they offer. Given the likelihood that past reform learnings would be largely undocumented, an effective way to do this would be to consult key actors within the system as well as outside before initiating the subsequent reform exercise. Such lessons must inform the design of the reform initiative. An alternative is to document the success stories or learnings that occur in these transitions through regional/ anchor academic institutions in accounting and urban finance.

3.3.2 Project management and supervision must be decentralized

The argument for an active role for the State UDD put forth earlier must be understood in proper context. While its role in championing and facilitating the reform is indispensable, a decentralized reform management and supervision structure is important. While the core technical expertise can be centralized at the State-level project management structure, implementation supervision must happen at the district (or cluster or a similar disaggregated) level. This would ensure shorter feedback and correction cycles on the one hand, and ensure that solutions to implementation issues are sensitive to the local context on the other. Decentralized management also improves access to technical expertise for ULBs.

The advantages of a decentralized project management structure are evident from the experience in Karnataka and Tamil Nadu. In Karnataka, parts of the project supervision (at the District Urban Development Centres), training (master trainers), and support functions (peer learning) were placed at the district and ULB level. In Tamil Nadu, periodic reviews at the State level, region level, and the ULB level were instituted and religiously followed. Karaikudi municipality is another case in point proving that local leadership and technical competence can help turnaround a seemingly difficult implementation. In hindsight, the Rajasthan experience indicates that, possibly, placing a MFRC member in each Division would have helped faster implementation, given the size of the State and scale in terms of number of ULBs.

Recommendation 5: Decentralized project management and supervision

The project management and supervision structure must be defined and owned by the State UDD but must operate at multiple levels, namely, the State, the district (or region as appropriate), and at the ULB level. In addition to monitoring project progress in terms of timelines, the review mechanism must monitor key indicators of reform success. A minimum level of technical expertise (accounting and IT) must also be positioned at the decentralized level to address the needs of ULBs quickly.

3.3.3 A clear mandate for accrual accounting is paramount

While there is a consensus that a clear mandate to shift to accrual accounting is quintessential for a complete implementation, the study shows that many States fall short on establishing the mandate, despite local governance being a State subject in India. In Gujarat, approval for the amendments in the Rules/Act for giving legal sanctity to the accounting system is in progress. Likewise, in Chhattisgarh, NDMC, and Punjab, the MAM is yet to get legislative approval. In Odisha, the legal amendments are yet to be initiated but the implementation is progressing. In many States, the definition of financial statements in the Statutes/Manuals do not include all the elements. There is no requirement placed for internal audit in the municipal statutes of majority of States.

Except in Karnataka and Tamil Nadu, primary audit as defined by statute, does not explicitly cover certification of financial statements. This has resulted in a peculiar situation where, State UDDs, in order to comply with CFC grant conditions, tend to commission separate audit of financial statements of ULBs. CA firms undertake the FS audits. This arrangement is detached from the primary audit conducted by the

statutory auditor (the LFAD or C&AG, as the case may be). Limited attempts are observed to integrate the FS auditor’s work into the primary auditor’s work. As a consequence, FS audit has become a path for grant access with no further use in fiscal management of ULBs. This has defeated the very objective of mainstreaming accrual accounting in ULBs.

Recommendation 6: Establish a clear mandate for accrual accounting

Legal amendments that lend sanctity to the accrual system of accounting at ULBs must be accorded paramount importance and need to be initiated from inception. These amendments, at a minimum, need to prescribe the basis of accounting, the content of financial statements and responsibility for preparation, and the requirement to get them audited. The amendments must also accord sanctity to the State Municipal Accounts Manual. Recognizing that legal amendments are time-consuming, States may, in the interim, proceed with implementing the new system taking recourse to quasi-legal instruments like executive orders.

3.3.4 Role of incentives and disincentives in implementation

Unlike service delivery improvement or infrastructure projects, the appetite for municipal finance reform has traditionally been very weak. As can be seen from the history of ULB accounting reforms in India (see Section 1.5 – History of municipal financial reforms in India), the impulse for reform, did not necessarily originate from the State level, except perhaps in the case of Tamil Nadu. In the absence of widespread realization of the benefits of accrual accounting – which in turn is also due to weak capacities at ULB level – the reforms will need to continue to be top-down driven.

The study brings out attempts to encourage implementation at the State level. While some such initiatives are directed at the ULB as an institution, certain others are directed at ULB personnel. Some such incentives/ disincentives are listed in the *Exhibit 8: Incentives and Disincentives for reforms implementation.*

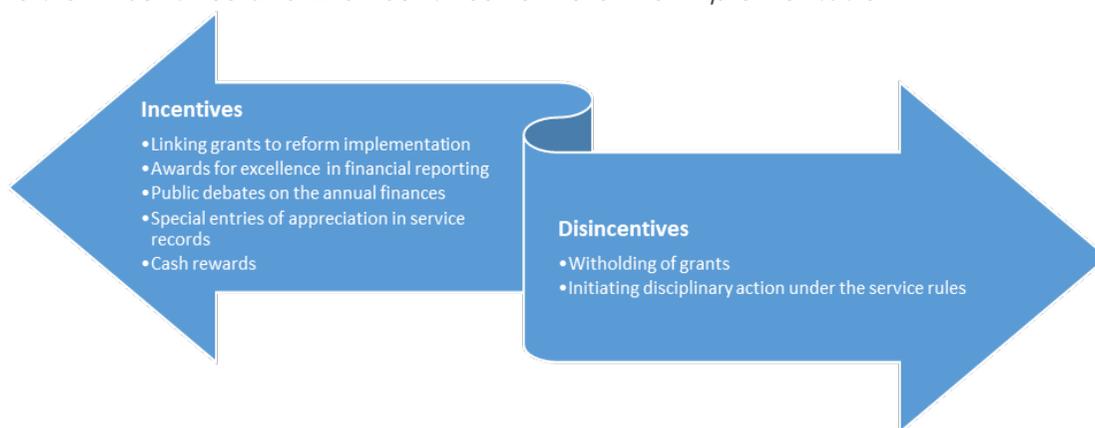


Exhibit 8: Incentives and Disincentives for reforms implementation

At the ULB level, certain experiments stand out. Karnataka linked SFC performance grants to reform implementation to spur ULBs into action. Examples of Awards for good reform performance are seen in States like Karnataka and Rajasthan. Municipal Body is one of the categories under which the prestigious ICAI awards for excellence in financial reporting are presented. In Bangalore, for many years, civil society organizations organized debates on the annual finances of Bangalore City

Corporation at public gatherings, thus giving wide publicity to the reform.

At the individual level, given the limited scope for cash-based performance rewards in government within the ambit of the Cadre and Recruitment rules, States have tried alternative approaches. In Tamil Nadu, special entries of appreciation were made in service records for good performance and staff were presented with mementoes. In Karaikudi municipality, the Commissioner used to host a lunch after finalization of accounts. In NDMC too, letters of appreciation were handed out to good performers. On the other hand, in Karnataka, delay in reform implementation was included as one of the grounds for initiating disciplinary action under the service rules.

It is easy to reach the conclusion that a statutory compulsion to adopt accrual accounting would compel ULBs to fall in line. An important learning from many States is that this may not be the case always. Despite the necessary statutory amendments in place, it was observed that the switchover to the new accounting system has not actualized in ULBs in Bihar, Chhattisgarh, Maharashtra, and Odisha, to name a few States. There is a need for sensitization and awareness generation on the need for accrual accounting amongst the elected bodies and the State UDD, given that the mechanisms to enforce compliance to statutory requirements, comprising of statutory audit, oversight by the elected body, the State UDD, and the State Legislature are weak.

Recommendation 7: Introduce incentives and disincentives to nudge reform implementation

Without doubt, a statutory requirement to maintain accrual accounts and get them audited is the most powerful compulsion for ULBs to undertake the transition. Nevertheless, incentives and disincentives can go a long way in encouraging smooth and complete implementation. Incentives at the ULB level could be a combination of reform-linked grants, concessional loan funding, rankings, awards, recognitions and so on. At the individual level, cash and non-cash awards, letters of appreciation, recognition at forums, or even celebratory events etc. can be good motivators. Disincentives could include linking poor performance to staff service records.

3.3.5 Accrual accounting reforms are not complete without onboarding of audit

Audit is a natural extension of any system of accounting. Audit (more specifically, Financial Statements audit) provides assurance that the information provided by the financial statements is reliable and accurate. However, barring the exception of Tamil Nadu, in all the other study States, audit has not garnered the required attention. The statutory auditor of ULBs (in most cases the LFAD or the State C&AG) has largely been excluded in the transition to accrual. In Tamil Nadu, the LFAD's active involvement is seen in both phases of the implementation, be it in system design, developing the MAM, certifying the opening balance sheets, or training. The LFAD's audit does not include FS audit in any State except Tamil Nadu. In all other States, it is undertaken by CA firms engaged by the State UDD. In Karnataka, FS audit is recognized as a separate audit in the Rules and the auditor is required to report to the statutory auditor, thus giving legitimacy to the FS audit process.

The consequence of not tightly integrating FS audit with statutory audit is that FS

audit is undertaken merely as a ritual for accessing CFC grants and is not accorded the importance that statutory audit gets⁵⁸. This also encourages a tendency to run the legacy accounting system in parallel (since the statutory auditor continues to rely on them), and at the earliest opportunity, revert to it. This is observed in Bihar, Chhattisgarh, Gujarat, Odisha, and Rajasthan where the basic accounting in ULBs continues on cash basis and accrual accounts preparation and audit are processed in parallel. In certain other instances, the distinction between preparation of financial statements and their audit is blurred. In the case of Bihar and Chhattisgarh, it was observed that financial statements prepared by CA firms were furnished as audited annual accounts for satisfying grant conditions and an FS audit was not separately undertaken. Except in the case of Bihar, none of the study States seems to have instituted an internal audit system in ULBs.

Recommendation 8: FS audit must be integrated with statutory audit and the auditor must be on-boarded from project inception

It is important to ensure that the statutory audit mandate must include Financial Statements (FS) audit. Where capacities in the primary audit institution are limited, the FS audit portion may be outsourced to CA firms. It is not advisable to detach FS audit from primary audit and commission it separately. It is also important to institute a regular internal audit mechanism in ULBs and commission periodic information systems and security audits. It is also important for the State UDD to engage the State Audit Department and the State C&AG at all stages of the reform project, i.e., the design stage, while carrying out the policy changes, in finalizing the State MAM, in training, and in subsequently signing off on the implementation.

3.3.6 Discontinuation of legacy system is critical for a complete transition

Of all the Indian States, only a handful can claim to have made the transition to accrual accounting completely. These include Karnataka, Tamil Nadu, and Cantonment Boards from among the study States and Kerala. In most other States, accrual accounting continues to run in parallel to the legacy system even after several years of implementation. This stands out as a glaring gap in the implementation strategies of States. It is important to operate the legacy and new accounting systems in parallel until confidence in the new system develops. However, the parallel run, when allowed to continue for a long period, becomes counterproductive. In the case of Karnataka, the two systems were allowed to run in parallel for close to five years and this delayed the new system reaching steady state. Furthermore, when the legacy system runs in parallel, it encourages a tendency to revert to it, and, over a period, the new system loses its credibility and significance. However, for the imperative to produce audited financial statements for accessing 15th CFC grants, the unwinding of past reforms had already commenced in many States like Gujarat and Maharashtra.

Three aspects are critical to ensure that a complete transition happens. One is the

⁵⁸ Key issues with the approach of undertaking FS audits separately from statutory audit of ULBs are discussed in the article “Towards audited financial statements of urban local bodies in India: Key issues and way forward” published in the January 2022 issue of The Chartered Accountant – the monthly journal of ICAI. The article can be accessed at <https://resource.cdn.icai.org/68625cajournal-jan2022-21.pdf><https://resource.cdn.icai.org/68625cajournal-jan2022-21.pdf>.

statutory backing for the accrual system of accounting which has been achieved in most States (see *Annex 6: Statutory provisions in State laws empowering accrual accounting in ULBs*). Second is the implementation of a robust technology solution for accounting followed by an insistence on system-generated reports. Third, is the integration of FS audit into statutory audit (discussed in detail in Section 3.3.5 – Accrual accounting reforms are not complete without onboarding of audit).

In Karnataka, the decision sometime around 2012, regarding insistence on system generated financial statements for FS audit was a definitive step. In NDMC, the parallel run was discontinued in 2009-10 itself. This has also been the position in Tamil Nadu, where only one set of accounts are the subject matter of audit. However, in Gujarat as well as Odisha, the legacy system was allowed to continue alongside the new accounting system, considering the time required for the reform to reach a steady stage.

The study also points out that even in States where the implementation is largely stable, the usage of information generated by the accrual accounting system for decision making is limited. States like Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu have complete accounting data on municipalities hosted at a central place with a reporting module of the software solution implemented. However, the usage of reports for fiscal management and governance is limited. Senior officials often resort to calling for data from ULBs, which is all the while available at their fingertips on the municipal e-Governance system. This calls for a change in way of working from analog to digital – a larger cultural change that is yet to materialize. There are many success stories from within the government (for instance, GST and income tax) of how data analytics is being effectively used for generating insights for decision-making, not as much from the municipal sector.

Recommendation 9: It is important to discontinue the legacy system at the earliest

Discontinuation of the legacy system at the earliest and a complete switchover to accrual accounting is crucial to ensure that the migration to accrual is sustained. This can be achieved through: (1) statutory amendments recognizing the accrual system of accounting as the default, (2) implementing a comprehensive technology solution and insistence on system-generated financial reports, and (3) ensuring FS audit and statutory audit, whether undertaken by the same agency or different agencies, are tightly integrated and conducted on the same set of accounts. Additionally, a culture of using system-generated reports for accessing financial information for routine functioning must get established. To achieve this culture change, there is a need to build analytics and decision support modules in the municipal e-Governance solution on top of the core accounting module, followed by wide sensitization on their usage.

3.4 RESOURCING AND CAPACITIES

3.4.1 The right balance of external expertise and internal capacity is essential

Municipal finance reforms projects require specialized skill sets to be deployed over a sustained period. These skill sets are required for managing the reform at State level as well as its implementation in the ULBs. States have been constantly challenged

in ensuring the right mix of external expertise and internal capacities. As many as ten States have undertaken their municipal finance reforms, partly or entirely, within projects supported by development finance institutions. While, on one hand, this has secured funding for the reform project, on the other, States have benefitted from the technical and reform expertise that the donor agencies bring to the table. In the case of Tamil Nadu, the entire reform exercise over the past decade and a half has been undertaken under successive externally aided projects.

Another common observation is that all States have relied upon external consultants/agents for help in rolling out the reforms. The most common approach at the State level has been to engage project management and/or implementation consultants and software firms following a competitive process. At the ULB level, assistance from local CA firms has been widely used in most States. Not-for-profits and PPP entities have also played a part by providing advisory support and/or technical assistance at the State level as was the case in Karnataka, (Bangalore), Odisha, and Rajasthan.

The value added by external consultants and experts in reform implementation is undisputed. They bring the much-needed accounting, software, project management, and change management capabilities to the table. This has proved beneficial, as the experience in Gujarat, Karnataka, Rajasthan, Tamil Nadu, and many other States suggests. Nevertheless, once the initial implementation is achieved, it is best to internalize the system at the earliest. The internalization aspect must be built into the reform design itself rather than emerging as an after-thought. Doing so would enable the State to recruit the required personnel in time and complete the knowledge transfer before the external agents disengage. Chances of sustainability of the reform are higher when the reform management is internalized. A case in point is Bangalore, where, due to poor internalization planning, the accounting system, which had won nationwide acclaim, collapsed once the change agents i.e. the Bangalore Agenda Task Force and the implementation consultants withdrew.

The adverse consequences of not creating internal capacities are evident from the study. In the case of Odisha, involvement of multiple external experts posed challenges of coordination and accountability fixing at times, owing to lack of capacities in the State H&UDD. A similar experience was shared from Gujarat where lack of internal capacities in the Directorate of Local Bodies (DLB) created over-reliance on a few outsourced personnel. It is also important to plan for the appropriate level of internalization of key expertise like accounting, technology, procurement, contract management etc. Karnataka went a step further than most States and built internal capacity for maintaining and enhancing the IT solution as well. While this approach has ensured a high degree of internalization, the learning curve has been steep. At the ULB level, NDMC also managed to internalize the system fully.

Similarly, in almost all States, CA firms appointed at ULB level as field level consultants have helped immensely in demystifying the technicalities of accrual accounting as well as in sharing the workload of the transition. However, often, the arrangement has resulted in a parallel system operating with the sole objective of producing accrual-based financial statements while the municipal staff continue to work on the legacy systems. Internalization has remained elusive in such cases.

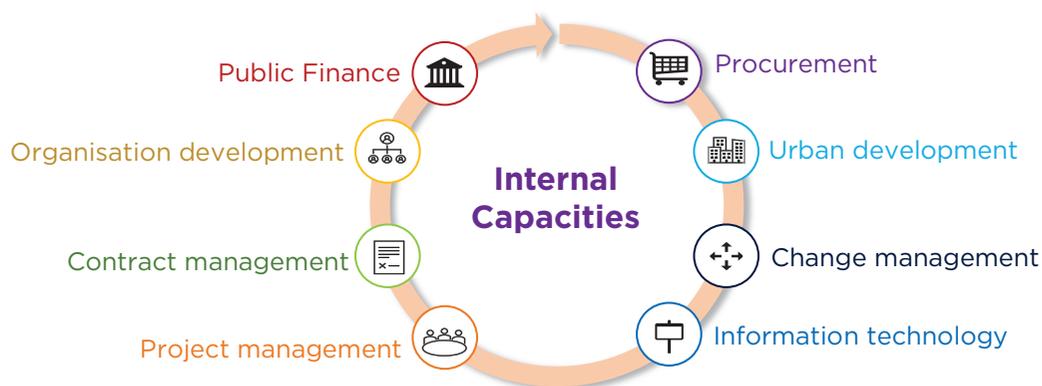


Exhibit 9: Internal capacities to be created

Recommendation 10: Right balance of external expertise and internal capacities

Engaging external experts for technical assistance and project management for the State-wide implementation is advisable. However, it is important that a minimum level of in-house capacities is also created along the way in public finance, procurement, contract management, change management, project management, IT etc. right from project inception (see *Exhibit 9: Internal capacities to be created*). This would ensure that the State is able to take over the system once the change agents exit. It would also ensure that the reform project does not derail, should one or more of the external agencies fail to perform their role effectively. Similarly, it is crucial to build internal capacities at the ULB level in the long run and not rely on external consultants.

3.4.2 Procurement and contract management being complex, Importance of building the required capacities

Municipal finance reform projects involve procurements that are not of the type undertaken by State UDDs in the normal course of their business. These include procurement of IT hardware, consultancy services, software development and implementation, field level data entry, accounting and audit services, training services and so on. The simple Least Cost Selection method is often found to be inadequate and more sophisticated methods like Quality and Cost Based Selection, Single Source Selection may need to be used as per the requirements. Significant technical expertise goes into developing the specifications and terms of reference, the selection criteria, proposal evaluation, contracting, and subsequent management of consultancy/service contracts that may run into multiple years.

States that have undertaken their municipal finance reform projects under externally aided projects have benefitted from the skills of procurement experts who are generally part of the project team. Others like Bengaluru, Chennai, Goa, Odisha, and Rajasthan have tapped on to expertise provided by the external advisor/partner (not-for-profit institutions). Institutions like KMDS, GMFB, KILA, by virtue of the learnings gained over the period, have learnt to handle complex procurements and contracts; however, even there, procurement expertise needs to be strengthened over time.

In most States, procurement of services of field (ULB) level agencies – mostly local CA firms – is done at the State level itself. This could be in the form of direct contracting by the State UDD (as in Karnataka), or empanelment followed by contracting by each ULB (in Rajasthan). In Odisha however, the H&UDD provided the terms of reference but individual ULBs contracted local CA firms directly. Centralized procurement has

proved beneficial by ensuring economies of scale, shorter lead times, standardization of good and services, and better monitoring.

Regarding contract management, the practice in Gujarat of monitoring the performance of Project CAs and quickly replacing laggard ones with good performers is noteworthy. In Karnataka, a team of eight programmers from KMDS were deployed for one full year to achieve a full knowledge transfer.

Recommendation 11: Develop procurement and contract management capacities

Municipal finance reforms involve complex procurement and contract management of the type not regularly undertaken. This requires technical, procurement, and contract management expertise over many years well beyond the initial implementation. It is advisable to develop the necessary skill sets at the State UDD at the project initiation itself, preferably in-house, or through tie-ups with specialist organizations.

Reforms cannot reach fruition unless local capacities are created

A singular issue that comes out commonly across States is the poor state of human resource capacities at the local level. Even in States like- Karnataka and Tamil Nadu - the success has been undermined by personnel issues at the ULBs. This is despite many States having upgraded their cadre and recruitment rules to include staff with accounting and IT qualification into the municipal cadres. Amongst the study States, Karnataka, in addition to the municipal cadre, has also amended its audit cadre rules to require accounts graduates for entry-level audit positions, to allow lateral entry of qualified auditors, and mandate minimum levels of training for promotion eligibility. However, amendments to rules must be accompanied by a process of regular recruitment and filling up of posts as they fall vacant. Moreover, it is important that trained accountants, once deployed, must enjoy a reasonable continuity of tenure to be able to apply their skills. Most States have failed on both these counts; as a result, vacancies in municipal accountant positions continue to remain high. The quicker alternative has been to engage local CA firms to undertake conversion of accounts to accrual and produce financial statements. For reasons explained earlier, this strategy, wherever pursued without parallel efforts in creating in-house capacities, has created problems of internalization.

Both Karnataka and Tamil Nadu run elaborate training programmes for their municipal staff. The practice of sending new accountants on a week-long training to a nearby ULB for hands-on experience is a good practice followed in Karnataka. The experience of the two States further indicates that exclusive government training institutions (like the SIUD in Karnataka and TNIUS in Tamil Nadu) are better placed than the UDD to run large-scale training programmes on an ongoing basis. The training in Tamil Nadu is comprehensive in terms of coverage and has a broad reach encompassing non-accounting staff as well as the LFAD personnel. Despite such comprehensive training, help of external consultants for preparing accrual based financial statements is resorted to in many ULBs of Tamil Nadu.

Training initiatives of most States have taken a beating in the last two years due to Covid. No State has yet implemented a comprehensive online training programme on municipal accounting, although online training sessions are gaining ground. Many

States have organized ad-hoc training for ULB accountants in collaboration with specialized institutions like the ICAI. Training to ULB personnel is a common item of scope of work for field level consultants, where engaged.

Recommendation 12: There is no substitute to recruiting and training in-house personnel

It is extremely important to create in-house accounting and IT capabilities in the ULBs to be able to implement and sustain the transition to accrual accounting. The number of positions can be defined depending on the size of the ULB. In addition to amending the cadre rules to create these positions, a fool proof mechanism of anticipating vacancies, timely recruitment, and placing accountants needs to be established by the State UDD. Master trainers need to be nominated at the State level and district level during implementation as well as subsequently for ongoing training. Strategic tie-ups at the State level with specialized agencies like the ICAI and engaging CA firms at the local level can complement the State's in-house training strategy. Capacities in the State audit institution also need to be enhanced in parallel to municipal cadre reforms.

3.4.4 Continued support arrangements are crucial

Accrual accounting is more complex than cash-based accounting. Capacities at the local level to navigate the transition are limited. In most States, helpdesk or support arrangements of some form have been operated during the implementation. However, these tend to be in place during the initial implementation and are disbanded subsequently, leaving the ULBs to fend for themselves. Experiences of Bangalore and Chennai Corporations (ULB-level), and Karnataka and Rajasthan (State-level) have shown that when a technically competent team is available continuously, a stronger internalization becomes possible.

Recommendation 13: Continued technical support to ULBs is critical for reform sustainability

Considering poor capacities at the local level, maintaining a helpdesk at the State level can be very useful. A helpdesk arrangement must be built into the reform design itself. The helpdesk must be competent to handle accounting as well as software related issues. Any ULB accountant or a field level consultant must be able to reach out to the helpdesk when she/he faces an issue. The arrangement may not be restricted to the initial project period but must be established as a permanent setup within the State UDD.

3.5 TECHNOLOGY ASPECTS

3.5.1 Adoption of a “digital-first” approach

States have adopted different approaches when it comes to implementing their technology solution for accounting. Certain States like Bihar and Rajasthan have left it to individual ULBs to deploy a Commercial Off-The-Shelf (COTS) solution like Tally for maintaining accrual accounts, whereas, States like Karnataka, Kerala, and Tamil Nadu have implemented State-wide municipal e-Governance solutions with the accrual accounting module integrated into it. Andhra Pradesh, Odisha, Uttarakhand, and a few other States are also following the State-wide solution approach.

A State-wide solution is more complex, involves a longer implementation timeframe, and the initial costs are higher. It also requires technical capacities at the State-level to be able to implement and manage it on an ongoing basis. However, it offers multi-fold advantages: it ensures standardization from day one, promises large economies of scale in the long run, and, more importantly, ensures availability of information centrally for decision-making when needed. Experience of the front-runner States clearly indicates that a State-wide solution is the preferred model. Tamil Nadu adopted a State-wide solution in both the phases. Karnataka used Tally for accounting at ULBs as a stop-gap arrangement while the State-wide solution was being implemented; this strategy proved effective in getting the ULBs digital-ready and in subsequent data migration.

A “digital-first” approach goes beyond the decision to adopt a State-wide municipal e-Governance approach. This is an area that still needs to gain acceptance and adoption. While many have gone ahead with the solution rollout, the “digital-first” consideration does not seem to have sunk into the other aspects of implementation. The Acts, Rules and Manuals continue to be suited for a manual environment. Similarly, the business process changes resulting from computerization have not been documented and included in the manuals. Traces of digitalization are visible (for instance, enabling provisions for maintenance of accounts electronically, audit in a digital environment and so on) in the Rules and Manuals, but they are not comprehensive. In practice, physical records continue to be relied upon. A notable exception is the strict insistence in Karnataka on system-generated financial statements for the purpose of FS audit. The MAM in Tamil Nadu and Odisha are written to be compatible with a computerized accounting environment, even though there was no visibility into the IT solution at the time of writing the manual.

A “digital-first” approach presents its own set of challenges. For instance, it requires one to take the proposed IT solution into consideration while writing the MAM. This would mean that the process explanation for different types of accounting transactions in the MAM should reflect the process flow in the software (in terms of the screens, workflows, and validations). In fact, the ideal MAM would be one which seamlessly presents the accounting and software usage aspects for each type of transaction. Achieving this though, poses challenges in terms of sequencing the MAM preparation in the reform plan, since there is a mutual dependency between the MAM and the software design⁵⁹. One way of handling this could be by introducing an additional step of updating the MAM to include software aspects once the solution is ready and tested. This methodology was also endorsed by the study discussions in Karnataka.

Recommendation 14: Adopt a “digital-first” approach in all aspects of implementation

Adopting a State-wide solution for accounting and ultimately integrating it into a municipal e-Governance solution is strongly advised. ULB-level solutions may be used in the interim to ensure data and personnel are digital-ready. Additionally, a “digital-first” approach must be imbibed into all components of the reform including the legal amendments for accrual accounting, developing the MAM, opening balance sheet preparation, business process changes, the reporting system, training, and audit.

59 Also, in many cases, the agency preparing the manual may be different from the software implementation agency

3.5.2 IT implementation as a substitute for accounting reforms is a flawed proposition

Transition to accrual accounting involves considerable policy work as well as business process changes. Further, it requires human resource capacities to be created at State and ULB levels. These aspects are discussed in detail elsewhere in this Chapter. However, often, accounting reforms are mistaken as a technology implementation project. Not giving adequate attention to the required policy and process changes along with change management aspects has proven to significantly increase the risk of failure or result in an inordinately long reform process. This leads to temporary solutions and inefficient use of resources like: Undertaking software development/customization without having an approved MAM in place, not having a data migration plan in place for different data sets, commissioning FS audits without a tight integration with statutory audit, software training without first undertaking conceptual and process training and so on. Such steps are counterproductive and create confusion in the end-users (primarily the ULB accounts staff and auditors) who are most affected by the transition. Experiences of Karnataka and Tamil Nadu have shown that when the sequencing of reform steps is right (as indicated later in this Chapter), the transition path is a lot smoother.

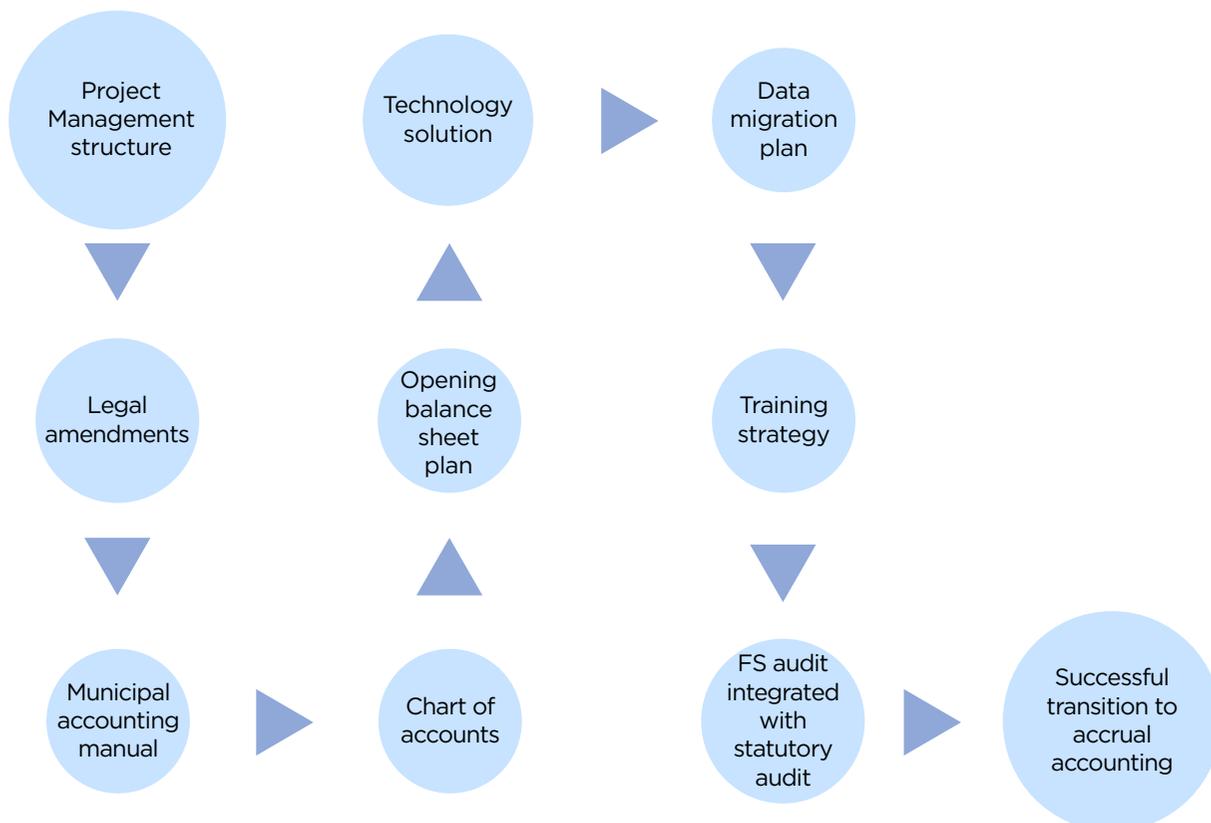


Exhibit 10: Building blocks for a successful transition to Accrual

Recommendation 15: Accounting reform must not be viewed merely as a technology implementation project

Right sequencing of the reform activities is critical for success in municipal finance reforms. A “digital-first” approach must not be mistaken to mean that the reform is only about technology implementation. The building blocks in terms of a project management structure, the legal amendments supporting accrual accounting, a complete MAM, the chart of accounts, opening balance sheet plan, data migration plan, a training strategy, and FS audit arrangements integrated with statutory audit must be in place for an effective technology-enabled implementation (see *Exhibit 10: Building blocks for a successful transition to Accrual*).

3.6 CRITICAL SUCCESS FACTORS CHECKLIST

From the learnings from State experiences outlined in this Chapter, a set of critical success factors emerge that characterize a successful accrual accounting transition project. These are succinctly presented here in the form of two checklists: one at the State level and another at the ULB level. Policy makers and reform managers would find it useful to follow these checklists and use them to periodically validate their own reform plans and progress. The checklists are neither exhaustive nor do they address all the nuances of implementation. Rather they serve as guideposts for reform implementation throughout the project lifecycle and ensure that the critical aspects of the reform are not given a go by.

3.6.1 State-level

Table 5: Implementation Checklist for the State-level reform manager contains the checklist for State-level reform managers.

Table 5: Implementation Checklist for the State-level reform manager

Checklist item		✓	Status as on <<Date>>	Status as on <<Date>>	Status as on <<Date>>
1	Policy and legislation				
1	Amendments to the governing legislation have been identified and initiated/ completed. At a minimum, the amendments cover: mandate for accrual accounting, definition of financial statements, responsibility for financial statements preparation, financial statements audit and its integration with statutory audit, internal audit, maintenance of accounts in electronic form, reference to the Municipal Accounts Manual.				
1.1	A State Municipal Accounts Manual has been prepared or NMAM has been officially adopted. The State manual is aligned to the statutes and the NMAM.				
1.2	Chart of Accounts and Accounting Policies have been officially notified.				

	Checklist item	✓	Status as on <<Date>>	Status as on <<Date>>	Status as on <<Date>>
1.3	Necessary Cadre and Recruitment amendments are in place to ensure staffing of accounts personnel in ULBs and the State audit department who possess accounts qualifications such as Bachelors or Masters in Accounts.				
1.4	Opening balance sheet guidelines have been approved and they clearly outline responsibilities for: enumeration of assets, valuation, test verification, preparation of opening balance sheet, its certification, and updating of opening balances in the software.				
2	Reform design and planning				
2.1	A clear reform implementation strategy is in place covering at a minimum: the project management structure, stakeholder mapping and engagement strategy, the project plan with responsibilities and timelines, procurement plan with timelines, data migration plan, project budget and source of funding, analysis of key risks and mitigation strategy.				
2.2	Learnings from past reform attempts in the State as well as outside have informed the current reform strategy.				
2.3	Key procurements have been identified in the project plan covering the following items of scope: Consultancies –project management consultancy, implementation consultancy, software development and implementation, helpdesk, and support arrangements, opening balance sheet preparation, field level consultancies for accounting services, training, financial statements audit, internal audit Goods - IT equipment, systems software (operating systems, database etc.) and third-party application software Services - Annual maintenance contracts, connectivity, information systems audits				
2.4	Project management structure has been established and is operational including operatives at decentralized levels.				
2.5	An incentive/disincentive mechanism for reform implementation has been devised and communicated widely.				
2.6	Funding for the project has been secured.				
2.7	A review mechanism is in place and is operating as envisaged.				
2.8	Mid-term evaluation of the reform strategy has been undertaken and the learnings have been incorporated.				

	Checklist item	✓	Status as on <<Date>>	Status as on <<Date>>	Status as on <<Date>>
3	Implementation				
3.1	Key procurements as outlined in the project plan and complete and contracts have been awarded.				
3.2	Opening balance sheets have been prepared and certified.				
3.3	Clear cut-off date has been identified for discontinuation of the legacy system and the same has been communicated to all stakeholders.				
3.4	First set of financial statements have been generated from the software with the support of the implementation and/or field level consultants.				
3.5	Audit of the first set of financial statements is complete by the State audit department/CA firms.				
3.6	ULBs have prepared annual reports, which include at a minimum: auditor's report, management discussion and analysis on finances, audited financial statements, and financial performance ratios.				
3.7	Internal audits are being undertaken in ULBs and the audit reports are being presented to the governing body.				
3.8	All vendor payments under the project have been done in accordance with the respective contracts.				
3.9	Necessary knowledge transfer has happened from the external change agents to internal personnel before project closure.				
4	Technology solution				
4.1	Functionality requirements have been prepared and signed off. The requirements incorporate specific requirements of different type of ULBs (organization structure, workflows etc.).				
4.2	Required hardware, software and infrastructure arrangements are in place for effective operation of the solution.				
4.3	Required last mile (ULB level) hardware, software and infrastructure arrangements are in place for effective operation of the application software.				
4.4	Integration of the accounts module with other municipal e-Governance modules is complete.				
4.5	Legacy data migration is complete as per the data migration plan and the same has been verified by ULB personnel.				

	Checklist item	✓	Status as on <<Date>>	Status as on <<Date>>	Status as on <<Date>>
4.6	Opening balances have been migrated to the new system and signed off.				
4.7	Pilot runs have been undertaken in representative ULBs and the learnings from the pilot runs have been incorporated before full rollout.				
4.8	The solution has undergone testing as per the agreed test plans before full rollout.				
4.9	The application software has undergone the required security audits.				
4.10	Data backup and disaster recovery arrangements are in place.				
4.11	Source codes for the IT solution along with the required documentation has been handed over by the vendor before contract closure.				
4.12	System administrator manual has been handed over and training has been imparted by the vendor before contract closure.				
5	Human resources and training				
5.1	Recruitment process is underway in accordance with the amended C&R Rules.				
5.2	A process has been established at the State level for monitoring vacancies in accountant positions in ULBs and filling them in a timely manner.				
5.3	Training needs assessment has been undertaken covering at a minimum: ULB accounts departments and State audit department.				
5.4	A comprehensive training plan is in place, and it includes at a minimum: training modules covering concepts, process, organization culture and behavior, project management, and software training, session plans, timelines, and responsibilities.				
5.5	The training material has been developed as per the training plan and is available in local language where required.				
5.6	Training has been conducted as per plan covering all stakeholders.				
5.7	A system of continuous refresher training is in place and is being adhered to.				
6	Support arrangements				
6.1	A central helpdesk is in place and working providing accounting and IT support to ULBs.				
6.2	Service Level Agreements are in place with support service providers.				

	Checklist item	✓	Status as on <<Date>>	Status as on <<Date>>	Status as on <<Date>>
6.3	A system of ticketing, tracking and escalation of helpdesk requests is in place and operating.				
6.4	Long-pending unresolved queries are reviewed at the highest level regularly.				
6.5	Procedure for enhancements and change request management has been agreed upon with the service provider.				

3.6.2 ULB level

Table 6: Implementation Checklist at ULB level contains the implementation checklist at ULB-level.

Table 6: Implementation Checklist at ULB level

	Checklist item	✓	Status as on <<Date>>	Status as on <<Date>>	Status as on <<Date>>
1	Policy and legislation				
1.1	Latest copy of amended Municipal Acts and Rules are available.				
1.2	Approved copies of the following are available in hard and soft copy: State Municipal Accounts Manual/ NMAM, opening balance sheet guidelines				
1.3	Copies of all circulars and guidelines relating to the project are available on file and in soft copy.				
2	Reform design and planning				
2.1	The ULB has a project plan aligned with the overall reform project plan of the State.				
2.2	A project coordinator has been nominated from amongst the ULB personnel for the accounting reform project.				
2.3	A project review mechanism is in place and is operating as envisaged.				
2.4	Amount has been provided in the ULB budget for the implementation.				
3	Implementation				
3.1	Key procurements as outlined in the project plan to be undertaken at ULB level have been awarded. These could include engaging local CA firms for accounting services, engaging Financial Statement auditors, annual maintenance contracts etc.				
3.2	Project progress is reviewed at least on a fortnightly basis by the Commissioner/ Executive Officer.				

	Checklist item	✓	Status as on <<Date>>	Status as on <<Date>>	Status as on <<Date>>
3.3	Opening balance sheet has been prepared and certified within the timelines as per project plan.				
3.4	Day to day entries are happening smoothly on the new system.				
3.5	Day-end, month-end, and year-end procedures are being followed as prescribed in the accounts manual.				
3.6	The ULB has completely switched over to the new system after the cut-off date notified by the State. Legacy system is not operating in parallel.				
3.7	First set of financial statements has been generated from the software with the support of the implementation and/or field level consultants.				
3.8	Audit of the first set of financial statements is complete by the State audit department/CA firms.				
3.9	ULB has prepared an annual report, which includes at a minimum: auditor's report, management discussion and analysis on finances, audited financial statements, and financial performance ratios.				
3.10	The first year's annual report has been placed before and approved by the governing body.				
3.11	The first year's annual report has been published on the ULB website.				
3.12	Internal audit as required by law has been undertaken and the audit report is presented to the governing body.				
3.13	The ULB has made all payments to service providers as per the respective contract conditions.				
4	Technology solution				
4.1	Required hardware, software and infrastructure arrangements are in place for effective operation of the application software.				
4.2	Back data entry has been completed as per instructions of the State UDD and the same has been verified.				
4.3	Opening balances have been migrated to the new system and signed off.				
4.4	All users have been assigned usernames and been granted role-based access in the software.				
4.4	Necessary data backup arrangements are in place for any data that is maintained locally (like Tally data).				

	Checklist item	✓	Status as on <<Date>>	Status as on <<Date>>	Status as on <<Date>>
5	Human resources and training				
5.1	Vacancies, if any, in accountant positions are communicated to higher authorities in a timely manner to enable them to be filled quickly.				
5.2	The ULB has participated in the training needs assessment carried out under the project.				
5.3	The ULB has nominated officers and staff for training as per the training plan circulated.				
5.4	Officers and staff have undergone the mandatory training as per the training plan.				
5.5	Freshly recruited staff have undergone the minimum mandatory training outlined in the training plan.				
5.6	Refresher training has covered all officers and staff.				
5.7	Copies of training material are available at the ULB.				
6	Support arrangements				
6.1	Contact details of the central helpdesk are available with ULB staff.				
6.2	Issues unresolved at the helpdesk have been brought to the attention of higher authorities from time to time.				

3.7 INDICATIVE TIMELINES

It is very difficult to prescribe a precise timeline for municipal finance reforms. The timeline depends on several factors which include the size of the State, number, and size of ULBs, the scope of the project, the level of preparedness and availability of skillsets at the State UDD and the ULBs, the extent of technology adoption, and project funding. Furthermore, in most States in India, the transition to accrual is part of a larger reform project or certain essential elements are already in place from an earlier attempt. For instance, a State may have a MAM in place, in which case, it should direct its efforts on implementing a technology solution, staff training, and related implementation aspects. Another State, where the initial implementation is largely complete, must focus on getting its ULBs to generate annual financial statements and get them audited. Consequently, the project plan and timelines will look very different for different States.

Drawing upon implementation experiences of States that have undertaken reforms in the past, an indicative timeline is provided. For a States that starts from scratch, it is estimated to take around 18 months for ULBs to be able to produce audited annual

financial statements. The breakdown of the timeline into key milestones is shown in *Exhibit 11: Indicative project timelines*.

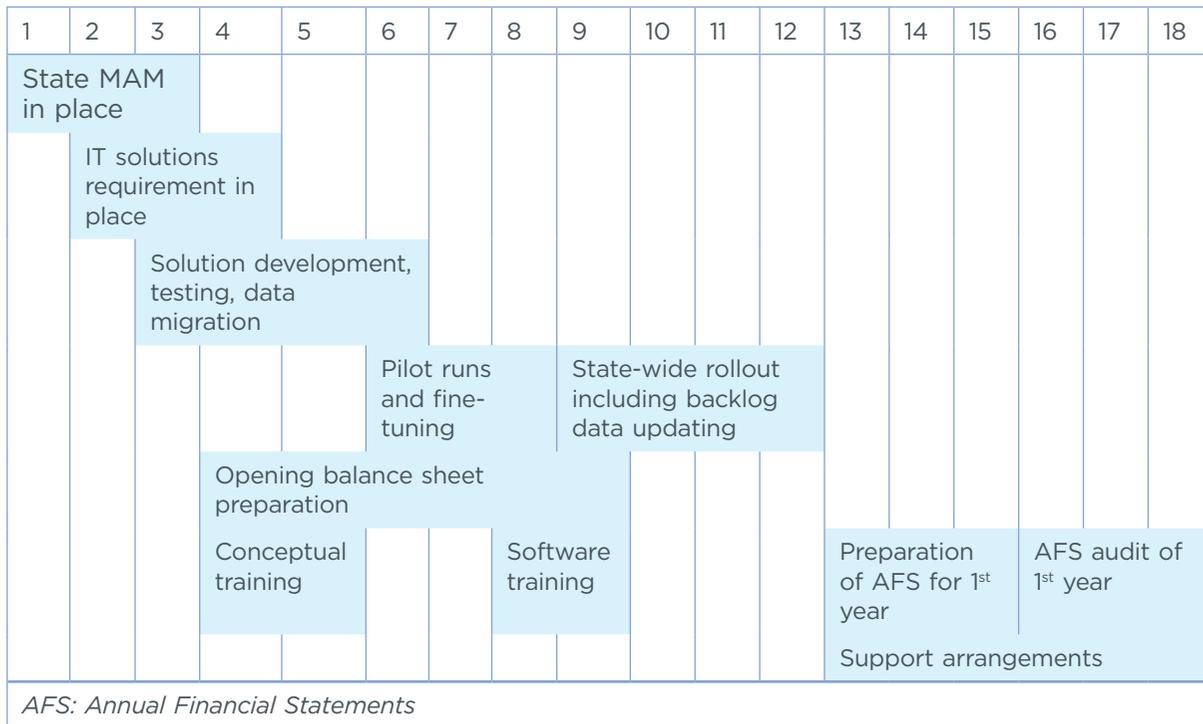


Exhibit 11: Indicative project timelines

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यथाकालमनागतानामपुस्तकभाण्डनीवीकानां वा देयदशबन्धो दण्डः

For (officers) not coming at the proper time or coming without the account books and balances, the fine shall be one-tenth of the amount due.

**Kautilya's Arthashastra 2.7.21 on THE TOPIC OF ACCOUNTS IN THE
RECORDS AND AUDIT OFFICE**

”



4

Leveraging Financial Reforms for Better Municipal Governance



4.1 INTRODUCTION

Chapter 3 analyses the experience of different States in rolling out financial reforms in ULBs and provides a set of recommendations for structuring the reform efforts. A key indicator of reform success is when all ULBs in the State are able to produce a complete set of audited financial statements year on year consistently. Audited annual financial statements, thus, represent a logical output of a sequence of activities, but by no means should be viewed as an end. They open up avenues for better municipal governance and that is the ultimate outcome that the reform exercise must pursue. This Chapter enlightens the reader on how accrual-based financial statements empower municipal governance, citing instances from a few national and international cases where this has actually been achieved.

4.2 INFORMATION PROVIDED BY FINANCIAL STATEMENTS

Accrual-based financial statements include a balance sheet, an income & expenditure statement, a cash flow statement, notes forming part of the accounts, financial analysis, and a management discussion and analysis statement. Most State MAMs and Rules prescribe these requirements. The statements provide valuable information for decision-making at the ULB level, and when summarised for all the ULBs of a State, at the State level as well.

- The **balance sheet** gives details of assets owned and liabilities owed by the ULB and indicates its net worth.
- The **income and expenditure statement** gives the earning capacity of the ULB. Using this, the linkages between the assets deployed and the revenue generated, the linkages between revenue and the cost incurred, the ability of the ULB to service the debts, etc. can be objectively evaluated.
- The **cash flow statement** helps in understanding the flow of funds into the ULB in terms of own generation, borrowing, etc., and outflows towards employee costs, operating expenses, creation of capital assets, and so on. It helps examine the weak cash flow areas.
- **Notes to accounts** bring to light the underlying assumptions and estimates used in preparing the financial statements. The notes also describe extraordinary incidents, if any, that may have influenced the financial performance of the ULB such as floods or pandemics, etc. Thus, it helps the reader understand the context behind the figures presented in the financial statements.
- **Financial analysis** lists various key performance indicators like ratios. These provide vital information to the reader in understanding the economy, efficiency, and, in a limited way, the effectiveness of the financial performance of the ULB.
- **Management discussions and analysis** (MDA) provides the ULB management's interpretation of various results of the year's operations and the strategies that they plan to adopt to address various issues there.

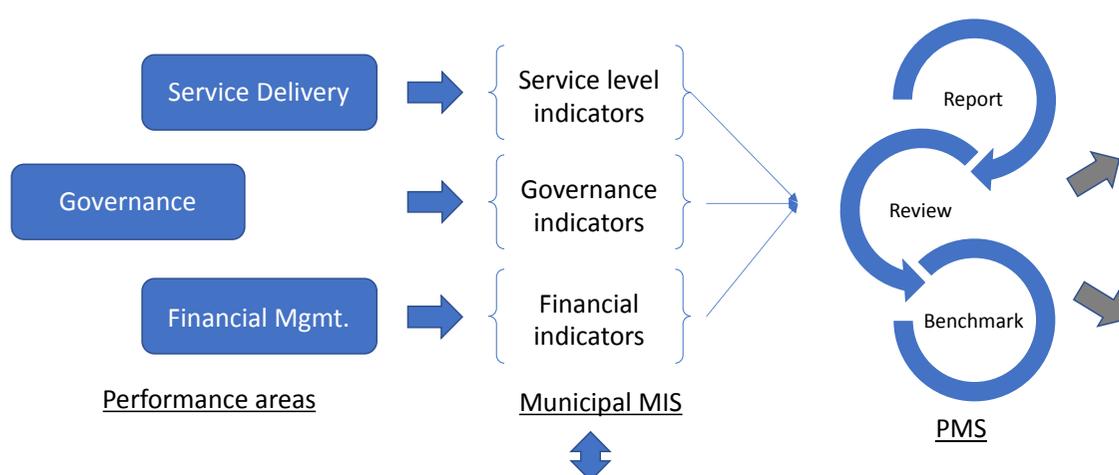
4.3 CONTRIBUTION OF ACCRUAL ACCOUNTING TO BETTER MUNICIPAL GOVERNANCE

4.3.1 Enables accountability towards stakeholders

The overarching requirements for good governance have always been information for decision-making that is updated and reliable. The former is achieved with the use of technology solutions and the latter through a fool proof transaction recording mechanism accompanied by a robust control/audit mechanism. Accrual accounting plays an important role in ensuring this. It may be relevant here to take a cue from the corporate sector, where a significant instrument of control has been audited financial statements and a statutory filing mechanism that ensures accountability to shareholders on one hand and regulators on the other. In contrast, ULBs play an important fiduciary responsibility on behalf of the citizens. In the absence of a direct shareholder like the principal-agent relationship between the citizens and the ULB, accountability to stakeholders has to necessarily be imposed by statute. Accrual-based financial statements which are part of annual reporting requirements help achieve this accountability.

4.3.2 Enables better service delivery

The information generated by accrual accounts is more accurate and reliable than the information provided from cash-based accounts. It provides better insights for economical service delivery by addressing service level benchmarks by linking them with financial information. For instance, the cost of supplying one litre of potable water, or the cost of clearing one tonne of garbage can be analysed for a ward, zone, ULB, or across ULBs and across States. This can trigger deeper insights into underlying issues. It can also facilitate ‘make or buy’ and outsourcing decisions. See *Exhibit 12: ULB Performance Management System combining Financial and Non-financial MIS* for a depiction of how financial MIS powered by an underlying accrual accounting system can be combined with non-financial MIS to constitute a comprehensive performance management system for ULBs.



Underlying municipal systems: Policy framework, Accounting system, Municipal ERP (revenue management, licensing, HR management, works management, assets management, etc.), grievance redressal mechanism, audit and vigilance mechanism

Exhibit 12: ULB Performance Management System combining Financial and Non-financial MIS

4.3.3 Facilitates effective utilization of scarce resources

Financial statements can provide inputs for effective utilization of limited resources, particularly finance. Information on various projects – the income and expenditure – coupled with the beneficiary particulars can provide excellent information on how well a scheme or project has been implemented. By properly planning the chart of accounts and codifying the projects and schemes, effective funds utilization can be measured.

4.3.4 Ensures effective fiscal management and budgeting

Budget preparation is a ritual that is meticulously followed in ULBs. However, this has become a routine ‘budget compilation process’ by the finance department. A budget system well-integrated with accrual accounting provides accurate information on variances between budget and actuals, both on the revenue as well as expenditure side. Further, with the accrual accounting implemented, automated, and linked to budgeting, accrual-based budgeting can be implemented. Also, accrual information

makes the basis for the preparation of the budgets scientific and realistic. It could also help in understanding policy gaps and implementation issues.

4.3.4 Contributes to better cash management

Predicting future cash flows is important for improved financial management at the ULBs. Financial statements, particularly the cash flow statement, can help create a basis for predicting the future funds requirement based on the profile of a particular ULB. Based on the cash flow data for a few years, the sensitivity of cash flows can be predicted and analysed. This would again help the State in the allocation of resources scientifically with improved predictability.

4.3.5 Enables better performance management

Financial statements enable consistency (all ULBs prepare on the same basis) and uniformity (all ULBs present in the same format), which facilitates comparison amongst ULBs for various purposes, particularly for analysis of the performance. At the State level, region or ULB-wise comparison becomes possible which enables to identify issues and also good practices to address the former and replicate the latter. At the national level, the performance of ULBs from various States can be compared. A visit to www.cityfinance.in can provide such information within the limitation of the data available for the portal. This could be a very powerful tool for policymakers at various levels.

4.3.6 Enables better risk management

The veracity or integrity of the data is a must for reducing the risk in decision-making and implementation. The science of accrual accounting supported by the audits (statutory as well as internal) substantially enhances controls and improves the veracity of financial data. This is very important as public monies need to be used for the intended purpose. Financial statements provide the required basis for this and has matured to the extent that the major issues can be identified through proper controls and audit. These and other benefits are outlined in 'Accrual Accounting for Local Bodies: Elected Representatives and Stakeholders' – ICAI, 2009.

4.4 FINANCE INTEGRATED MUNICIPAL E-GOVERNANCE SYSTEM

Accrual-based accounting forms the backbone of the larger 'municipal e-Governance' system. A fully integrated 'municipal e-Governance' system works towards three main purposes: better service delivery performance, robust governance and administration, and transparency and accountability.

For smooth functioning of the system, there must be a seamless workflow and exchange of information: (i) amongst individual modules of the underlying technology solution, and (ii) between the functional modules and the finance and accounts module.

Exhibit 13: Finance-integrated municipal e-Governance system gives an overview of a finance-integrated municipal e-Governance system. The system has the Core Accounts module at its centre (represented by the two concentric circles) which comprises the following sub-modules:

- Budgeting
- Revenue Accounting
- Expenditure Accounting
- Asset Accounting
- Liability Accounting
- Statutory compliance
- Financial Reporting

The dashed rectangular box represents the common suite of non-finance municipal governance modules. Each of the sub-modules of the Core Accounts module interacts with one or more of the municipal governance modules. For instance, the Revenue Accounting sub-module must interact with the Property Tax module for exchanging information on tax demands and for accounting daily collections. Likewise, the Asset accounting sub-module must exchange data with the Fixed Asset Management module, the Financial Reporting sub-module is part of the overall Management Information System, and so on.

This entire system, with Core Accounting at its hub, does not operate in isolation. It needs to interact with a number of systems external to the ULB – some manual, some electronic. The interaction is both ways – for data input as well as information sharing. External systems include Central and State government systems like the Public Financial Management System (PFMS), State Treasury, e-Procurement system, portals like www.cityfinance.in, dedicated portals of central and State schemes, and other systems like payment gateways, geographical information systems and so on.

Interactions amongst the municipal e-Governance modules and between the entire system and external systems generate vast quantities of data that has several uses for different stakeholders. It could be consumed by users directly (as recipient of services, for instance, a birth certificate) or using reporting and analytics tools to generate meaningful information to suit their purposes (for instance, performance reports). Users include the ULB administration, State and Central government departments and agencies, policy makers, civil society, analysts and researchers, regulatory agencies, financial markets, and most importantly, the common citizen.

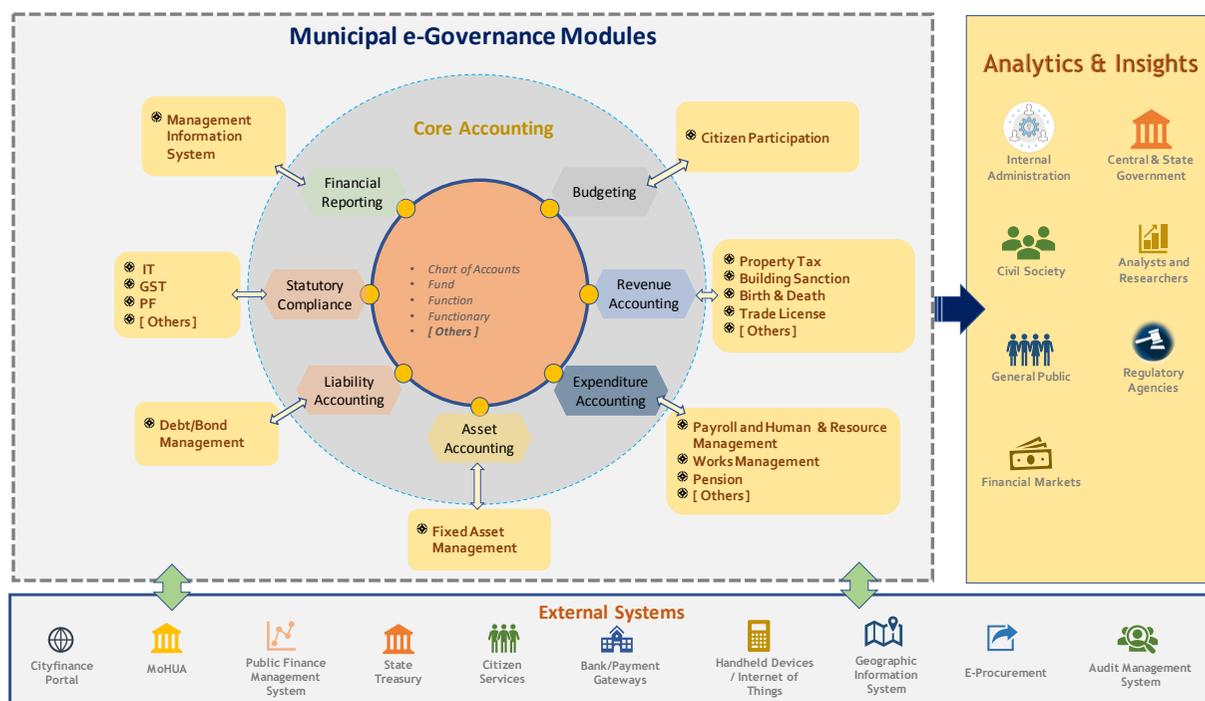


Exhibit 13: Finance-integrated municipal e-Governance system

4.5 INTERNATIONAL EXAMPLES OF USING FINANCIAL INFORMATION FOR IMPROVED GOVERNANCE

Good governance is the key to achieving the desired objectives in any institutional setup. There have been several attempts across the world in the past decades to implement better governance through improved financial information at different levels of government. The approaches taken by some of the countries in undertaking financial accounting reform, particularly the transition to accrual accounting are useful to understand the overall objectives of the reform. In the seven countries covered in this section, it is seen that, predominantly, the reform has been used as a platform to provide authentic financial information for decision-making at different levels.

Accounting reforms at the local government level have been attempted in different countries with different degrees of success. The lessons these attempts offer are very important as many countries have undergone a substantial part of the reform process and started reaping the benefits. Many of these countries have a two-tier structure (a central government and local governments). In India, owing to a three-tier structure, the scenario is slightly more complex.

A comprehensive global study on the implementation of accrual accounting at the local government level is not available. The International Public Sector Financial Accountability Index-2021 Status Report⁶⁰ discusses the implementation of accrual accounting at the national level. Since, in India, the national government follows cash basis of accounting, the map shows India under cash basis of accounting. 30% of governments in 165 jurisdictions covered have comprehensively moved to accrual

60 IFAC, CIPFA (2021), International Public Sector Financial Accountability Index 2021 Status Report, pp-2

accounting while another 40% are making the transition. The Report states that increasing importance is being given to this subject across the globe.

The global perspectives presented in this study are to bring out lessons from various continents in matters relating to accrual accounting reforms and the benefits derived therefrom. One specific focus that most of the success cases have in common is getting the financial information through accrual financial statements. This has been the overriding objective with which these reforms seem to have been attempted.

The country briefs presented here, apart from discussing the benefits derived through financial reporting, attempt to give a cursory view of the process of conversion from cash to accrual accounting.

In **Australia**, where the transition to accrual accounting has been achieved at all levels of government, the reform benefits have been derived by multiple agencies⁶¹, mainly in the form of an understanding of the true cost of operations, the ability of the financial system to analyze prospective transactions, and the ability to make more informed decision by the institutions concerned. Also, the implementation of accounting standards has resulted in creating annual financial statements at the local government level enabling an understanding of the financial performance and systemic issues in operations.

Focus on the process and creating an environment for reform has enabled Australia to implement accrual accounting across governments.

Canada enjoys the benefits of accrual accounting in obtaining objective information for analyzing the accountability of local governments. Performance audits are possible to be done objectively and the auditors can assess the value for money in their operations. The municipalities upload a return called FIR (Financial Information Return) in a pre-formatted MS Excel on to the Ministry's website that is available for public consumption⁶². The Canadian reform has undergone the test of time and the benefits of reforms seem to have been stabilized. The core objective of the reform was financial information to stakeholders. The reforms have been attempted at both national and local levels.

Canada seems to have used the implementation of accounting standards as a tool to migrate to accrual accounting and the focus on information to stakeholders seems to have helped.

The fiscal crises faced in different parts of the economy were the trigger for accounting reforms in **Germany**⁶³. The focus was on getting the right information through financial accounting: increasing transparency, supporting resource allocations, and adopting strategy-oriented decision making. To reach this end, initiatives like outcome-based budgeting was used. The different reform options were not based on

61 McPhee, I (2006), Financial Management in the Public Sector-How accrual accounting enhances governance and accountability", CPA Australia Public Sector Finance and Management Conference, pp-4

62 <https://efis.fma.csc.gov.on.ca/fir/index.php/reports-and-dashboards/fir-by-year-and-municipality/>

63 Ridder, H., Bruns, H., and Spier, F., (2005), Analysis), Analysis of Public Management Change Processes: The Case Of Local Government Accounting Reforms In Germany, Public Administration Vol. 83, No. 2, 2005 (443-471)

just a change in accounting method, but also included performance related targets in the form of ‘product budgets,’ performance objectives and indicators (some as a recommendation, some mandatory), and lump-sum budgeting⁶⁴. With reforms focusing on both national and local levels, the implementation of these reforms is at various stages of maturity at different levels.

Despite a lot of effort gone into region-specific and locally sensitive reforms, Germany is yet to achieve accrual accounting across the country.

New Zealand⁶⁵, like Germany, had severe pressure on its financial situation before it embarked on its accounting reforms journey in the 1990s. The journey of New Zealand in accounting reforms resulted in a Local Government Amendment Act 2010 providing measures to improve transparency, accountability, and financial management in local government. A major milestone in this regard was financial reporting regulations, which prescribed various statements like: long-term plans, annual plans, annual reports, etc.

Early start, focused approach, and involvement of stakeholders, combined with empowerment through regulations have enabled New Zealand to implement accrual accounting at all levels of government.

South Africa has been a leader in reforms. As far as the municipal reforms are concerned, South Africa has set a precedence in various ways: legislative changes, accounting and audit reforms, introduction of technology, and transparency. The transparent reporting system has enabled an objective analysis of the ground realities. The audit reporting uses infographics to clearly establish audit outcomes, material irregularities, specific risk areas, fruitless wasteful expenditure, auditees’ financial health indicators, auditees’ key controls, etc. The focus is on the outcomes and how they have not been achieved due to various factors with financial impact/sustainability⁶⁶.

The Institute of South Africa Municipal Accounting Officers⁶⁷ played a key role in supporting the quality of the municipal management through various interventions from prescribing qualification and training requirements of municipal staff to research and inputs for policy and processes at the municipalities and higher levels of municipal governance. The municipalities prepare accounts on accrual basis, and the Auditor General of South Africa (AGSA) audits the same. The observations made in the audit report of municipalities are very candid, specifying the clear nature of the default, and not being very generic.

64 Sabine Kuhlmann · Isabella Proeller Dieter Schimanke · Jan Ziekow (2021), Public Administration in Germany, pp 403, International Institute of Administrative Sciences.

65 IFAC (1994), Implementing Accrual Accounting in Government: The New Zealand Experience, Occasional Paper 1

66 http://financingcities.ifmr.co.in/blog/wp-content/uploads/2013/07/Pragmatic-Municipal-Finance-Reform-in-India_WP.pdf accessed on 25 Jan 2022

67 <http://www.isamao.com/>

Audit outcomes at a glance



Exhibit 14: Infographic depicting audit outcomes

Exhibit 14: Infographic depicting audit outcomes shows the usage of infographics to communicate audit results used in South Africa. As the figure shows, the situation in the municipalities may not be commendable; however, the status is getting reported transparently.

In South Africa, the transparency in reporting the findings in local government audits is noteworthy.

The Resource Accounting and Budgeting (RAB) was a focus of the accounting reforms in the **United Kingdom (UK)**⁶⁸ to achieve budget outcomes. The entire accrual accounting reform implemented RAB across various levels of government. With the introduction of accrual-based Whole of Government Accounts (WGA), the UK has been able to improve decision making, better financial reporting, and financial management. Accounts Act was passed in the year 2000. Her Majesty’s Treasury planned the implementation to get: Statistical Annual Return (using non-accounting data), unaudited consolidated accounts (without including accounts of local bodies and certain other institutions) and audited accrual-based WGA.

The UK experience highlights the experiment beyond accrual accounting and the focus on resource accounting, accountability, and outcomes.

In the **United States of America (USA)**⁶⁹, accrual reforms have been undertaken in different States over several decades since the formation of the National Committee for Municipal Accounting (NCMA) in 1933 for setting the standards for State and local governmental accounting. The establishment of the Government Accounting Standards Board (GASB) in 1973 and the GASB Statement Number 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local

68 Danny, D., et al (2008), Whole of the Government Accounting in the UK, ACCA Research Report 101

69 IPSAS Board (2006), IFAC-The Road to Accrual Accounting in the United States of America

Government”, proposed a disclosure format of financial statements like those of business companies.

Three lessons seem to have been learnt: (i) the important role that publicity plays, (ii) education and implementation assistance are essential, and (iii) be alert to the potential for Standards overload. Today, the USA is one of the countries where accrual accounting has been implemented across various levels of government.

The USA shows that accrual accounting reform is a slow process and identifies key ingredients and lessons for implementation.

The analysis of experiences from different countries clearly brings out that the accrual accounting transition has been undertaken with the objective of the flow of financial information for decision-making in relation to various aspects of governance. This creates a demand-pull towards the reforms. Understanding the performance, addressing the risks faced, improving the controls, enhancing the transparency of information to stakeholders, increasing the accountability of institutions and persons concerned, and, above all, providing objective information for decision making seem to be the key objectives that drive the reform process.

4.6 FINANCIAL REFORMS AS A MEANS TO AN END

The approach to reforms is a very important decision in the success of the reform process. According to research at OECD⁷⁰ (2013), approaches are categorized into three modes as below

1. the top-down approach, whereby the designers from the centre plan and direct the process of reform,
2. the bottom-up approach, which works on the strength of the networking at various levels and the reform originates at the local level, and
3. mixed approaches with a winning combination of the two being followed by different governments.

However, increasingly, the combined approach seems appropriate as it draws on the strengths of both the top-down and bottom-up approaches through the involvement of stakeholders at different levels at different points of time in the reform process.

Reform is a process involving various stakeholders from the policymakers down to the citizens and the changes sought to be achieved need to be representative of the needs of the stakeholders. The transition to accrual accounting is a technical change in the accounting processes, and it brings with it various considerations that are not restricted to matters of accounting alone.

The first-ever study on public financial management and accountability of urban local bodies in India was undertaken by the World Bank⁷¹ in 2007. The study emphasizes the importance of PFM in ULBs for improved accountability and services to the stakeholders. The role of accrual accounting and how it is an important element of

⁷⁰ Lucia Cerna (2013), *The Nature of Policy Change and Implementation*,

⁷¹ World Bank (2007), *Synthesis Study of Public Financial Management and Accountability in Urban local Bodies, Report No.41204-IN*

the reform process is also brought out. The elements of the reforms are shown in *Exhibit 15: Elements of reforms for increased accountability and improved service delivery*.

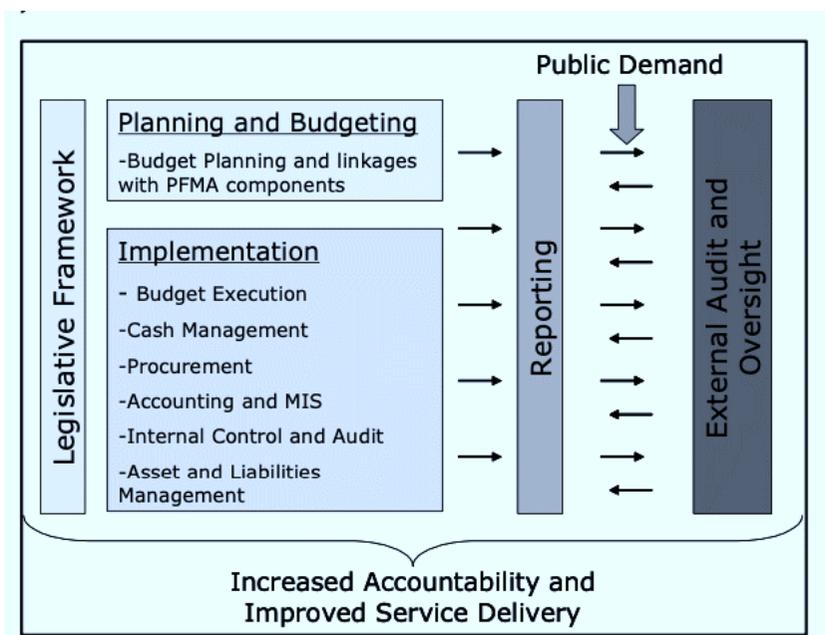


Exhibit 15: Elements of reforms for increased accountability and improved service delivery

The objective of governance is to provide increased accountability and improved service delivery to the stakeholders, resulting in improved quality of life for the citizens. To this end, the accrual accounting reform process permeates various layers of governance from planning to budgeting. In the classical sense, governance is a set of activities that enables both planning and control not only at the policy level but also at the operational levels.

Various elements given in *Exhibit 15: Elements of reforms for increased accountability and improved service delivery* relevant for accrual accounting reforms were covered in this study and the experience of States brings out that multiple benefits have been triggered by the accrual accounting reforms, such as:

- Ushering in the discipline of maintenance of records;
- Improved regularity in the preparation of financial statements;
- Improvement in the early completion of audits, although this has been influenced by the FC requirements;
- Importance of IT for the creation and maintenance of records, addressing routine work, ease of reporting, and service delivery;
- Appreciating the need for regular and good quality training;
- Increased use of experts and professionals for the technical aspects/change agents;
- Improved fiscal management though not to the desired levels.

4.7 DIRECT BENEFITS REALIZED BY EARLY-MOVER STATES AND ULBS

The study findings, outlined in Chapter 3, indicate that States still have significant ground to cover before they can start reaping the full benefits of accrual accounting implementation. However, early-mover States and ULBs, that have internalized accrual accounting and are continuing to improve it, have realized noteworthy benefits. These include:

- Better management of receivables—both tax as well as non-tax – has resulted by virtue of integrating their revenue management systems with accrual-based accounts.
- Recording and lifetime tracking of assets has become possible where the works management systems and asset management modules seamlessly exchange data with accrual accounting.
- The reporting and tracking of financial assets (i.e., receivables, advances etc.) and liabilities (i.e., loans, bonds, payables, statutory liabilities etc.), has improved since they are now an integral part of accrual accounts and are reflected in the Balance Sheet of the ULB.
- Budgeting, when based on complete information put forth by accrual-based financial statements, has become more prudent and realistic⁷².
- States that have implemented accrual accounting in ULBs are in a better position of readiness for meeting the 15th CFC grant eligibility conditions and are able to draw down the grants.
- ULBs that produce accrual-based financial statements can get themselves a better credit rating and establish their creditworthiness. This has enabled them to raise money from the municipal bond markets. The number of municipal bond issuances has been steadily increasing in recent years⁷³.
- Recognition and rewards for good financial reporting are helping well-governed ULBs—for instance, for the past few years, “municipal body” is a separate category in the annual ICAI Awards for Excellence in Financial Reporting.
- www.cityfinance.in – MoHUA’s portal on municipal finances (discussed in detail in Section 2.13: Cross-cutting initiatives)—provides a range of analytical reports comparing financial statements of ULBs across time and across ULBs. The depth and coverage of the reports have been constantly improving as more ULB financial statements are uploaded on the portal. This kind of analytics would have been unthinkable, but for the move to accrual accounting in ULBs across the country. Likewise, the front-runner States are sitting on vast amounts of time-series data on ULBs and are beginning to explore ways to use the data to generate insights for better governance.

⁷² See news article dated 13th March 2022: Karnataka government brings BBMP into fiscal responsibility ambit—<https://www.deccanherald.com/city/top-bengaluru-stories/karnataka-government-brings-bbmp-into-fiscal-responsibility-ambit-1090793.html>

⁷³ See ‘the Story of Indian Municipal Bond Markets So Far’—<https://transfin.in/the-story-of-indian-municipal-bond-markets-so-far>

- With the foundation of accrual accounting in place, States like Karnataka, Kerala, and Tamil Nadu are looking to implement advanced modules like online ULB audit and data analytics, which would result in notable performance improvements and cost efficiencies for UDDs and ULBs in these States.

Improved municipal governance resulting from accrual accounting is a journey and not a one-time outcome. Empirical evidence linking governance improvements with accrual accounting has not been forthcoming thus far. Nevertheless, with the increasing availability of data, this presents a promising area for future studies. The findings would prove valuable in shaping the discourse around the need and benefits of accrual accounting in ULBs in the years to come.

4.8 WAY FORWARD: LESSONS FOR INDIA FOR A SUCCESSFUL REFORM PROFILE

The insights gained through this study based on the experience of the select States, discussions with the government/ULB executives including retired officials, desk research, and news updates have resulted in identifying the requirements for a successful reform agenda:

Outcome-driven reforms: Reforms need to concentrate on the outcomes or the benefits that can be conceptualized and to the extent possible quantified at the commencement of the reform process. For instance, understanding the comprehensive flow of funds into a State's ULBs from different sources: own funds, grants funds, scheme funds, borrowing, etc., and how these have been spent for operations, infrastructure creation, and implementation of specific projects, etc. The accrual accounting reform enables the production of the annual report along with financial statements that provide transparent information to the readers.

Australia produces consolidated local government financial statements for the State and also gives the individual financial statements of various government under the State (Refer https://www.lgnsw.org.au/common/Uploaded%20files/PDF/Local_Government_NSW_Annual_Report_2020.pdf) for the annual report 2019-20 Local Government of New South Wales. In India, the Vadodara Municipal Corporation's Annual Report 2020-21 is a good example to emulate in this regard.

Data-driven reforms: The focus of many of the accrual accounting reforms has been on the achievement of milestones in the physical sense. For instance, whether the opening balance sheet has been prepared? How many ULBs are yet to prepare? While these are important questions from an implementation perspective, the situation of the ULBs can be

In the USA, complete financial and non-financial data of the local government State-wise is made public by the United States Census Bureau. (Refer <https://www.census.gov/data/datasets/2019/econ/local/public-use-datasets.html>).

In India, www.cityfinance.in is a similar initiative by MoHUA.

understood only by the analysis of such balance sheet prepared to address questions like: the financial position of the ULBs, for the assets deployed, what is the average revenue earnings? Are there any under-utilized assets? How are two ULBs with similar internal structure and external environment performing? And why is there such a difference? Availability of such key performance indicators should be the target. This will further strengthen the case for outcome-driven reforms.

Another good practice that is practiced in many advanced economies is the use of 'league tables.' These are results of benchmarking of various government institutions prepared by the government for the benefit of say, the ULBs in understanding their relative position in performance and service delivery. The case of the USA's municipalities is noteworthy. While in the UK the league tables on say municipal services are published by the government authorities, in the USA the market forces are also participating in this initiative.

Bloomberg publishes financial benchmarks of US municipalities. (Refer to <https://data.bloomberglp.com/professional/sites/10/Bloomberg-Municipals-League-tables-FY-2019.pdf> accessed on 5th Feb 2022) for US Municipal League Table FY 2019. While the focus of this table is on the municipal debts, there could also be league tables on other performance measures.

Process-driven reforms: Across the globe, the importance given to the reforms vary, and this is reflected in the reform process followed. More often than not process reengineering is ignored with just focus on the computerization part. This has the danger of the process reform becoming vendor-led rather than requirements-led. It will be advisable for the authorities to design robust processes as may be required (taking into consideration both current and future requirements) before bringing in a vendor to automate. Due to the lack of domain expertise in accrual accounting on the part of both government and the vendors, the robustness of processes and controls in processes are often compromised. Countries like Canada and China have focused specifically on the process reforms along with close monitoring.

One very important aspect of process change is change management. Addressing change management issues in migration to accrual accounting in ULBs is detailed by ICAI ARF in 'Conversion of Accounts of Municipal Bodies to Accrual Basis - Issues, Concerns and Strategies' - ICAI, 2003. All the factors given need to be appropriately addressed in any reform plan of this nature.

Technology embracing reforms: All reform processes have considered technology and there has been no uniform approach. While some have focused on government-wide transformation in technology, many have focused only on specific areas. For instance, the implementation of accounting software only to generate financial statements without any linkages to other modules of ULB functioning is not only a myopic fix but also will prove costly in the long term. Such approaches also may not involve stakeholders' requirements like those required by Auditors or other departments or citizens. Initiatives taken in the USA, Australia, Canada, New Zealand have considered government-wide linkages both in processes and technology.

Also, in India, there are massive initiatives by the Government to introduce digital currency and blockchain technology. There are expectations of the citizens to have a better interface with the ULB for transacting, say, through a Citizen's App (for paying their tax, knowing the status of complaints, etc.). All of these are technology-driven with the integration of various functions of ULB.

Stakeholder-sensitive reforms: The reforms have always been viewed from the supply side (what reforms the government is introducing). India has to now take a demand-side view of the reforms. What do our stakeholders want?

Citizens, Government, ULB employees, Suppliers, Contractors, Consultants, IT service providers, Auditors, Banks, Other government departments (e.g. Land Registration) etc. Improved networking with appropriate stakeholder community is essential to reduce the overall cost of implementation as consultations with stakeholders will reduce the time for reform through understanding the issues, sorting them early, improve the acceptance, etc.

Capability building reforms: In order that the reform delivers improved performance and better governance, policies (Act, Rules, Regulations) are changed, processes are reengineered, newer technologies are rolled out; however, more often than not, the capabilities of people remain unchanged. This is a major challenge in the reform process. Accrual accounting reform has "accounting knowledge" as an important

element. It is also known that, in technical functions like engineering and medicine, governments have recruited engineers and doctors respectively, but technical expertise in accounting and finance have been considered as "generic" due to colonial legacy. Necessary regulation change for including qualified accountants at certain levels, inducting accounting graduates at entry levels, and enhancing the accounting knowledge of the existing accounting staff with regular training and capacity building needs to be a necessary part of the reform process. The experiences across the globe show that wherever comprehensive training has been given to the staff, the reform process has been smooth.

Communication-intense reforms: Communicating a clear mandate and reform plan internally on one hand, and informing/sensitizing various stakeholders on both the process and benefits, on the other, are important. Involvement of the local citizens,

In countries like the USA there is a move to introduce XBRL technologies at local government level to make the data flow to the system uniform and validated. In India, the initiative by Income Tax Department, Ministry of Corporate Affairs and the Reserve Bank of India in using XBRL technology are successful examples.

Countries like the UK, New Zealand, South Africa have involved key stakeholders in the reform process.

Open Budget is a portal of the City of Barcelona that is meant for citizens and other users interested in understanding and analyzing the City's budgets. The portal can be accessed at:

<https://ajuntament.barcelona.cat/estrategiaifinances/pressupostobert/en/resumen#year=2020>

students, and volunteers can help sensitize various external stakeholders about their role and benefit that would accrue from reforms. The support of local community in identifying the assets of various ULBs has been well-recognized. The involvement of student community (as interns) in data collection, collation, documentation, etc. will create a lot of positivity and synergy to the reform process. Very less documentation is available on the communications strategy for accrual accounting reforms⁷⁴, though the importance of the same is well-recognized.

Checkbook NYC is the portal of the City of New York containing key fiscal information pertaining to New York; it can be accessed at:

https://www.checkbooknyc.com/spending_landing/yeartype/B/year/123

Municipal Money is a national portal containing information on the finances of all municipalities of South Africa. It can be accessed at:

<https://municipalmoney.gov.za/>

Accountability & Transparency embedded reforms: All the reform experiences have included accountability and transparency as one of the main objectives. The aim of any reform process in the public domain is to bring accountability (establishing ownership for decisions) and transparency (sharing relevant and validated data with stakeholders). There are two aspects to it: one-during the reform process and two – during the steady state after successful implementation of reforms. Sharing data on the progress of reform process during implementation will be appreciated by the stakeholders. The changes enabled by the reforms are not sustained due to various reasons. Dovetailing accountability and transparency in both stages as discussed above will make the reform initiatives sustainable.

Bringing transparency will not only bring in credibility to the reform process, but is also likely to trigger innovations, as support for good initiatives often comes from different stakeholders voluntarily. Reporting to authorities and citizens, for instance, in the form of an annual report could be a point in case. When published and made available to the citizens through electronic media, the annual report will provide confidence to the citizens about what the ULB does and informs them about the issues faced. This will also make the citizens sensitive to the challenges of municipal governance. These need to be addressed during the reform process.

Sustainability-embedded reforms: Issues of global sustainability like climate change, green energy, ESG (environmental, social, governance) considerations in major project decisions have become increasingly relevant. Stressing the importance of environmental accounting in the public sector, it is stated that “Disclosing high-level information on how entities are affected by climate change is increasingly accepted, while the measurement and recognition of climate-related financial impact are still

74 OECD (undated), ACCRUAL ACCOUNTING AND BUDGETING: KEY ISSUES AND RECENT DEVELOPMENTS, https://repositorio.cepal.org/bitstream/handle/11362/34924/INT-2254_accrual_en.pdf?sequence=1&isAllowed=y accessed on 4th Feb 2022

rare”⁷⁵. With environment/climate change impacting every citizen, ULBs need to embed such considerations in their development and service delivery plans. Such initiatives need to be reported to stakeholders periodically. Integrated reporting is becoming not only popular but mandatory. The reform process should take a holistic view and embed these aspects as part and parcel of the reforms. Financial information is an essential part in the reporting and the accrual accounting system will help in addressing such requirements.

Sustainable reforms: Sustainability of reforms is a major issue that needs to be addressed at the reform planning stage. Lack of policy support, poor documentation, lack of trained personnel, lack of continued leadership, lack of long-term perspective, reform for specific considerations only, lack of interlinking of other processes/institutions (e.g. accrual accounting with e-Governance), inadequate and ad hoc funding, not disseminating proper information to beneficiaries, etc. are some of the reasons for the absence of sustainable reforms. The policymakers should include a clear plan of sustaining the reform while planning. This requires a capacity building of the ULB/government executives and a plan for internalization of the reforms. Otherwise, the entire reform investment will turn infructuous.

75 Ida Graf, A (2021), Environmental Financial Accounting in the Public Sector–A Stocktaking of Current Initiatives, https://www.zhaw.ch/storage/shared/upload/Environmental_Financial_Accounting_in_the_Public_Sector.pdf accessed on 4th Feb 2022

“

करणीयं सिद्धं शेषमायव्ययौ नीवी च

The (revenue) estimate, accrued revenue, outstanding revenue, income and expenditure and balance (are items in accounting).

Kautilya's Arthashastra 2.6.13
On the Setting up of Revenue by the Administrator

”



Annex 1: List of persons interviewed



Name	Designation	Organization
Bihar		
CA Mr. Rakesh Kumar	Member, SLPMU	Urban Development and Housing Department, Government of Bihar
Chhattisgarh		
Mr. Shailendra Patle	Dy. Chief Executive Officer	State Urban Development Agency, Government of Chhattisgarh
Delhi		
Mr. V K Hasija	Director (Accounts)	New Delhi Municipal Council
Ms. Monika Khatwani	Jt. Chief Accounts Officer	New Delhi Municipal Council
Ms. Saroj Gupta	Accounts Officer	New Delhi Municipal Council
Mr. Vinay Rastogi	Assistant Accounts Officer	New Delhi Municipal Council
Mr. Ganesh K. Iyer	Dy. Controller of Accounts	North Delhi Municipal Corporation
Mr. Rakesh Monga	Dy. Controller of Accounts, FMB	North Delhi Municipal Corporation
Mr. Arvind	Consultant	North Delhi Municipal Corporation
Mr. P D Hari Prasad	Deputy Controller of Accounts (DCA)/F&G	East Delhi Municipal Corporation

Name	Designation	Organization
Mr. Sanjay Gupta	Deputy Controller of Accounts (FMB Section)	South Delhi Municipal Corporation
Karnataka		
Ms. Janaki K. M., IAS	Joint Director (Reforms)	Karnataka Municipal Data Society
CA Mr. D Shivalinga swamy	Accounts Superintendent	Karnataka Municipal Data Society
Ms. Thulasi Maddineni, IAS	Special commissioner (Finance)	Bruhat Bengaluru Mahanagara Palike
Mr. G Murthy	Accounts Superintendent	Bruhat Bengaluru Mahanagara Palike
Mr. Deepak Doreyawar	Principal Director	Karnataka State Audit and Accounts Department
CA Ms. Tara Bevinje	Partner	Tara & Murthy, Chartered Accountants
CA Mr. Mahesh Durga	Partner	M Durga and Associates, Chartered Accountants
Odisha		
Ms. Rashmi Kabi	Joint Director Audit	Directorate of Local Fund Audit
Ms. Pushpanjali Parida	Joint Director Audit	Directorate of Local Fund Audit
Mr. Sushil Kumar	Accounts Superintendent	Directorate of Local Fund Audit
CA Mr. Shomdip Ghosh	Project Development Expert	Odisha Urban Infrastructure Development Fund (OUIDF)
CA Mr. Sapan Ghosh	Chartered Accountant	
CA Mr. Alekh Behera	Chartered Accountant	
Tamil Nadu		
Mr. R. Lingasamy	Financial Advisor (Retired) (Currently working as Public Financial Management Specialist)	Commissionerate of Municipal Administration
Mr. B. Soundararajan	Director (Retired)	Local Fund Audit Department
Mr. P. Pughazhendi	Assistant Director (Retired)	Local Fund Audit Department
Mr. R. Ayyakannu	Deputy Director (Retired)	Local Fund Audit Department
Mr. V. Veerapandian	Joint Director (Retired)	Local Fund Audit Department
Mr. A. Rajamanai	Accounts Officer, Manager (Retired)	Rajapalayam Municipality
Mr. V. Muthukumar	Accountant	Tiruvallur Municipality
Mr. V. Tharmaraj	Associate Vice President	Bahwan CyberTek Pvt. Limited
Mr. B. Sarathiraja	Project Manager	Bahwan CyberTek Pvt. Limited
Mr. C. Venkitasamy	Chief Accounts Officer (Retd)	Greater Chennai Corporation
Mr. T. Karunakaran	Chief Accounts Officer	Greater Chennai Corporation
Mrs. M. V. Krishnakumari	Senior System Manager	Information Technology Cell
Mr. P.R. Krishnamoorthy	Vice President	eGov Foundation
Ms. M. Meenakshi	Assistant Director	Commissionerate of Town Panchayats

Name	Designation	Organization
Mr. S. Arumugam Nainar	Executive Officer	Veerapandi Panchayat
Mr. R. Kolothungan	Executive Officer	Thevaram Panchayat
Cantonment Boards		
Mr. Ajay Kumar Sharma	Directorate General, Defence Estates	Ministry of Defence, Government of India
Mr. R. Prem Kumar	Programmer	Cantonment Board, St. Thomas Mount, Chennai
Ms. Sonam Yangdol	Additional DG	DE (Cantts)

Annex 2: Study Questionnaire



SECTION I – BASIC INFORMATION

Name of the State			
Number of ULBs (by type)	Corporations - Municipalities - Town Panchayats - <Others> -		
Persons interviewed (Name, Designation, Department)	Name	Designation	Department

SECTION II – QUESTIONNAIRE

A. Planning and Project Management

4. Key features of the implementation model – which components were handled in-house, and which were outsourced? Briefly explain
 - a. Preparation of the Municipal Accounts Manual
 - b. System study, BPR
 - c. Software specifications, design, development

- d. Implementation
 - e. Training
 - f. Opening balance sheet
 - g. Support arrangements
5. Was the transition to accrual part of larger municipal e-Governance implementation or undertaken independently?
 6. Important timelines of the accrual accounting transition
 7. What was the project governing structure?
 8. Who was responsible for monitoring project implementation?
 9. Was a Project Management Unit set up? Was it in-house or contracted out? Who were the key personnel?
 10. Explain the project review and monitoring process
 11. *Key issues and learning points:*

B. Municipal Accounts Manual (MAM)

12. How did the State go about carrying out the legislative amendments to support the MAM?
13. Major business process changes if any that were introduced to implement accrual accounting
14. Whether the chart of accounts prescribed in NMAM was largely followed. If not, explain major deviations
15. Does the MAM consider accounting in a digital environment?
16. Key highlights of the MAM
17. *Key issues and learning points:*

C. Technology solution

18. Name and brief particulars of the solution (modules, front-end, back-end, database etc.)
19. Did the State go in for customizing an existing solution or for bespoke development?
20. Who developed the IT solution?
21. Is the finance and accounts module implemented separately or is it part of a larger IT solution for municipal e-Governance? Is it well integrated with other modules?
22. Did the State go in for a centralized solution or was the solution implemented in each ULB separately?
23. Whether the solution is open source or proprietary?
24. Is the State in possession of the source code and technical documentation of the solution?

25. What are the troubleshooting and support arrangements in place?
26. *Key issues and learning points:*

D. Implementation

27. How was the implementation coverage planned (timelines with phasing, if any)?
28. Did the implementation cover all the ULBs in the State? Explain
29. Did the software go through elaborate user acceptance testing and pilots before implementation? Explain
30. How was the data migration planned (1) for existing data in electronic form, and (2) for data in physical form?
31. Broadly, how long did each of the phases take in your State?
 - a. Policy changes and municipal Accounts Manual -
 - b. Engagement of software and implementation vendors -
 - c. Software development, testing, and rollout -
 - d. Training -
 - e. Opening balance sheet preparation -
32. What was the approximate project cost (provide a high-level cost breakdown, if possible)? How was it funded?
33. What incentives/disincentives were used to encourage the implementation? How far were they effective?
34. Is the implementation complete in all ULBs? If not, explain
35. *Key issues and learning points:*

E. Opening Balance Sheet

36. What was the strategy adopted for preparing opening balance sheets?
37. Were opening balance sheets prepared for all ULBs?
38. What were the norms followed for valuing assets and liabilities?
39. *Key issues and learning points:*

F. Human Resources and Training

40. Whether any organizational changes were carried out to facilitate the accrual transition?
41. What was the strategy followed for resourcing ULBs with accountants?
42. Whether any training needs assessment was carried out? Explain
43. What were the different types of training imparted to ULB staff?
44. Any system of continuous training in place? Explain

45. *Key issues and learning points:*

G. Financial Statements and Audit

46. Whether the financial statements are generated from the software or prepared separately?
47. Since when are the financial statements being audited?
48. Who conducts audit of financial statements? How are they engaged? Does the Local Fund Audit undertake financial statements attestation?
49. Generally, what is the position of completion of audit of ULB financial statements in the State?
50. Is there an internal audit mechanism in place in ULBs? If yes, explain
51. *Key issues and learning points:*

H. Present situation

52. Is the implementation complete? Any pending areas to be addressed?
53. Are ULBs maintaining accounts fully on the new system? Are budgets, financial statements and other reports being generated from the system?
54. Are all the modules of the software being used? To what extent?
55. Is the accrual accounting system being used for financial management decisions at the ULB/State level?
56. In general, are the ULB users and auditors satisfied with the system?

SECTION III - LIST OF DOCUMENTS COLLECTED

Following documents may be collected:

1. Key orders/circulars/communication pertaining to the accrual transition
2. Copies of Request for Proposal (RFP)s floated
3. Copies of presentations, case studies pertaining to the accrual transition
4. Latest available financial statements of few ULBs in the State

Name of the document	Brief particulars

SECTION IV - DETAILS OF THE STUDY TEAM

List the name of team members and organizational affiliation

Annex 3: Consultation Meeting on Draft Report



MEETING NOTICE

File No. NI/CPGFM/14/2021-MU/FTS-34899
Government of India
NITI Aayog
(Managing Urbanization Vertical)

NITI Bhawan, Sansad Marg, New Delhi,
Dated 13th May 2022

OFFICE MEMORANDUM

Subject: Discussion meeting on NITI Aayog-ICAI draft report on “Transition to Accrual Accounting: Models and Learnings for Urban Local Bodies”:-Reg

I am directed to refer to the O.M of even number dated 22.04.2022 on the above mentioned subject and to inform you that a virtual discussion meeting with concerned stakeholders from all select States and Ministry/ Department has been scheduled under the Chairmanship of Shri Kundan Kumar, IAS, Adviser (Managing Urbanisation) on Friday, 20.05.2022 from 11:00 a.m to 12:00 noon. It is also requested that the comments/feedback on the draft report may also be shared by 16.05.2022 if not already shared.

2. The agenda of the meeting is enclosed. The webex link for the meeting is as under:-

Meeting Link:

<https://aim.webex.com/aim/j.php?MTID=m16c4540b077463faa36a7b75abbe690c>

Meeting ID: 2513 859 4126

Password : Jn4huwCGb33 (56448924 from video systems)

3. It is requested to make it convenient to attend the meeting and share your views on the subject matter. A line of confirmation on participation may please be conveyed **by 17th May, 2022** through email to Mr Dhiraj Santdasani, Associate, NITI Aayog at dhiraj.santdasani@nic.in (8000520237) with a copy to Ms. Namrata khandelwal, CA, Deputy Secretary, ICAI at namrata.khandelwal@icai.in (09871790070).

(Rakesh Desai)

Director (Managing Urbanisation)
Tel.: 011-23096526

Encl: As above

To:

As per the list attached.

Copy to: For information please.

1. PPS to Special Secretary, NITI Aayog.
2. PPS to Adviser(MU), NITI Aayog.

List of stakeholders for NITI Aayog-ICAI draft report

1. Sh. Shyam S. Dubey, JS &FA, M/o Housing and Urban Affairs, New Delhi
2. Sh. R.G. Viswanathan, Dy. CAG, O/o Comptroller and Auditor General of India, Delhi
3. Shri Anand Kishor, Principal Secretary Urban Development and Housing Department (UD&HD), Bihar
4. Ms. Alarmelmangai D. Secretary & Director Urban Administration and Development (UA&D), Chhattisgarh
5. Sh. Sanjay Goel, Commissioner North Delhi Municipal Corporation
6. Sh. Gyanesh Bharti, Commissioner South Delhi Municipal Corporation
7. Sh. Vikas Anand Commissioner East Delhi Municipal Corporation
8. Sh. Dharmendra, Chairman New Delhi Municipal Council
9. Sh. S.V.R Chandra Sekhar, Chief Executive Officer Delhi Cantonment Board
10. Shri Mukesh Kumar, Principal Secretary Urban Development and Housing Department (UD&H), Gujarat
11. Dr. Ajay Nagabhushan, M.N, Secretary Urban Development Department (UDD), Karnataka
12. Shri G. Mathi Vathanan, Principal Secretary Housing & Urban Development Department (H&UD), Odisha
13. Sh. Kunji Lal Meena Principal Secretary Urban Development & Housing Department, Rajasthan
14. Sh. Hitesh Kumar S. Makwana, Principal Secretary Housing & Urban Development Department, Tamil Nadu
15. Smt.Y Sri Lakshmi, Pr. Secy, (MA & UD) & SMD, Andhra Pradesh
16. Shri Hitesh Dev Sharma, Secretary Urban Development Department, Assam
17. Dr. Tariq Thomas, Member Secretary, Goa State Urban Development Agency, Goa
18. Sh. Dheeraj Gupta, Principal Secretary, Urban Development & SMD, Jammu & Kashmir
19. Sh. Vinay Kumar Choubey, Secretary Urban Development, Jharkhand
20. Sri. Biju Prabhakar, Principal Secretary, LSGD, Kerala
21. Sh. Manish Singh, Principal Secretary, Urban Development, Madhya Pradesh
22. Sh. Mahesh D. Pathak, Principal Secretary, Urban Development Department, Maharashtra
23. Shri M. Joy Singh, Commissioner, Municipal Administration, Housing & Urban Development, Manipur
24. Sh. Mebanshailang R. Synrem, Commissioner and Secretary, Urban Affairs Department, Meghalaya
25. Sh. K.Lalthawmmawia, Secretary, Urban Development, Mizoram
26. Sh. Ajoy Kumar Sinha, Principal Secretary, Housing and Urban Development, Punjab
27. Shri. Kunji Lal Meena, Secretary Urban Development and Housing, Rajasthan
28. Ms. Sarala Rai, Secretary, Urban Development & Housing Dept, Sikkim
29. Shri C. Sudarshan Reddy, Secretary, Municipal Administration & Urban Development, Telangana
30. Dr Rajneesh Dube, Additional Chief Secretary, Urban Development, Uttar Pradesh
31. Sh. Shailesh Bagauli, Secretary Urban Development Department, Uttarakhand
32. Sh. Khalil Ahmed, Principal Secretary Urban Development Department, West Bengal
33. Smt. M S Archana, Director Directorate of Municipal Administration, Karnataka

34. Shri Rajkumar Beniwal, Commissioner, Commissioner of Municipalities Administration Office, Gujarat
35. Sh. Sangramjit Nayak, Director Municipal Administration, Odisha
36. Shri Himmat Singh Barhath, Commissioner, Udaipur Municipal Corporation, Rajasthan
37. Gagandeep Singh Bedi, Commissioner Greater Chennai Corporation
38. Sri. Gaurav Gupta, Chief Commissioner, Bruhat Bengaluru Mahanagar Palika
39. Ms Shalini Agrawal, Commissioner, Vadodara Municipal Corporation,
40. Sri M.Mallikarjuna Nayak, Commissioner and Director of Municipal Administration , Andhra Pradesh
41. Ms Alarmelmangai d., Secretary & Director, Urban Administration and Development (UA&D), Chattisgarh
42. Mr. Soumil Ranjan Choubey, Chief Executive Officer State Urban Development Agency (SUDA) Chhattisgarh
43. Sh. Dusmanta Kumar Behera, Director , Urban Local Bodies Department (DULB), Haryana
44. Sh Arun K Vijayan, Director, Urban Affairs Development, Kerala
45. Shri Bobby Waikhom, Secretary Department of Municipal Administration, Housing & Urban Development (MAHUD), Manipur
46. Mr. Vinay Shankar Pandey , Municipal Commissioner, Dehradun Municipal Corporation, Uttarakhand
47. Smt. Kasturi Sengupta, Director, Directorate of Local Bodies, West Bengal

Agenda:

11:00 –11:05 a.m.	Welcome & setting the context – Sh. Rakesh Desai, Director, Managing Urbanisation
11:05 – 11:30 a.m.	Presentation by ICAI on the draft report titled “Transition to Accrual Accounting: Models and Learnings for Urban Local Bodies”
11:30–11:50 a.m.	Open Discussion ; Remarks from States/Ministry officials
11:50 –11:55 a.m.	Way forward –Sh.Kundan Kumar, Adviser, Managing Urbanisation
11:55 – 11:57 a.m.	Vote of thanks Ms. Anshika Gupta, Specialist, Managing Urbanisation

LIST OF ATTENDEES

1. Mr. Rakesh Desai, Director (MU), NITI Aayog, Convener
2. CA S N Gupta, Joint Director, Technical Directorate, ICAI
3. CA Namrata Khandelwal, Deputy Secretary, ICAI
4. Dr. Biswanath Bishnoi, Deputy Director, NITI Aayog
5. CA. Ashok Rao, Executive Director, MaGC
6. CA. (Dr.) R.S.Murali, Managing Director and Principal Consultant, MaGC
7. Mr. Sanjay Gupta, Research Officer, NITI Aayog

8. Ms. Anshika Gupta, Specialist, NITI Aayog
9. Ms. Neha Awasthi, Consultant, NITI Aayog
10. Mr. Dhiraj Santdasani, Associate, NITI Aayog
11. Ms. Anushree, Young Professional, NITI Aayog
12. Mr. Sandeep, Young Professional, NITI Aayog
13. Ms. Vidhisha, Intern, NITI Aayog
14. Mr. Kunji Lal Meena, Principal Secretary, Urban Development & Housing Department, Rajasthan
15. Mr. Pravin Kumar, IAS, Commissioner and Director of Municipal Administration, Andhra Pradesh along with other officials
16. Mr. Avtar Singh Sandhu, Chief Controller of Accounts, Ministry of Housing & Urban Affairs
17. Mr. Gurjeet Singh Dhillon, Director, Ministry of Housing & Urban Affairs
18. Ms. Thulasi Maddineni, IAS, Special commissioner (Finance), Bruhat Bengaluru Mahanagara Palike
19. Mr. Amit Kumar Mittal, Senior Administrative Officer (Local Bodies), C&AG
20. Mr. Ganesh Iyer, Deputy Controller of Accounts, North Delhi Municipal Corporation
21. Mr. Anuj Shrivastava
22. Mr. Vatsala Bajpai
23. Shri Gurudas P Pilarnekar, Director, DMA, GOA
24. Mr. Kamal Deep Sharma, State Nodal Officer, Rajasthan
25. Sh. Sis Ram Boran, Accounts Officer, LSG, Rajasthan
26. Mr. K. NAYAK, Director of Local Bodies, West Bengal
27. Sh. Mohan Singh, Chief Accounts Officer, Urban Local Bodies, Haryana along with other officials
28. CA. Sanjay Gupta, Deputy Controller of Accounts(FMB Section), South Delhi Municipal Corporation
29. Smt. Sunita Yadav, AO (FMB Section), SDMC
30. Sh. Vishal Garg, AAO (FMB Section), SDMC
31. CA. Shivalinga Swamy D, Accounts Superintendent, Karnataka Municipal Data Society
32. Ms. Kritika Sharma
33. Mr. Malay Kumar
34. Mr. Neha Singh
35. Ms. Padmaja

36. Ms. Rashmi Mahakud, City Mission Manager, Urban Development and Housing Department, Jharkhand along with other officials
37. Officials - Urban Development and Housing Department, Bihar
38. Officials-Gujarat Urban Development Mission
39. Officials-Punjab Municipal Infrastructure Development Company
40. Officials - Directorate of Local Bodies, West Bengal
41. Officials - Department of Municipal Administration, Goa
42. Officials-Punjab Urban Planning & Development Authority
43. Officials-Additional Chief Executive Officer, State Urban Development Authority, Chhattisgarh

PHOTOS OF THE VIRTUAL CONSULTATION



Annex 4: Detailed Coverage of State and ULB Level Reform Experiences



Note:

1. The Study interviews were held between November 2021 and March 2022. Therefore, this Annex depicts the situation at that time as revealed from the discussion and review of documents.
2. There is reference to number of ULBs at different places in this Annex when discussing the accounting reforms journey. The reforms were undertaken over several years and in phases. Therefore, the reference is to the number of ULBs at the time the accounting reforms were undertaken.

4.1 BIHAR

A. Planning and Project Management

Support Programme for Urban Reforms in Bihar is a six years partnership programme between the Government of Bihar and the Department for International Development (DFID), Government of UK.

In Bihar, in the past, ULBs were maintaining accounts manually. Only cash book was maintained. Municipal accountants did not have accounting qualification and lacked knowledge on accounting procedures and usage of computers due to inadequate training. Poor documentation was prevalent. Annual accounts were not being

prepared. Towards addressing this situation, initially, UD&HD decided to extend immediate support for implementation of double-entry accrual accounting to 29 identified ULBs under SPUR. In addition to this, the UD&HD also decided to extend the implementation to all remaining ULBs of Bihar.

In 29 ULBs of Bihar, double-entry accounting was implemented from FY 2011-12 and in the rest of the ULBs it was implemented from FY 2014-15. Towards this goal, the UD&HD has divided the 142 ULBs into multiple clusters and outsourced it to different CA Firms. Further, it appointed an outside agency S. K. Patodia and Associates (a CA firm) from October 2014 to June 2019 and PSP Financial Consultants Private Limited from July 2019 to July 2022 as the State level project monitoring unit (SLPMU) for monitoring of field level agencies, approval of their deliverables and reporting to the department. The scope of work for field-level agencies covered various components like Survey and physical verification of assets, listing, valuation, preparation/up-dation of fixed assets register, preparation of opening balance sheet, preparation/up-dation of Property Tax Receivable Register and Annual Financial Statements. The SLPMU was responsible for reviewing the deliverables submitted by field level agencies and providing observations. After approval of deliverables from the SLPMU, it was approved by the concerned EO and submitted to the department. This structure continues even now and currently six field agencies and one SLPMU operate.

B. Accounting Manual

The UD&HD prepared the “Bihar Municipal Accounting Manual” (BMAM) and “Bihar Municipal Accounting Rules (BMAR)” in 2014. The manual adopts the principles and policies suggested by the National Municipal Accounting Manual.

Bihar Municipality Act, 2007 was already enacted as per the model municipal law and BMAM was based on the same. No process changes were introduced. The Chart of Accounts as per the manual is followed for accounting in the ULBs. The Bihar Municipal Accounting Rules 2014 mandates all the ULBs in Bihar to maintain accounts following the double-entry accrual-based accounting prescribed in the Bihar Municipal Accounting Manual.

C. Technology Solution

e-Municipality was implemented in 38 towns in the first phase. Implementation in the remaining ULBs is in progress now. Software development was outsourced to a private developer.

Tally ERP has been implemented for accounting. Individual ULBs purchased Tally license. As part of the ToR the CA firms implemented the same. No specific user acceptance testing was done.

D. Implementation

Double-entry accounting system was implemented in three phases.

- **Phase-1:** Initially, UD&HD decided to extend immediate support to 29 identified ULBs under SPUR programme funded by DFID-UK. During this phase, accounting was carried on until FY 2011-12.

- **Phase-2:** In phase-2, DEAS was implemented in the rest of the ULBs of Bihar from FY 2014-16 to 2015-16.
- **Phase-3:** In phase-3, DEAS implementation was in progress until FY 2019-20. With phase-3, all the ULBs have been covered.

The Implementation was done by the appointment of CA firms and was centrally monitored by the UDHD. All 142 ULBs were divided into small clusters of 10-15 ULBs and the CA firms were contracted through a tendering process. The data migration was done by the CA firms. The implementation is still in progress and not yet fully completed.

E. Opening Balance Sheet

Opening Balance sheets were prepared following the guidelines laid out in the NMAM. Opening balance sheet was prepared for all the ULBs. CA firms were responsible to appoint chartered valuer and surveyor for survey, listing and valuation of the assets. The CA firms prepared and certified the opening balance sheets for all the 142 ULBs. Since the rollout happened in phases, opening balance sheets for different ULBs were prepared on different dates depending on the phase in which the ULB was taken up.

F. Human resources and Training

No Specific organizational changes were carried out. The team at the ULB consisted of one Accountant and one clerk and one Accountant was provided by the appointed CA firm.

Around 500 ULB staff, which is approximately three or four staff from each ULB, were trained on the new accounting system. Training was provided by the CA firms at the respective ULB itself. It covered theoretical as well as practical training which covered topics like basics of accounting, reconciliations, Municipal Accounting Manual, Tally and practical training on accounting of ULBs. Currently, there is no training cycle/training calendar in place.

G. Financial Statements and Audit

The accounts for 65 ULBs till 2019-20 was expected to be completed by March 2022. Audit is carried out by the C&AG, but the audit does not include financial accounts certification. The audit is carried out based on manual accounts maintained by the ULBs. The State has a Local Fund Audit Department (LFAD), but it does not carry out the audit of ULBs. The audit seems to be pending for the last few years in many ULBs (according to the website: <http://udhd.bihar.gov.in/Audit/>).

Internal audit by CA firms is completed till the FY 2019-20 (not updated on the website) based on manual accounts maintained by the ULBs. The internal auditors are appointed for a period of three years.

H. Present Situation

Implementation was still in progress as on FY 2019-20. The Realtime accounting

system is still not implemented at the ULB level. The Accrual system of accounting is not yet implemented.

I. Key Learnings

1. **Right balance of State-level push and local accountability is important for reform implementation:** Too much centralization without ULB accountability for reform implementation makes internalization very difficult. The system never gets owned by the individual municipality even after a prolonged period. No efforts are made at local level to ensure completeness and correctness of the accrual-based accounts and the system continues to be run in parallel to the legacy system. On the other hand, handing over the system to the ULBs to manage too early in the reform process also does not work. ULBs need extensive technical assistance and handholding for a sustained period before the system can run on auto-pilot mode, which must be provided by the State project management team. The right balance ensures a smooth and permanent transition.
2. **Incentives are crucial to ensure quick implementation:** Mere policy changes do not ensure that ULBs will start following the new system. Despite having done the statutory amendments right, it is observed that the switchover to the new accounting system has not happened in ULBs in Bihar. Attractive incentives in the form of reform-linked grants, recognitions, and awards can be used to encourage ULBs to make the switchover.
3. **Distinction between preparation of financial statements and their audit:** The Bihar experience shows that the distinction between preparation of financial statements and their audit is not understood. Despite FLCs (CA firms) maintaining accrual accounts, internal audit by CA firms, and statutory audit by the C&AG, financial statements of ULBs are not audited.

4.2 CHHATTISGARH

A. Planning and Project Management

Around 2010, the implementation was undertaken by the ULBs, with Project Management Consultants (PMC) appointed by the State Government to supervise the process of implementation. This was an independent initiative and was not part of a larger municipal e-Governance project. A total of 177 ULBs and administrative entities were divided into five clusters and for each cluster one field level CA firm were appointed as Financial Consultant. One Project Monitoring Consultant was appointed to monitor the five FCs. A designated officer of the State Urban Development Agency monitored the progress.

PMC was contracted out to a Firm of Chartered Accountants and was responsible for supervising the project implementation. PMC reviewed the report submitted by the field level financial consultants and supported to resolve the issues faced in every stage of the implementation of the project.

B. Municipal Accounting Manual (MAM)

The Chhattisgarh Municipal Corporation Amendment Act, 2011 and the Chhattisgarh Municipalities Amendment Act, 2011 mandated the preparation of MAM and all the ULBs to follow the double-entry accrual-based accounting prescribed in the MAM. The State MAM was prepared by the All India Institute of Local Self Government but is yet to get the consent of the State government. The MAM is based on accrual accounting. The LFAD has prepared an audit manual which is also to be approved by the government. The MAM is basically derived from NMAM with some changes to suit the local requirements. The chart of accounts is largely as per NMAM. No change in existing business process have been carried out. ULBs are still maintaining manual cash book.

C. Technology solution

System study and BPR was outsourced to the PMC for the FY 2011-12 to 2018-19. Government department/ULBs did not procure the software; however, the FCs implemented Tally ERP 9 software. Tally was successfully implemented and run till 2018-19 by the outsourced agency.

First phase of software development (ERP by Centre for Good Governance) in the year 2011-14 was not successful. It was again initiated in the year 2019 and is under process of implementation.

ABM Knowledgeware Pvt. Ltd. implemented IT solution with over thirty modules as e-governance suite. It is centralized and is under implementation now. The software consultant will also maintain the software and pass on the source codes to the government.

D. Implementation

The accounting reforms have been implemented by outsourcing it to CA firms.

Currently, the implementation of e-Governance suite is in process, thereafter the software consultant will do data migration. All ULBs are covered: Municipal corporations, Municipal councils, and Nagar panchayats. No organizational changes were carried out for implementation of the accrual transition.

E. Opening Balance Sheet

For preparation of opening balance sheet, the financial consultant was supported by designated officers of the ULBs. They were responsible for coordinating the task of collecting data/information for each type of assets and liabilities available with ULBs. The Opening balance sheets thus prepared was reviewed by PMC before submission to the ULBs. Opening balance sheet was prepared as on 01.04.2008 for some ULBs and as on 01.04.2011 for others. All ULB opening balance sheets were prepared within 6 months after appointing consultants. Valuation of assets and liabilities of the ULB was made as per the guidelines of the National Municipal Accounting Manual.

F. Human Resources and Training

Training was conducted in regular intervals by PMC. The training covered: guidelines on preparation of opening balance sheet, recording of transaction, maintenance of required books of records, preparation of Financial Statements, detailed training on how to maintain and prepare fixed assets registers and using Tally. Trainings were also regularly provided by SUDA, mainly focusing on financial management aspects.

G. Financial Statements and Audit

Financial Statements on accrual basis are prepared separately using Tally. Cash book on manual basis is also maintained. Financial statements are not audited since beginning. Local fund auditors do not attest the financial statements. Audit up to 2019-20 is completed in most of the ULBs.

State Government had planned to complete the audit of ULB through the Local Fund Audit according to the Chhattisgarh State Audit Manual which is yet to be approved by the State Government. State Government had appointed internal auditor to pre-audit every expense made; however, this is stated to have been discontinued.

H. Present situation

Under the ongoing Chhattisgarh Public Financial Management and Accountability Program, the government, with support from the World Bank, has initiated the rollout of the finance, budget and accounting module of an e-Governance solution across 168 ULBs, strengthening of the State Audit Department, and reducing the backlog of audits. The project is reported to be facing some delays.

I. Key learnings

1. **Enabling statutory provisions for accrual accounting must be concluded at the earliest:** In Chhattisgarh, although the MAM has been prepared, legislative approval for the same is pending for a long time. Until it is approved, it

cannot be imposed making implementing accrual accounting difficult. The new system also does not find acceptability amongst the statutory auditors until the legal amendments are in place and the MAM is approved.

2. **Financial statements audit not accorded importance:** Like in Bihar, even in Chhattisgarh, financial statements under the accrual basis are not audited. CA firms are responsible for preparing financial statements, not their audit. The State Audit Department conducts audit of legacy cash-based accounts.
3. **State must play a larger role in the implementation:** Merely engaging field level consultants does not ensure that ULBs switch over to accrual basis of accounting. The reforms need close supervision and monitoring over multiple years until they reach a steady state. Issuing the MAM and expecting individual ULBs to make the transition with the help of local consultants rarely works. This fosters a tendency to run the new system in parallel for some time and subsequently revert to the legacy system once the change agents disengage.

4.3 MUNICIPAL CORPORATION OF DELHI

The National Capital Territory of Delhi (NCT) comprises five urban local bodies: the East Delhi Municipal Corporation, the North Delhi Municipal Corporation, the South Delhi Municipal Corporation, the New Delhi Municipal Council (NDMC) and the Delhi Cantonment Board.

The **Municipal Corporation of Delhi (MCD)** was among the largest municipal bodies in the world providing civic services to more than estimated population of 11 million citizens (nearly 95% of Delhi population) in the capital city.¹ MCD was one of three municipalities in the National Capital Territory of Delhi, the others being New Delhi Municipal Council, and Delhi Cantonment Board. The MCD was trifurcated into three new bodies, the North Delhi Municipal Corporation (N-DMC covering seven zones), the South Delhi Municipal Corporation (S-DMC having four zones) and the East Delhi Municipal Corporation (E-DMC consisting of two zones) in 2012.² . The Balance Sheet of MCD was trifurcated to have financial statements of the resultant three Municipal Corporations. The Central Government appoints a commissioner to lead each of the three Municipal Corporations of Delhi.

After the trifurcation, each of the three MCDs has an independent setup. The reforms though followed a general pattern, have progressed at differing levels.

Note: On 22nd May 2022, the Municipal Corporation of Delhi came into existence on account of the merger of N-DMC, S-DMC, and E-DMC. The narrative throughout this report pertains to the situation as it existed prior to the merger. The merger, however, does not influence the findings or recommendations of this study.

A. Planning and Project Management

No separate Project Management Unit has been set up in E-DMC. In the N-DMC conversion of accounts to accrual basis is completely outsourced. No software is deployed. 6 Zonal DCAs, 1 DCA at hospital, 2 at Central office along with respective staff are supporting the conversion process. KRA & Co., Chartered Accountants, have been awarded the contract for conversion of accounts of 5 years commencing from the FY 2015-16 till FY 2019-20 and is expected to complete by June 2022. Also, conversion for FY 2020-21 will also be outsourced (with target of December 2022) and from FY 2021-22, conversion of accounts will be done in-house. In S-DMC there is no separate structure for the conversion project. Conversion of accounts to accrual basis is completely outsourced and is managed by the Deputy Controller of Accounts. No software is deployed. Accounts are maintained in MS Excel. Currently, there is no training that is imparted.

1 http://www.censusindia.gov.in/2011-prov-results/paper2/data_files/India2/Table_2_PR_Cities_1Lakh_and_Above.pdf

2 <http://delhi.gov.in/wps/wcm/connect/bceb238048d8e37fa886f97a2b587979/ESD+2014-15+-+Ch-1.pdf?MOD=AJPERES> & [https://web.archive.org/web/20170324174340/http://delhi.gov.in/wps/wcm/connect/DOIT_LAW/law/our+services/the+delhi+municipal+corporation+\(amendment\)+act+2011\(delhi+act+12+of+2011\)](https://web.archive.org/web/20170324174340/http://delhi.gov.in/wps/wcm/connect/DOIT_LAW/law/our+services/the+delhi+municipal+corporation+(amendment)+act+2011(delhi+act+12+of+2011))

B. Accounting Manual

As early as 2002, the NDMC took the decision of moving into accrual accounting, and, under the leadership of the then Financial Advisor, the project was initiated. Necessary technical inputs were taken from a CA firm and the MAM was rehashed and adopted in 2005. The firm prepared the opening balance sheet and also certified it which was adopted by the competent authority. In all the DMCs, the NMAM is followed when accrual-based financial statements are prepared.

C. Technology Solution

In all the three MCDs, no software is being used. Still manual books of accounts are only maintained. The SDMC is examining the feasibility of identifying and implementing cost effective software. Solution from eGov Foundation was also examined. Tally implementation seems to be in discussion for some time.

D. Implementation

No implementation of accrual accounting has taken place in all the three MCDs. Since UTs are not eligible for financial commission grants, the motivation to have accrual accounting for this purpose is also absent.

E. Opening Balance Sheet

ICAI Accounting Research Foundation took up the project related to conversion of accounts of Municipal Corporation of Delhi to accrual basis of accounting. Opening balance (as on 1st April 2002) sheet was prepared by ICAI ARF.

ICAI ARF assisted in preparation and presentation of accrual-based financial statements. ICAI ARF was also actively involved in restructuring and refining of various budgeted heads, accounting process, setting up of Asset Information System and introduction of accrual system of accounting in the various zones of MCD.

The accrual based financial statements prepared by erstwhile MCD was trifurcated amongst three and they carried over from there. Unresolved legacy issues still persist. No specific fixed asset valuation exercise was undertaken. Fixed assets were valued at Re. 1/- wherever cost was not available.

F. Human resources and Training

No training has been imparted in this regard.

G. Financial Statements and Audit

E-DMC: Cash Basis Financial Statements are complete till FY 2020-21. Accrual-based Financial Statements are complete till FY 2014-15. Not allotted to any firm after 2014-15. Till 2014-15, RFP was awarded to M/s Dass Gupta and Co., Chartered Accountants and since FY 2015-16, accrual accounts are pending.

Audit is organized by the Municipal Chief Auditor representing O/o C&AG of India. Audit till 2015-16 is complete.

N-DMC: Financial Statements on cash basis are complete till FY 2018-19. Out of the approximate 2,000 accounting units (viz. schools, dispensaries, anganwadi, hospitals), around 300 units are audited every year. Some of the units are audited each year based on an ABC analysis. Audit is complete till FY 2017-18.

S-DMC: Financial Statements prepared on cash basis are complete till FY 2020-21. Financial Statements on accrual basis are complete till FY 2018-19 and for the FY 2019-20, are under process. Approximately 200 units (i.e. schools, dispensaries, anganwadi, dispensaries) are audited each year out of the total 325 units. Audit till 2017-18 is complete.

4.4 NEW DELHI MUNICIPAL COUNCIL

The New Delhi Municipal Council was established through the NDMC Act, 1994, amended in 2011, and covers about three per cent of Delhi's area under its jurisdiction. The Council is a nominated body, and is headed by a chairperson who is appointed by the Ministry of Home Affairs of the Government of India. NDMC area comprises of the territory that has been described as Lutyens Delhi and which has historically come to be regarded as the seat of central authority in Union of India. It comprises of important buildings like Rashtrapati Bhawan, Parliament House, Supreme Court, North and South Blocks and buildings abutting Central Vista and almost all the diplomatic missions. The Government of India is nearly the sole landowner and also owns about eighty percent of the buildings in the New Delhi Municipal Council area. Private ownership of property in this area is marginal³.

A. Planning and Project Management

NDMC vide Resolution No. 3 (xii) dated 24.4.2002 has approved switching over from existing system of single entry system to double entry system on accrual basis. Thereafter implementation was undertaken except for a few areas. The accrual accounting has been implemented completely by an in-house team. Day to day regular review meetings were held to monitor progress of the implementation.

Financial Advisor (FA) of NDMC, Mr. B. B. Pandit was responsible for implementation and monitoring the project. A 20 member team was set up under the FA. Initially, it was outsourced to M/s. K B Chandana and Co., Chartered Accountants (on nomination basis) but now it is being carried out internally.

B. Accounting Manual

NDMC was preparing its financial statements on a going concern and under historical cost basis since 2004-05. There are about 80 Accounting Units in NDMC which are responsible for maintaining accounts and supporting records in respect of income, expenditure, liabilities and assets. The Accounts of these accounting units are consolidated in the accounting unit named as Accrual Based Accounts Section (ABAS). As per New Delhi Municipal Council (Maintenance of Accounts) Regulations, 2010, the Council has to maintain the accounts monthly and annually and prepare the Financial Statements annually.

The Council vide its Resolution No.15(D-13) dt.26.8.05 resolved that the NMAM with suitable modifications as per requirements of NDMC may be adopted in terms of the provisions of section 58 of the NDMC Act, 1994. NDMC prepared its own manual on the basis of NMAM (36 chapters out of which 32 chapters are approved and 4 are yet to be approved by the competent authority).

The Council further resolved that the Chairperson, NDMC is authorized to effect such modifications/amplifications to the manual in consultation with the Financial Advisor, NDMC as are deemed necessary. Identification of nature of transactions by each accounting unit for appropriate placement and preparation of detailed Chart of

³ <https://www.ndmc.gov.in/ndmc/introduction.aspx>

Account was first carried out on the basis of the formats recommended by the task force constituted by the office of the C&AG and was further suitably amended by the consultant. This was undertaken internally with the help of a CA firm.

D. Technology Solution

From the year 2004-05 to 2008-09, accounts were compiled manually in the ABAS. In 2007, computerization started. And considering the NDMC's specific accounts and finance software, e-fin application was developed by eGov Foundation for compiling accounts on double-entry system of accounts on accrual. The solution was customized and specific to NDMC requirements. The software is proprietary, and the codes belong to NDMC. Source code and technical documentation are available with NDMC.

NDMC implemented electricity and payroll software prior to 1985. Later, NDMC developed stand-alone software for receipt of Property Tax, License Fee, Building Plan, Yellow Fever, Booking of Barat Ghar, Health License etc. These softwares were integrated with centralized accounting software, namely, e-fin System. Various Masters, such as, employee/ RMR/ Contractual Workers/ vendor/ Scheme/ sub-scheme, were created in e-fin system as per requirement/need of NDMC for generating specific information from e-fin system.

All the accounting transactions including the receipt and disbursement are being carried out online through the accounting software. Being among the first movers, even e-Gov Foundation learnt and improved their software offering based on the inputs/ lessons learned in this project.

Total Project cost was approximately Rs. 8 crores which includes consultancy fees of CA firm; software customization and maintenance up to June 2021. Funds were arranged by NDMC from its own source.

E. Implementation

Before implementation of double-entry bookkeeping, complete accounting system of municipality was analyzed and studied. Previously, alphanumeric head of accounts were used to make transactions and booking of income and expenditure on cash basis and after the adoption of NMAM, the said head of accounts were converted into numerical chart of accounts as per NMAM. Bifurcation of revenue and capital expenditure was carried out after detailed discussion with HODs.

The plan of action was divided into two parts: First, for the compilation of the balance sheet up to 31st March 2005, the accrual data was collected from various accounting units, and second, for the subsequent period, an automatic procedure was designed to convert the data from cash-based accounting system to accrual-based double-entry accounting system by introducing modified monthly accounts statement (also known as broadsheet in NDMC).

The implementation was done by NDMC on its own. The software implementation started in the mid of 2007-08 on trial basis as parallel run with manual accounting. Some departments were selected as pilot branches for booking of transactions. After

tallying and reconciling the data in physical form as well as on the software, the same was frozen on the system. After elaborate User Acceptance Testing in pilots first and later, in all the accounting units in NDMC, the software was implemented completely. For the first 5 years (2004-05 to 2008-09), accounts were maintained in parallel on software and under manual system. Thereafter, from 2009-10 onwards, accounts were computerized and parallel run was discontinued.

As per provisions of 'Maintenance of Accounts Regulations, 2010' NDMC was to maintain monthly accounts and the annual accounts. Separate General Ledger for preparation of annual accounts and financial statements is maintained. Accrual accounting and computerization have been implemented fully.

F. Opening Balance Sheet

The opening balances of deposits, liability, deposit work, advances, work in progress, and investment in various banks including cash balances were sought from all the sections/ accounting units of NDMC. Position of assets and its valuations/historical cost were also obtained from the concerned sections. After capturing all the balances as on 31.03.2004, the first opening balance sheet as on 01.04.2004 was prepared manually.

The Opening Balance Sheet was prepared with the support of a CA firm and adopted by the Council. The fixed assets considered in Opening Balance Sheet as on 1st April 2004 were identified and compiled based on data/information furnished by the concerned units of NDMC. Broadly, the fixed assets were classified under 15 heads and mapped under 15 formats accordingly. The opening balances as on 1st April 2004 as derived were incorporated in the linear ledgers in the concerned assets and liabilities head of accounts. Assets identification was major issue and assets with issues were valued at Re. 1.

G. Human resources and Training

Various staff/accounting units' heads were imparted training about the use of forms, formats, procedures, accounting entries, periodical statements and reconciliation statements in various workshops and personal meetings at the site. Few residential batches of customized training programmes were organized through the Arun Jaitley National Institute of Financial Management (AJNIFM).

A Committee was constituted by the Chairperson, NDMC to assess the training needs of the NDMC employees. The Committee considered the training needs of the staff and suggested a comprehensive training plan for the staff of NDMC after taking inputs from all HODs, Chief Engineers, Superintending Engineers, Officers, and Staff.

The following trainings were imparted from time to time:

- Double Entry/Accrual Accounting
- e-fin
- On changes/additions of Modules in e-fin application

National Productivity Council is engaged for the purpose of conducting exam for

new recruitments. NDMC has also identified various leading institutions like CPWD Training Institute, Indian Institute of Public Administration, Administrative Staff College of India, Engineering Staff College of India, and so on for training. Training programmes are also conducted in-house on regular basis.

Training programmes are also conducted in-house on regular basis.

H. Financial Statements and Audit

Under the provisions of NDMC Act, NDMC is required to maintain monthly accounts and annual accounts.

Accrual accounting and computerization have been implemented fully. The transactions in NDMC are carried out on double-entry accounting system on accrual through e-fin application of NDMC. The entries for receipts and payments are carried on through the e-fin application in real time. The Accounting Statements and Financial Statements from the financial year 2009-10 onwards are being drawn from the e-fin application. The cash balances are reconciled on daily basis. The monthly physical verification of cash balances is being done by the Accounts officers.

Annual statement of accounts are prepared and distributed in June/July every year. Statutory Audit of Financial Statements is done by the Municipal Chief Auditor, NDMC appointed by the Council. The Chief Auditor conducts a monthly examination and audit of the accounts of the Council and reports thereon to the Chairperson, who publishes monthly an abstract of the receipts and expenditure of the last month proceeding signed by him and by the Chief Auditor.

I. Present Situation

Till FY 2018-19 audit is complete and for the FYs 2019-20 and 2020-21 audit is under process. Annual Accounts till FY 2018-19 according to formats prescribed by NMAM are complete. Accounting till FY 2020-21 is complete and is being done in-house now. NDMC implemented e-office in January 2021. The Financial Advisor is responsible for the proper maintenance of all accounts and for their internal check and examination, subject to the superintendence, direction and control of the Chairperson.

Accrual Accounting System especially the data on Receivables and Payables is used while fixing targets for recovery of revenue and related matters. Similarly, while according financial concurrences to various expenditure proposals, the Finance Dept. in NDMC considers the status of assets and trend of expenditure in previous years. The project cost was about Rs. 8 Crore including the software development, fee to CA firm for providing technical inputs and was fully funded by NDMC out of its own resources.

Support for software related matters was available from eGov Foundation till June 2020-21 and thereafter, IT department of NDMC has taken up the software implementation/ maintenance/ updating/ improvement independently.

J. Key Learnings

1. **Clear mandate for the conversion into accrual accounting project:** The

mandate that came through the resolution of the NDMC in 2002 clearly paved way for a systematic progress and successful achievement of the objective.

2. **Clarity in project management:** The entire project was done under the leadership of the Financial Advisor. This brought about a single command and clarity as to where to look for guidance. The setting up of the 20-member team ensured the management commitment to the project.
3. **Using IT support from experts:** eGov Foundation provided full support for the customization of the software.
4. **Involvement of professionals early in the project:** The technical aspects of the accrual accounting were clarified and various initial activities in this regard was supported by a CA firm. This brought in a sense of clarity even in the initial stages of the project.
5. **Adoption and modification of the NMAM:** Though NMAM was used as a guide it was adopted to the specific requirements of the NDMC. This has helped in achieving the objectives of NMAM in terms of both quality and the satisfaction of the local requirements.
6. **Continuous review of implementation:** As and when any problem arose, the same was discussed by the office/team of FA with the CA consultant and the resolution thereof was implemented in the software application by the eGov Foundation. This happened over a period and today's stage of smooth run has been achieved.
7. **Motivation of the working team:** As monetary awards is not possible in Government setup, awarding the participants in the project with letters of appreciation went a long way in motivating the workforce at various levels.

4.5 GUJARAT

Gujarat is ninth largest populated State in India and is fifth in terms of area. With 42.6% of urban population, the State has eight corporations, 156 municipalities and 14,017 gram panchayats.

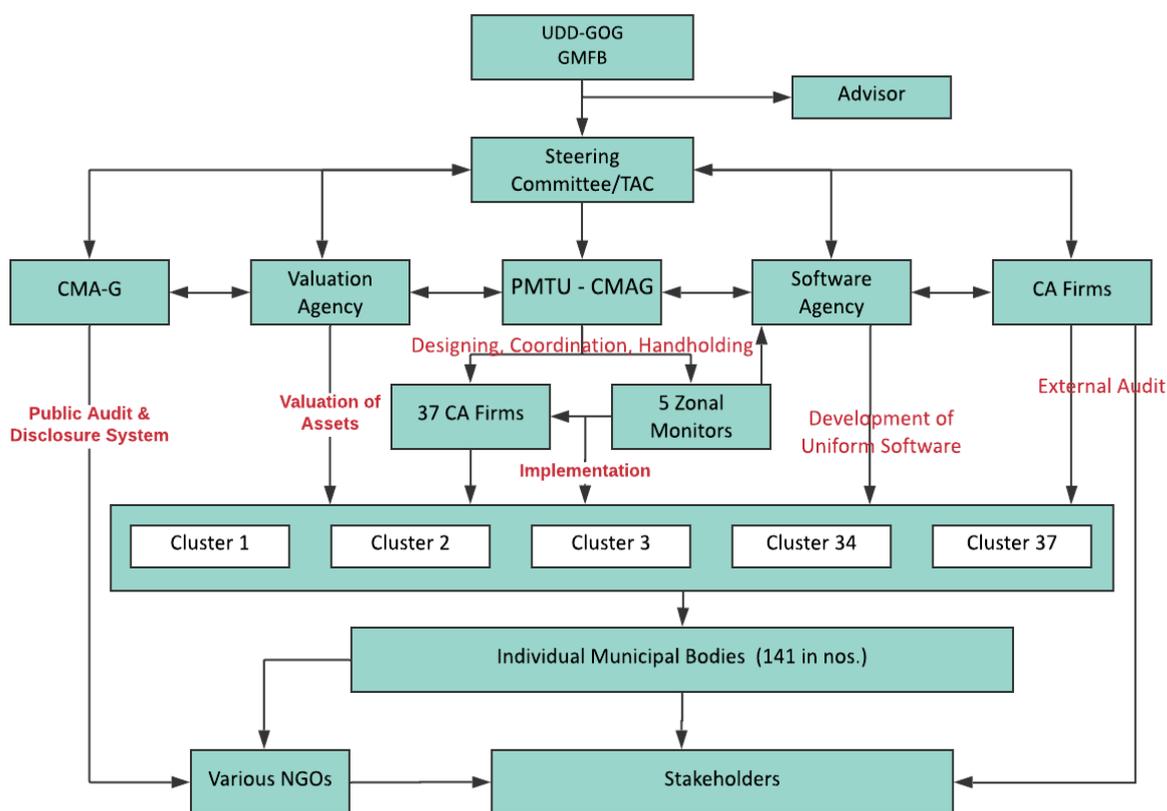
A. Planning and Project Management

Gujarat Municipal Finance Board (GMFB) under the Government was the final authority for the reform project. As early as the year 2000, City Managers' Association Gujarat (CMAG) engaged various agencies and organized several hands-on training programmes for municipal officials including accountants and elected representatives, under the guidance of the then Chief Accountant of Vadodara Municipal Corporation.

Gujarat Municipal Accounting Reforms Project (GMARP) began in November 2005 in 159 municipalities of Gujarat. Initially, there were 141 municipal bodies and, in the years, following, some restructuring of municipal bodies was done on the basis of Census 2001 population. Gujarat decided to implement the reforms in all the municipalities in the State; the reason being that Gujarat had sufficient experiential learning from previous attempts in Anand Municipality and Vadodara Municipal Corporation.

In September 2005 CMAG established a separate Project Management & Training Unit (PMTU) under CMAG. Later, an empowered Technical Advisory Committee (TAC) was established for guiding the project. Under PMTU, CMAG started the process of recruiting professional staff for technical assistance to the project that included one Chartered Accountant as Program Officer and two Inter CAs as Program Assistants. The Executive Director later continued as the Project Manager.

After the expiry of the term of CMAG, GMFB appointed a new PMTU with a modified scope and later appointed Atharva Planning and Research Centre Pvt (APARC) up to 2017-18. From 2018-19 onwards, the project was handed over to the individual municipalities with no centralized PMTU. The overall project management structure when the project was getting implemented is shown in the Figure below.



On 08th May 2007, the UDD passed a resolution (No, NPL-4507-954-M) which resolved, among other things, the following:

1. Audited Financial Statements of Balance Sheet, Receipts and Expenditure, Cash Flow on quarterly/annual basis.
2. Proposed Expenditure & Reports on disbursements made.
3. Details of Municipal Funds, i.e. income generated from previous years by the following..., taxes duties, grants, cess, surcharge, rent, fees from licenses and permissions, uncollected taxes and levies with reasons for non-collections, share of taxes levied by State Government, grant utilization, donations etc.
4. Ward wise Budget.

This resolution provided impetus to the GMFB to initiate the said project. CMAG, (a Registered Trust established by office bearers of various urban local bodies of Gujarat) is said to have had elaborate discussion with the administration to conceptualize the reform project which was named “GMARP.”

B. Accounting Manual

The municipal accounts manual was prepared by the PMTU - CMAG in line with NMAM. The Manual was prepared based on NMAM and certain other best practices across the country.

The PMTU also recommended amendments to the Rules to be read with the Gujarat Municipal Act. The proposed draft Municipal Accounting Rules were reviewed by the Legal Cell of Government of Gujarat Legislative Department but have not yet been notified. Therefore, the PMTU/GMARP/GMFB designed Manual is being followed.

Account books under accrual system are prepared by PCA in parallel and submitted to municipalities and GMFB.

The chart of accounts was largely followed with some changes as recommended by the TAC and PMTU. The municipalities follow three tier coding system (3-digit Major, 5-digit Minor and 7-Digit Detailed Code).

The draft manual was approved by the Government in 2013. However, as per C&AG Report on Gujarat in 2018, vetting by the Legislative and Parliamentary Affairs Department and publishing in the Government Gazette was pending. The PMTU also suggested some amendments to rules under the Gujarat Municipal Act, which are yet to be passed by the government.

C. Technology Solution

Tally Accounting Software 7.2 was used initially. Tally was bought off-the-shelf and then necessary modifications were carried out. Municipalities have user licenses for Tally Accounting Software with codes embedded in them based on PMTU's requirement. However, source code of Tally is not owned by municipalities but only the data generated by them using Tally is owned by Municipalities. Tally provides the usual troubleshooting and support arrangement. No special arrangement was made. Testing was done by PMTU before it was decided to go with the Tally 7.2 Accounting Software.

Though Tally was independently deployed at each municipality, a modification developed by Tally (Cost Centre Codes and Accounting Codes) was kept uniform across the municipalities. This was not uploaded on a common or centralized database or cloud but were preserved natively at the municipalities. Annually the Tally data was emailed by the PCA to GMFB via the PMTU when PMTU existed and later directly to GMFB as part of package that included PDF copies of Financial Statements, including printouts taken from Tally.

Tally 7.2 was later embedded (with the help of Tally team) with uniform accounting codes that were needed for uniformity across the municipalities in the State undergoing the reform project. The technology solution was standalone and not part of the larger municipal e-Gov platform. Information generated from e-Gov platform (such as revenue etc.) was used to crosscheck values in Tally.

Tally came embedded with accounting and cost center codes. Municipalities were not allowed to create (3,5,7 digit) codes Suo moto. This process was driven centrally by PMTU including the providing of implementation guidelines.

No major business process changes seem to have taken place since the books under accrual system are still maintained in parallel along with cash-based books maintained manually. The Local Fund Auditors audit the physical books.

D. Implementation

GMFB was the nodal agency that roped CMAG as the implementation partner. CMAG formed a PMTU specifically to monitor the GMARP.

CMAG, in consultation with GMFB, established a Task Force comprising senior CAs from Ahmedabad branch of Western India Regional Council of ICAI and senior Government officials including the Joint Secretary of UDD to study gaps and find ways and means of implementing the GMARP. The Task force invited an expert (who was later GMARP Project Advisor) to explain what the proposed reforms means in terms of scope, impact, and financials, to share his experience in the subject area, and to suggest various approaches for undertaking similar reforms in Gujarat State.

All inputs were reviewed by a single window at PMTU periodically. Post the Opening Balance Sheet, quarterly (and later half yearly) and yearly reports were sent to the PMTU for review.

The major events in implementation and the timeline⁴:

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
25th 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
3rd October	1 st TAC meeting convened
8th October	Tender forms issued to all 87 empanelled CA firms
12th November	Tender submission last date - 57 technical tenders received by PMTU
13th November	Work Orders issued to 37 approved firms
18-19th November	First 2-day compulsory training conducted by Project Adviser for Project Cas; Tool kits CD & Hard Copies of training manual distributed
19th December	Formal launch of the GMARP by the H'ble minister for Urban Development, Government of Gujarat; second raining programme begins
20th Dec 2005	The second training programme for Project Cas conducted
January 2006	10 zonal ice-breakers organized for all municipalities

The Timelines were communicated to the Municipalities by the PMTU via emails and meetings to all the PCAs well in advance and monthly monitoring reports were required to be submitted to the PMTU who would then do a deeper analysis if some lags were observed. The timeline was as follows:

27th Dec 2005	Inception Report
13th April 2006	Dummy Opening Balance sheet as on 31/3/06
10th July	Quarterly Balance sheet as on 30/6/06
13th Oct	Quarterly Balance sheet as on 30/9/06
1st Jan 2007	Quarterly Balance sheet as on 31/12/06
31st May 2007	Final Balance sheet as on 31 st March 2007

4 Reforming the Gujarat Municipal Reforms Project (2009) - Table 1

The GMARP was an exercise to bring Nagar Palikas (Municipalities) into the reform fold. The Corporations above them and Gram Panchayats below them were not considered. Gram Panchayats that were later converted to Municipalities were brought into fold of the GMARP.

The entire process of implementation was managed using the support of the following outsourced professionals and vendors:

- Project Chartered Accountants (PCA) for providing technical support on conversion from cash to accrual accounting, creating opening balance sheet after verifying accounts for three earlier years, training the municipal staff, supporting the implementation of Tally software, and handholding the municipalities in this regard.
- Registered valuers were used for valuing the fixed assets of the municipalities for the preparing the opening balance sheet.
- Tally for providing the software along with the necessary modifications and training the staff of municipality.

This was the most important aspect of the reform process where the engine for the entire accounting reform process was built. These were done for the State as a whole and hence the migration for all the municipalities in the State was possible.

In terms of data migration, no data was migrated. Physical data was captured from available records, books, and bank statements at the municipalities with some support from external agencies dealing with municipalities such as GMFB and other Boards.

Overall, the reform timeline could be summarized as:

- Policy changes and municipal Accounts Manual - 1 year
- Engagement of software and implementation vendors - 2 months
- Software development, testing, and rollout - 1 month
- Training - Ongoing and continuation. Initial training to PCAs took 4-5 full day meetings
- Opening balance sheet preparation - 6 months for other items, 1.5 years for fixed assets

The GMFB had initially sanctioned a budget of Rs. 34.7 million. for 141 municipalities for 2005-07. The budget line items included Project CAs fixed costs, municipal fixed assets valuation costs, and the PMTU budget itself that included, among other things, Professional CAs as Program Officers and Program Assistants, their salaries, per diem and travel costs for monitoring, and training costs including hire charges for facilities and accommodation and hospitality costs. It is significant to note that this amount was sufficient for continuing hand-holding operations by the CA firms during fiscal 2007-08 even after the final balance sheets were submitted for fiscal 2006-07 (the budget deadline was extended by the TAC to March 31, 2008). Further, the reform activities for the thirty newly incorporated “D” class municipalities also could be mostly absorbed in the project at no extra cost⁵.

⁵ Reforming the Gujarat Municipal Reforms Project (2009) - pp5

One important aspect of managing the project was that the PMTU recommended blacklisting of PCAs who could not adhere to timelines due to avoidable delays. There was constant monitoring by the PMTU. In case of genuine trouble at the municipality level (such as unavailability of registers, non-preparation /updating of Day book, etc.) there was a constant support and pressure to the municipal Chief Officer by the PMTU.

Municipalities do not seem to have made any organizational changes to accommodate accrual system since it was and still is on a parallel run with the municipalities maintaining books on cash basis of accounting. Tally based Double Entry Accrual under GMARP has no statutory obligation. So GMARP success, speed, accuracy etc. is left on the PCAs.

E. Opening Balance Sheet

The PCAs had to initially submit Inception Report based on a stock taking of various aspects of accounting, record keeping, etc. at the municipalities and this contained basic macro data about the municipality, its record-keeping, accounting process, extent of computerization, etc. which would bring some clarity to the PCAs about the quality and availability of information available for the preparation of the Opening Balance Sheet and also supporting the municipality in implementing the reforms.

Once sufficient information about the municipality was analyzed and the gaps in the system were sufficiently identified or addressed, the process of collecting the information for the Opening Balance Sheet started. The timeline for collecting all information excluding the information about the Fixed Assets was set to around 6 months. The opening balance sheet formats were given to the PCAs for having a standardized and streamlined process for collecting the information.

A Government recognized Valuer was given a task to compile opening fixed asset information from all available records. This exercise was time consuming, but a single agency ensured consistent collection methodology and effort.

F. Human resources and Training

The training was done in tiers. PMTU trained PCAs and PCAs trained their implementation staff. PMTU also trained Accountants, Chief Officers and has some cross training sessions with both teams (PCAs and municipal staff) present. The ground level training was left with the PCAs. PMTU had a robust “Train the trainer” approach for PCAs. Trainings were conducted at regular intervals.

The staff of municipalities were given training by the PCAs. These were ad hoc trainings that were need based. The training sessions involved the municipalities and the PCAs with the PMTU acting as a conduit between these two groups.

GMFB continues to provide regular interval trainings to municipal staff.

G. Financial Statements and Audit

The financial statements (Balance Sheet, Income and Expenditure, Cash Flow Statement, Fund Flow Statement, Cost Category Summary, Daily Cash balances) are prepared separately but reconciled 100% with Tally data.

Since Gujarat is still at the parallel run, the accrual accounts are not audited. Only the manual cash-based accounts are audited, although the auditor at times relies on some key information that is easily retrievable from the accrual accounts.

Local Fund Audit audits the accounts manually prepared. It is stated that 2018-19 audit has been completed. The accrual accounts are compiled and certified by CAs rather than audited.

No internal audit mechanism is in place. The larger municipalities are known to engage internal auditor independently.

H. Present Situation

The implementation of the accrual accounting systems is complete. The municipalities have not moved fully on to the new system under GMARP (Tally based) and hence the books of accounts are not maintained uniformly across the State. The parallel manual system continues in many municipalities. Budgets are also a separate exercise and not integrated with Tally.

The extent to which the accrual accounting system is used at the State level is not clear. However, the State did publish the parallel books and kept it online initially, but this is not continued.

The PMTU system was given up from 2019-20 and then onwards the contracts were given directly to CA firms by the Municipalities.

Municipality users are indifferent to GMARP since it is not the only system, and it is not live. There is general feedback from municipalities that they are comfortable using the new system. The State has kept the parallel system live which indicates that they do see some value in the eventual progression to accrual system. There are some issues that needs to be addressed. However, in the recent years, the GMFB has given this project down to the municipalities to manage including choosing of the PCAs. Without a centralized PMTU and with PCAs without any uniform terms of reference, there is a high chance that all the good work over the years, particularly the standardization that was achieved since inception (2006) till now (2019-20) could well be derailed.

I. Key Learnings

1. **Centralized, collective approach** was key to the initial success of the project. A single window system under PMTU, timely turnaround time for resolving issues, periodic surprise visits, training and cross training were all key elements to ensure that almost all the municipalities could complete the first phase (Opening Balance Sheet) and continue with the annual exercise of preparing a BS and PL under accrual system was a coordinated effort without everyone pivoting in different direction.
2. **Need for PMU:** The key catalyst was that the PMTUs (CMAG initially and then then CA under GMFB and then APARC) were always on the job with monthly progress reports, review assistance, coordinating reconciliations with Finance Board, Electricity Dues etc. to ensure that the output was qualitative and standardized.

3. **Getting the accounting manual ready first:** Preparing the Accounting Manual. TAC and particularly subject matter expert helped design the Accounting Manual, which was adopted across the board, as one of the first steps.
4. **Using commonly used software:** Using Tally solved one critical problem and that was of ease of finding resources by the PCAs to get the implementation up and running since it is a widely used tool for accounting.
5. **Good communication channels during implementation:** The PMTU and PCAs in most instances had open line of communications with each other and the GMFB and other officers also stepped in with their support whenever called for. No major issues were left unaddressed.
6. **Use of subject matter experts:** There were some unexpected surprises during collecting information for Opening Balance Sheet. But most of this problem was ameliorated by having the PCA to prepare an Inception Report which was a very useful tool in gauging and anticipating the probable issues that the PCA/PMTU might face while collecting the information for Opening Balance Sheet and preparing the First set of Financial Statements.
7. **Mandate for the reform:** The amendments that are required to be made in the Rules/Act for giving legal sanctity to GMARP are with the legal department for their review and comments. Unless this is mandated, the reform progress will not be complete and is likely to progress slowly.
8. **Lack of consolidated information for decision making:** In the current scenario, though the decision-makers have access to Cost Centre wise, Accounting Code wise information for all municipalities, manual intervention of collecting all information of municipalities must be carried out to do cross comparison or even year on year comparison, trend analysis and other analytics.

J. Suggestions

1. Possibly, a Cloud or common database system (or even a NAS based solution) could have been better so that the stakeholders, particularly the decision makers would not have to compile the State wise data manually.
2. The other approach is to use a third-party software that could possibly “read” the tally information and give a wholistic report.

4.6 KHAMBHAT NAGAR PALIKA

An interview with the Accountant at Khambhat Nagar Palika gives an insight into the accounting arrangements subsequent to the implementation of the GMARP project. The PCAs worked closely with the municipal accounting staff in preparing the accounts. The PCAs used to send their trained employees to the Nagar Palika to enter the daybook values in Tally using their own laptops since the Nagar Palika did not have a dedicated workstation for them. After the FS were prepared, the Accountant and the Chief Officer were presented with a copy of final accounts under the double-entry accrual system for signature.

The principal books of account continued to remain the Day Book maintained manually. Using the Tally accounts as the principal accounting records would have made it easy for the accounting staff to retrieve information which they would fetch manually in this arrangement. The Tally records have already made the process of bank reconciliation and reconciliations with outside agencies like Gujarat Municipal Finance Board and other lending agencies easier.

The arrangement of parallel sets of accounting records creates another problem. There is a time lag between the daybook which is prepared on a daily basis and accounts in Tally under GMARP which are always a year behind. At the time of the interview (November 2021), the Nagar Palika has received final set of financial statements under double-entry accrual for the year 2018-19, and those for 2019-20 are being prepared.

The accounts prepared by the PCAs contain comprehensive information such as: Income & Expenditure Account (Major, Minor and Detailed Codes), Balance Sheet (Major, Minor and Detailed Codes), Statements of Grants, Statement of Fixed Assets, Tally Reports, Cash & Fund Flow Statements, and Cost Category Reports with. The Cost Category Reports use an extension of the Account Code and are categorized according to detailed functions of the Nagar Palika. This helps in determining function wise cost and expenses, both revenue and capital.

4.7 KARNATAKA

Karnataka is the 6th largest State in India by area and the 9th largest by population. It is estimated that close to 50 percent of its population would live in urban areas by 2021. The State has 315 urban local bodies including 11 city corporations. Bengaluru, the State capital, and a global IT hub is the largest city in the country by area and the 3rd largest by population.

A. Planning and Project Management

The transition to accrual accounting was actively driven by the Director, Municipal Administration. A special purpose vehicle – the Karnataka Municipal Data Society, KMDS–was formed for managing the reforms. The reforms were initially supported by the ADB and subsequently by the World Bank. The State undertook a comparative analysis of practices in other States before undertaking its own transition efforts.

The State entered into an arrangement with eGov Foundation for developing the software and for support for three years. The Finance module was implemented as a standalone module and later integrated with other e-Governance modules as they were implemented.

A Steering Committee⁶ headed by the Additional Chief Secretary gave strategic direction to the reforms. An Expert Management Group (EMG) was constituted to oversee the implementation. The EMG was headed by the Joint Director (Reforms) and comprised of accounting experts including a Chartered Accountant. The KMDS was set up in 2007 and the responsibility of coordinating the accounting reforms was assigned to it. At the district level, the District Urban Development Centres (DUDC), headed by a Project Director, were designated for local supervision of the reform implementation. Regular reviews were held at all levels for monitoring project progress and for addressing issues.

B. Accounting Rules and Manual

The task of preparing the Karnataka Municipal Accounts Manual (KMAM) and the Karnataka Municipalities Accounting and budgeting Rules, (KMABR) 2006 was accomplished between 2004 to 2006. The need to introduce new Rules arose since the Karnataka Municipal Accounts Rules, 1965 were not amenable for accrual accounting. Almost the entire content of the KMAM is also part of the KMABR. However, the KMABR and KMAM are not fully suited for a computerized accounting environment. The KMAM is detailed and sets out the accounting entries to be passed for different types of transactions. The Karnataka Local Fund Authorities Fiscal Responsibility Act was enacted in 2003 but is yet to be implemented.

The Finance & Accounts (F&A) module is now integrated with other major modules like property tax, other revenues, public works, assets etc. This has ensured that the accrual happens at the point of transaction initiation in the respective modules. Many of the accrual entries have also been automated.

6 The Steering Committee headed by Additional Chief Secretary, Secretary Urban Development Department, Director of Municipal Administration, Managing Director (KUIDFC) and others.

C. Technology solution

Karnataka implemented the eGov Financials solution developed bespoke by eGov Foundation. eGov Foundation developed the solution and maintained it until 2012-13. From 2013-14 onwards, KMDS is maintaining and enhancing the solution. KMDS has established an in-house IT team of 18 persons for this purpose. The programmers have been hired on contract basis. KMDS has the autonomy to fix the required positions and pay scales. In 2012-13, prior to taking over the solution, KMDS posted 8 programmers for one full year at eGov to enable a smooth knowledge transfer.

The solution is developed on JBoss Application Server with backend as Struts, the user interface is using JSP, and the database is Oracle. The source code is in the possession of KMDS. The solution follows a centralized server architecture with separate schemas for each ULB. The data is hosted at the Municipal Reforms Cell Data Centre. Two dedicated leased lines are in place for connectivity. Bugzilla software is in place for reporting and monitoring bugs. The data center is maintained by STPI. Incremental backup of data is taken twice a day and a full backup is taken once in 15 days. The backup is stored at Electronics City in Bengaluru. There is no Disaster Recovery site.

The F&A module was initially implemented as a standalone module and was integrated with other modules subsequently. It now works as part of an integrated municipal e-Governance solution. eSweekruti, a centralized collection platform with online/offline collection facility which support multiple payment gateways is fully integrated with the F&A module.

D. Implementation

The implementation happened in three broad phases with a greater number of ULBs covered in each subsequent phase in such a manner that all ULBs in the State were covered by 2012-13. The phased approach helped learn from the earlier phases and planning the next phases better. The broad timelines of the implementation are as follows:

2004:	Commencement of reforms
2004-2006:	Study of practices in other States, appointment of FBAS Coordinator, selection of implementation consultant, project preliminaries
2006:	Notification of the Karnataka Municipalities Accounts and Budgeting Rules
2006-2007:	Phase I implementation in 55 ULBs under the ADB funded Nirmala Nagara Program
2007-2008:	Phase II implementation in 73 ULBs under the World Bank funded Karnataka Municipal Reforms Project
2009-2010:	Phase III implementation in 85 ULBs under the World Bank funded Karnataka Municipal Reforms Project

An implementation consultant (IPE Global) was engaged at the State level. The implementation consultant's contract lasted from 2004 to 2007. The scope of work of the implementation consultant included drafting the accounting and budgeting rules and the accounting manual, software Implementation support which included

providing domain expertise, user testing, preparation of software user manual etc., preparation of training material, and training manuals, and training various stakeholders, preparation of Opening Balance Sheet Guidelines, and verification of Opening Balance Sheets prepared by field level consultants.

CA firms were appointed as Field Level Consultants (FLCs) in 2009 to support the implementation. The job of FLCs was to prepare Opening Balance sheet (OBS) as on 1st April 2009, impart training to ULB staff, assist them in maintaining accounts for 2009-10 as per the new system and generate financial statements, and assist in preparation of the budget as per the new system. Pending rollout of the eGov financials, FLCs were asked to assist ULBs in maintaining accounts for 2009-10 using Tally-a Commercial Off the Shelf (COTS) accounting software. Once the software was ready, pilots were undertaken which involved parallel runs of the new software. Complete discontinuation of the manual system happened only in 2013-14.

A rigorous review mechanism was put in place with weekly reviews on key action points. The State devised certain incentives and disincentives to encourage implementation at field level. State Finance Commission performance grants were linked to reform implementation. Delay in reform implementation was included as one of the grounds for initiating disciplinary action. The City Managers Association of Karnataka (CMAK) announced awards for good performance in reform implementation.

E. Opening Balance Sheet

Preparation of the OBS was the task of Field Level Consultants engaged for implementation support. The IC was responsible for preparing the OBS Guidelines, training FLCs, supervising the process and verifying the OBS prepared by them. A State-level committee was constituted for approving the OBS guidelines and for valuation of assets. Later, in 2010, the Karnataka Municipal Asset Management and Valuation Methodology Manual was brought out. At the ULB level, the responsibility of providing data on assets and liabilities vested with the ULB departmental heads. The FLCs were required to test check the information and prepare the OBS which was ultimately required to be adopted by the Council. The OBS exercise lasted for one year under each of the three implementation phases. However, incorporation of opening balances continued for many more years. The Opening Balance Adjustment account had to be kept open for three years to accommodate new data on assets and liabilities as and when it came to light. All the data that had to be migrated was in physical form - there was no electronic data to be migrated.

While the OBS exercise for the ULBs originally covered in the implementation is largely complete, the same is not so for the newly formed ULBs. Several new ULBs have been notified in Karnataka in the past few years. The OBS exercise there remains work in progress.

F. Human Resources and Training

In 2010, the Karnataka Municipalities (Recruitment of Officers and Employees) Rules were amended. By virtue of the amendment, the following positions were created in ULBs specifically to build capacities at the grassroots.

1. Accountants in all ULBs – with Commerce qualification
2. Senior Programmers in CMCs – Bachelor of Engineering or Master of Computer Application
3. Junior Programmers in Town Municipal Councils (TMC)s and Taluk Panchayats (TP)s – Bachelor of Computer Application or B. Sc (Computer Science)
4. Nodal Officers (IT) at DUDC – BE (Computer Science)/MCA

Recruitment of Accountants through the Karnataka Public Services Commission (KPSC) is a lengthy process. Pending recruitment of accountants through the, District Collectors are empowered to recruit the above personnel on outsourced basis. However, in practice the attrition rate among contract accountants is very high. This results in a huge training burden and quality issues due to lack of competence and experience.

At the State level, the KMDS has the exclusive mandate of implementing municipal reforms. KMDS was staffed with personnel possessing specialization in accounting as well as IT. It is headed by a Joint Director who is an officer of the national or State administrative service. Technical staff include a chartered accountant, accountants, IT engineers, and programmers.

FLCs appointed to assist in field-level implementation were tasked with training of ULB staff. IPE, the IC prepared the training manual and training material. Initially, training was imparted through professors and lecturers who were trained as trainers. However, since the trainers lacked practical exposure, the training was not very effective. Subsequently training was imparted by the KMDS and later by the State Institute of Urban Development (SIUD). District-level master trainers were identified from amongst ULB accountants and were trained as trainers, these master trainers in turn trained the ULBs. This strategy has proved more beneficial since the master trainers understand the context of the trainees very well and ULB accountants also feel comfortable approaching them for any help. More than 5,000 staff were trained across the State during initial implementation. Although refresher training programmes are conducted and special training is undertaken when new features of the software are rolled out, no structured annual training calendar is in place covering a set of core training modules. All newly appointed ULB Accountants are sent for a week-long on-the-job training to a nearby ULB.

All training content is made available on the software on login. This ensures that accountants and other ULB staff can refer to the training material on a need basis.

G. Financial Statements and Audit

Financial statements (FS) are generated by the software. During the implementation period 2006-07 to 2012-13, financial statements used to be prepared manually. Since 2013-14, no financial statements are prepared outside the system. FS auditors are strictly required to audit only the system-generated FS. FS audit is undertaken by CA firms appointed by the Directorate of Municipal Administration (DMA) through a tendering process. The Karnataka State Audit and Accounts Department (KSAAD) is the statutory auditor. The KMABR provides for FS audit separately by CA firms.

KSAAD undertakes its audit after completion of FS audit by CAs and considers the observations of the FS auditor while performing its audit. FS and KSAAD audit of ULBs are fully complete till 2018-19 and largely complete for 2019-20.

Although required by statute, the FS audit is not given adequate importance by the ULBs as compared to the statutory audit by KSAAD. Follow up on the FS auditor's observations by the auditee is weak. A more rigorous follow up of audit observations and follow up on corrective action is required.

There is no system of internal audit in ULBs. There is a system of pre-audit and resident audit by the KSAAD in municipal corporations; however, these cannot be considered as internal audits in its true sense.

The Cadre and Recruitment rules of the KSAAD mandate entry level officers to be from a Commerce background. Also, the scheme of examination and detailed syllabus for lateral entry of officers to positions Assistant Controller and below has been prescribed. This has ensured that there has been a steady inflow of qualified staff into the department. Structured training comprising of 9 modules has been prescribed which includes a module on accrual based double entry accounting and one on e-Governance. There is a system of initial training and refresher training also. Promotions are linked to completion of required training modules. Training is imparted through the SIUD or the Fiscal Policy Institute in Bangalore.

Despite the above measures, there is a skill gap in KSAAD due to which it is not able to take up FS audit in addition to regular statutory audit (like is done in Tamil Nadu). It will take several years before majority of the workforce comprises of commerce qualified persons recruited under the new C&R Rules. Until then, the Department will continue to operate with personnel without exposure to commercial accounts and audit relying on external service providers for FS audit. Computerization in KSAAD is relatively less compared to Local Fund Audit Departments of certain other States.

H. Present situation

The initial transition to accrual accounting is complete in Karnataka. Thanks to a sound statutory backing and rigorous follow up, the risk of reverting to the legacy system is no more seen. The technology solution is being continuously upgraded and new modules and features are being added. These are contributing to improving the accuracy and credibility of the financial statements. Improvement projects currently underway are implementation of a workflow module, audit module and increased automation of accounting entries. Reports from the system (for instance grant register, collections register) are being increasingly used for decision making at all levels. However, the usage of financial statements is minimal.

I. Key learnings

1. The KMDS, set up to maintain focus and lend continuity to the entire reform effort, was a unique feature of the Karnataka model. The Society structure with ULBs and parastatals as members and an independent management and governing structure ensured an independent setup while retaining the umbilical cord with the urban development department. The entry fee and

membership fee subscription model are also an attempt towards making the KMDS self-sustaining in the long run.

2. Involvement of development agencies proved beneficial beyond meeting the funding need. It ensured that the reform effort was distinct from business-as-usual and did not suffer from attention-deficit after the initial euphoria.
3. The study of best practices initiated before undertaking the reforms enabled learning from the experiences of other States and helped shape the reforms in Karnataka.
4. The continuous availability of in-house technical expertise is critical for success. In the Karnataka case, the FBAS Coordinator at Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC) was a Chartered Accountant. The KMDS staff also included a CA. This ensured that sufficient technical competence was available at the government end to manage the reforms.
5. It is important to recognize, at the outset, that ULB reforms are complex change management exercises, involving multiple stakeholders, and play out over several years. They require focused attention and significant administration bandwidth over an extended period to reach a point of no return. Half-baked attempts significantly increase the risk of reverting to the legacy systems after the initial burst of action. In this context, a special purpose agency like the KMDS can be effective in several ways: (a) it helps retain the reform focus and channelize reform efforts which are otherwise likely to get dissipated when undertaken alongside the usual business of urban administration, (b) when given the required autonomy, the agency is able to build and retain specialized capacities (accounting and IT in this case), (c) economies of scale can be realized (for instance in IT procurement, procuring services of CAs etc.), (d) knowledge and experience can be institutionalized and applied to scale up the reforms, and (e) it can aspire to become self-sustaining in the long run by providing services to ULBs on a membership/subscription model. On the flipside, unless such special institutional structures are empowered with the required administrative autonomy and financial resources, they can quickly turn into 'white elephants' by becoming hotspots of inefficiency and malpractices.
6. Accrual accounting implementation should not be viewed as an accounting reform exercise. Proper accrual requires capture of accounting information at multiple points in the revenue and expenditure processes. This requires re-engineering of key business processes in the ULB. It is also important that the implementation touches key non-accounting departments of the ULB as well. Non-accounting staff must be trained on the revised business processes.
7. A decentralized reform management and supervision structure is important. While the core technical expertise for implementation can be centralized at the State-level project management structure, implementation supervision must happen at the district (or cluster) level. This would ensure shorter

feedback and correction cycles on the one hand and ensure that solutions to implementation issues are sensitive to the local context.

8. It is important to run the legacy system and new system in parallel so that the outputs of the two systems can be compared and confidence can be built that the new system is functioning satisfactorily. However, in the case of Karnataka, the two systems were allowed to run in parallel for an extended period (close to 5 years). This delayed the new system from reaching steady state. When the legacy system runs in parallel, there is always a tendency to revert to it, and, over a period, the new system loses its credibility and significance.
9. Accrual accounting is more complex than cash-based accounting. Considering poor capacities at the local level, maintaining a helpdesk at the State level can be very useful. Any ULB accountant must be able to reach out to the helpdesk when he faces an issue. The helpdesk must be competent to handle accounting as well as software usage problems. Experience of Bangalore and Chennai Corporations and Karnataka (State-level) has shown that when a technically capable team is available continuously, the internalization of the system has been much better.
10. Chances of sustainability of the reform are much larger when the reforms are internalized. The value added by external consultants during implementation is undisputed. They bring in the much-needed accounting, software, and project management capabilities to the table. However, once the initial implementation is complete, it is best to internalize the entire system. This aspect must be built into the reform design itself rather than emerging as an after-thought. This would enable the State to recruit the required personnel and complete the knowledge transfer while the implementation consultants are still around. Both in Tamil Nadu and Karnataka, reform sustainability is being ensured internally (CMA office in the case of Tamil Nadu and the KMDS in the case of Karnataka). Karnataka has gone a step further and built internal capacity in developing and maintaining the IT solution as well after the initial implementation by eGov Foundation. While this approach has ensured a high degree of internalization, it has also posed challenges of a different nature. Recruiting and retaining IT personnel in Bengaluru, a thriving IT hub has proved difficult. Moreover, keeping abreast of new technologies and applying them has proved difficult given the fact that IT is not a core competence of the KMDS. A more realistic alternative could be that the State maintains a core team of IT personnel who are trained in IT procurement and contract management rather than get into core development and maintenance. The actual responsibility of development, enhancement and maintenance can then be contracted out to private players selected through a competitive process.
11. Fund accounting is an inherently complex system, requiring the Fund distinction to be maintained at all stages of budget planning and execution. It also involves significant effort in reconciliation of inter-fund balances and more error-prone. Unless the Fund accounting is largely automated by the

IT solution, it is a tedious task for the accountant. However, Karnataka's experience suggests that, when followed properly, it enables good budgetary and funds control and provides valuable information for decision-making.

12. In all States, the transition to accrual has meant the implementation of a technology solution for accounting. In most cases, a single solution is implemented State-wide (except Rajasthan where accounts are maintained by individually ULBs and Odisha where the State-wide solution is now being rolled out). However, State municipal accounting manuals continue to be suited for a manual accounting setup (in the case of Odisha, the MAM can be made applicable in a digital accounting environment with some tweaks). It is important to consider the proposed IT solution while writing the MAM. This would mean that the process explanation for different types of accounting transactions in the MAM reflect the process flow in the software (in terms of the screens, workflows, and validations). In fact, the best manual would be one which integrates the accounting and software usage aspects for each type of transaction. Achieving this presents some challenges in terms of sequencing the manual preparation in the reform plan since there is a mutual dependency between the manual and software design⁷. This can be handled by introducing an additional step of updating the MAM once the software is ready and tested.
13. For training to be effective, while accounting knowledge of the trainer is important, his/her domain expertise is crucial as is evident from Karnataka's initial experience with using accounting lecturers and professors as trainers. The training was observed to be a lot more effective when select ULB accountants with hands-on experience were used as master trainers. It is also important that the first round of training must be imparted by the State IC and the FLCs; subsequent refresher trainings can be handled by personnel specifically trained for imparting training. Further, the experience of Karnataka and Tamil Nadu indicate that specialized government training institutions like the SIUD in Karnataka and Tamil Nadu Institute of Urban Studies (TNIUS) in Tamil Nadu are better placed to run large-scale training programmes on an ongoing basis than the UDD itself.
14. A decentralized project implementation structure as was followed in the case of Karnataka, in which parts of the project supervision, training and support functions were placed at the district level proves very effective. It reduces the time required to address ground-level issues, enables more rigorous follow-up of remedial actions, and improves accessibility of technical expertise for ULBs.
15. It is very important to create required capacities at the State level as well as in the ULBs to be able to implement and sustain the reforms. At the State level, there is a need for professionally qualified accountants and senior IT engineers. Junior accountants and programmers can be placed under them depending on the need. Further administrators and project managers are

⁷ Also, in many cases, the agency preparing the manual may be different from the software implementation agency

required at senior levels at the State. At the ULB, there is a need for qualified accountants and IT personnel. the number of positions can vary depending on the size of the ULB. Additionally, trainers are required at the State level and district level during implementation as well as subsequently for ongoing training.

16. The practice of sending new Accountants on a week-long training to nearby ULB is a good practice. This would enable them to understand accounting aspects hands-on.
17. Creation of positions of Accountant and Programmer in ULBs as was done in Karnataka (and subsequently many States) is a step in the right direction in addressing capacity issues. However, this must be accompanied by a process of regular recruitment and filling up of posts as they fall vacant. Unless this is done, the HR reforms are confined to good policy actions without ground implementation.
18. It is not sufficient to train only the accounting staff. Accrual accounting implementation touches the business processes of almost all ULB departments. Therefore, training must be imparted to staff of other departments also to the extent of their role in the proper functioning of the system.
19. A major milestone marking complete transition is the discontinuance of the legacy (manual/electronic) system completely. This is achieved when the government can notify that only system generated FS should be used and produced by audit.
20. Except in Tamil Nadu, in all States, FS audit of ULB is separate from statutory audit and is performed by CA firms. However, the statutes do not tightly integrate FS audit with statutory audit. This is because the need for FS audit has arisen more as a means to satisfy grant eligibility (14th CFC performance grants, AMRUT grants, 15th CFC basic grants) rather than as an integral part of financial/statutory audit. Even in the case of Karnataka, where the FS audit is required by statute, the FS auditor's observations do not form part of the statutory auditor's (KSAAD's) audit report. This creates a situation where the FS audit observations do not get the attention that is accorded to the statutory auditor's observations.
21. In States where the transition has been successful, usage of MIS reports for obtaining information for decision making is happening. However, the usage of financial statements is almost nil. Increasing the usage of FS for decision-making would require a lot more capacity building on interpreting FS and using them for decision making. In States where centralized data is available, the State UDD should look at implementing a decision support system and data analytics solution which can generate governance insights at ULB, district and State level by combining the financial data and other data sets.

4.8 BANGALORE

Bruhat Bengaluru Mahanagara Palike (BBMP) is the Corporation of the city of Bangalore. It is the fourth largest municipal corporation in the country by population. Its jurisdiction has increased over 10 times in the last six decades and currently spreads over 741 square kilometers⁸. For 2020-21, BBMP presented an annual expenditure budget of INR 9,281 crores. The BBMP is governed by an exclusive legislation, the Bruhat Bengaluru Mahanagara Palike Act, 2020.

This writeup tries to capture in brief the approach and key highlights of Phase 1 (2000 to 2003 as well as Phase 2 reform (2016 onwards)).

A. Planning and Project Management

In **Phase 1**, FBAS was implemented under one of the projects championed by the Bangalore Agenda Task Force (BATF) - a PPP between the Government of Karnataka and industry. BATF assisted BBMP with technical (through external consultants, which included retired staff with ULB experience), project management and financial support for rolling out FBAS. The support ran from 1999 to 2004 after which BBMP took over the system. The Special Commissioner (Finance), a post created as part of the reform led the project from the BBMP's side. Regular reviews (weekly) between the consultants, BBMP and the BATF ensured that the project remained on track and bottlenecks were resolved quickly.

In **Phase 2** (ongoing since 2015), BBMP is undertaking the implementation through an in-house team. An internal Expert Committee was formed for implementation of the new accounting system comprising of the Special Commissioner (Finance) as the Chairman, the Chief Accounts Officer as the Secretary, and senior accounts personnel as the members.

B. Accounting Rules and Manual

In **Phase 1**, the BMP (Accounts) Regulation, 2001 were introduced which gave legitimacy to the FBAS. The FBAS itself was based on the fund accounting principles outlined in Statement Number 34 of the GASB, USA, modified to suit Indian requirements. An FBAS Accounts Manual was also prepared.

In **Phase 2**, following the decision to modify the KMABR, 2006 to suit BBMP's requirements, an internal team worked on drafting the BBMP Accounts and Budget Management Rules, 2020. The rules include all forms and formats required for accounting different types of transactions. The draft Rules have been approved by the Council and have been sent to the State Government for approval. No separate accounts manual is planned. The Chart of Accounts largely follows the structure prescribed in the NMAM. BBMP has decided not to follow fund accounting system as prescribed in the NMAM.

⁸ <https://site.bbmp.gov.in/historyofbbmp.html>

C. Technology solution

For **Phase 1** implementation, the core FBAS software was provided by a private firm free of cost to BBMP. The software lacked several essential features and took considerable rework by the BATF team to make it suitable for BBMP's accounting requirements. Moreover, BBMP was not handed down the source code of the software, which meant that it was difficult to carry out any changes. Nevertheless, the team of consultants worked on the skeletal software and introduced some innovative features such as a cheque printing module, a versatile reporting engine, ward-level MIS, and a basic public works module.

During **Phase 2**, BBMP has an arrangement with a software agency for developing various e-Governance modules. Although the agency has not yet developed a complete accounting system, certain modules (for instance, receipts module, budget preparation and budgetary control module, DC bill module, works module, HRMS module, and payment gateway integrations etc.) have been implemented as part of the Integrated Financial Management System (IFMS) solution. The IFMS software is being continually upgraded to meet the ever-changing requirements of BBMP. Once the draft Rules are approved by the government, BBMP intends to get the core accounts module of IFMS developed by the same agency and integrate with other modules.

All the data is stored on BBMP servers. BBMP has access to the source code of the application software.

D. Implementation

Phase 1 implementation was largely handled by BATF with the help of external consultants. Implementing the system took around four years (1999 to 2003). The implementation covered policy, process, people, and technology aspects. BBMP entered into important agreements with external stakeholders like the State Government (committing to financial reforms) and with bankers (for streamlining funds management). Structural changes were also introduced to facilitate smooth implementation. Business processes were reengineered to suit information flows for accrual accounting.

Prior to commencement of **Phase 2**, a study was undertaken with the objective of identifying the changes required to transition to a robust accounting system. The study was undertaken by external consultants. The consultant team met with officials across BBMP to collate their suggestions on the proposed new Rules. Based on the study, it was decided to modify the Karnataka Municipal Accounts and Budget Rules, 2006⁹ and adopt it to the requirements of BBMP. Legal changes, being a long-drawn process, in the interim, BBMP has engaged CA firms to maintain accounts on double entry basis and produce BBMP's financial statements. Likewise, BBMP has prepared the budget for 2021-22 as per the new structure prescribed in the draft Rules by mapping the old budget codes to the new codes. The Council has also approved maintenance of accounts for 2021-22 as per the new format.

9 Applicable to all other ULBs in Karnataka

A detailed implementation plan has been drafted by the Expert Committee formed for implementing the new accounting system. The Committee has suggested the forming of a Central Accounting Cell, which will initially monitor the rollout and subsequently monitor complete and correct accounting under the new system. The Cell will be a mix of in-house and outsourced personnel. The Cell will be responsible for ensuring correct accounting of transactions recorded in various modules of IFMS and for generation of financial statements. It will also provide MIS to the BBMP Finance Department and senior administration.

E. Opening Balance Sheet

In **Phase 1**, the BATF consultants undertook the opening balance sheet preparation. BBMP engaged a team of engineers to undertake a city-wide survey of immovable assets and their valuation. The assets thus valued were incorporated into the opening balance sheet. However, following the preparation of the opening balance sheet, no fixed assets register was maintained, neither was an electronic system of assets management implemented. As a result, there is no record of the changes to the assets after the opening balance sheet.

In **Phase 2**, BBMP intends to undertake a comprehensive exercise to list and value all assets and liabilities for recreating the opening balance sheet. This exercise will rely on FBAS records, physical records maintained in BBMP offices and a physical survey to achieve this purpose.

F. Human Resources and Training

Specific organizational changes were introduced in **Phase 1** to enable a complete transition to FBAS. An Assistant Commissioner (Finance) post was created in the Head Office. Likewise, zonal Assistant Controller (Finance) posts were created at the zones. The offices of the Zonal ACFs were staffed with accounts superintendents, assistants and clerks as needed. This brought in a decentralized accounts setup. A central FBAS Cell, staffed with BATF consultants, supported the Assistant Commissioner (Finance) and the Chief Accounts Officer on all accounts and finance matters.

Phase 1 mainly involved the consultants handling the core FBAS activities right from original implementation all the way till 2015. While BBMP staff were oriented on the revised processes through training sessions, internalization of the core FBAS functions never happened. However, at the time of handover of the system to BBMP by the consultants in 2015, extensive training programmes were organized for BBMP accounts personnel.

Under **Phase 2**, a Central Accounts Cell is being proposed for implementing the new accounting system and running it on an ongoing basis. A specialized unit at the centre along with automation of accounting entries based on transactions would ensure that BBMP is able to implement the new system with minimal glitches. The CAC will be headed by an ACF or DCF and will be supported by a team of CAs and accounts personnel engaged through external consultants. Once the **Phase 2** implementation begins in full steam, training will be organized for BBMP staff. BBMP is yet to undertake a training needs assessment in this phase.

G. Financial Statements and Audit

The software implemented in **Phase 1** was not able to produce a system-generated balance sheet. Significant adjustments were necessary for generation of financial statements. FBAS financial statements were never subject to audit by the State auditor nor an independent auditor. However, for many years, BBMP followed the practice of publishing its unaudited financial statements in leading newspapers in the month of April itself. Civic agencies worked with citizen groups to raise awareness about the BBMP's finances. Initiatives like Public Record of Operations and Finances (PROOF) was a unique initiative under which open interactions were organized between BBMP officials and citizens on its financial results. BBMP has never had a system of internal audit all these years.

THE ECONOMIC TIMES ON SUNDAY

BRUHAT BANGALORE MAHANAGARA PALIKE
Financial Statements (Un-audited) of BMP for the year ended 31st March 2007

REVENUE & EXPENDITURE STATEMENT for the period 01/04/2006 to 31/03/2007

BALANCE SHEET as on 31-03-2007				REVENUE & EXPENDITURE STATEMENT for the period 01/04/2006 to 31/03/2007			
as on 31-03-2007				2007			
Particulars	2006-07	2007-08	2007-08	Particulars	2006-07	2007-08	2007-08
LIABILITIES				REVENUE (Credit)			
Fixed Balance	2,009.54	347,254.49	270.00	Grant	18,822.01	18,822.01	25,000.00
Long Term Liabilities				Long Term Loans	21,202.81	-	21,202.81
Current Liabilities				Non Tax Revenues	48,224.42	-	48,224.42
Capital Liabilities	8,806.34	8,806.34	8,806.34	Revenue (Revenue)	20,208.24	-	20,208.24
Deposits	7,459.89	7,459.89	7,459.89	Grant	1,487.71	1,475.54	8,822.20
Provisions	35,836.11	35,836.11	35,836.11	Non Tax Revenues	668.87	188.89	8,822.20
Other Provisions	45,000.00	45,000.00	45,000.00	Other Revenues	48,886.67	-	48,886.67
Year End Balances	802.00	408.23	1,388.23	Tax Revenues	75,196.41	1,774.44	73,899.89
Shorter of Funds for Fixed Assets				Total	104,608.95	1,774.44	104,608.95
ASSETS				EXPENDITURE (Debit)			
Fixed Assets				Buildings	1,744.14	-	1,744.14
Land	68,831.27	207.71	68,831.27	Infrastructure Assets	43,891.20	-	43,891.20
Land	178,821.44	18,794.19	178,821.44	Land	5,100.94	-	5,100.94
Other Assets	6.39	6,119.82	6,119.82	Other Assets	2,887.02	-	2,887.02
Intangible Assets				Repayment of Long Term Loans	9,700.87	-	9,700.87
Current Assets				Vehicle	15.00	-	15.00
Inventory	179.90	-	179.90	Total	62,216.97	-	62,216.97
Investments	18,168.68	36,800.00	18,168.68	EXPENDITURE (Revenue)			
Capital & Bond Reserves	16,251.51	1,782.20	16,251.51	Capital Expenditure	528.48	-	528.48
Loans and Advances	5,289.76	5,289.76	5,289.76	Current Expenditure	4,197.77	-	4,197.77
Year End Balances	27,914.42	2,112.20	18,168.68	Financial Expenses	4,403.01	-	4,403.01
Applicable Long Term Liabilities	402.22	600.00	1,388.23	General Administration Expenses	1,288.61	40.82	1,288.61
Work in Progress	31,893.00	31,893.00	31,893.00	General Expenses	3,275.84	21.53	3,275.84
Total	78,974.47	248,112.87	270.00	M & R Building	407.79	20.29	407.79
				M & R Infrastructure Assets	67.02	-	67.02
				M & R Land	207.21	-	207.21
				M & R Other Assets	1,400.89	-	1,400.89
				M & R Vehicle	165.69	-	165.69
				Physical Education Activities	4.00	-	4.00
				Public Health	5,820.24	-	5,820.24
				Public Works	632.22	-	632.22
				Safety Expenses	12,201.14	20.84	12,201.14
				Welfare Activities	1,646.73	-	1,646.73
				Total	36,593.27	102.34	36,479.72
				Total	104,608.95	1,774.44	104,608.95

CASH FLOW STATEMENT for the period 01/04/2006 to 31/03/2007

Particulars	2006-07	2007-08
Opening Balance as on 01 st April	3,989.87	3,989.87
Receipts	1,28,222.51	1,28,222.51
Payments	1,22,724.08	1,22,724.08
Closing Balance as on 31 st March	18,179.30	1,817.30

Consolidated Receipts & Payments Statement of new zones of BBMP (erstwhile CMCs / TMC) for the year ended 31st March 2007

PARTICULARS	BOMMASALU	BUDANURPURA	ISARASALU	KENKERE	A R PUDUR	MAANDAPURA	K R BANGE	TELANGANA	TOTAL
Receipts									
Tax Receipts	1,202.82	1,208.31	700.00	199.75	690.49	1,687.83	802.28	478.24	7,569.29
Non Tax Revenues	814.14	671.36	127.00	88.49	229.29	1,029.94	478.23	48.00	3,391.18
Investments	150.00	-	-	191.87	-	1,192.54	-	-	1,534.21
Grants	1,583.51	644.12	1,022.20	229.81	144.62	844.69	708.89	107.89	6,141.53
Long Term Loans	383.89	27.81	1.43	7.39	14.19	217.79	70.88	8.12	722.37
Current Assets / Liabilities									
Total Receipts	3,417.49	3,028.44	1,898.89	727.83	1,086.71	3,861.89	2,087.40	1,833.21	19,377.64
Payments									
Administrative Expenses	292.13	226.49	582.05	107.11	217.47	297.05	168.16	190.99	2,082.06
Financial Expenses	6.16	2.98	6.20	6.00	2.80	89.00	8.00	-	78.44
Fixed Assets	362.00	71.19	98.42	389.04	108.80	1,407.00	1,177.73	139.49	4,576.27
Investments	-	100.00	-	-	16.43	500.00	-	-	616.43
Welfare Expenditure	108.47	800.20	60.87	6.14	28.37	83.37	54.17	-	998.08
Health Expenditure	298.42	192.22	4.80	64.84	102.25	243.26	792.26	113.41	1,544.47
Welfare Activities	6.88	177.65	81.28	6.89	5.42	-	7.75	6.83	269.82
Infrastructure	1,507.00	175.11	827.49	70.88	482.24	220.02	177.25	182.22	4,498.24
Revenue Fund	2.82	2.82	2.82	-	-	-	-	-	6.46
Zonal Engineering - Public Works	875.99	1,175.93	377.20	117.25	809.80	2,897.49	1,009.79	260.90	7,115.05
Current Assets / Liabilities	487.59	300.04	129.72	4.05	16.28	214.77	189.34	11.89	1,577.43
Total Payments	4,883.69	3,891.82	3,262.87	741.63	1,891.69	4,398.92	3,866.38	929.81	20,397.47
Closing Balance	488.50	182.80	284.19	69.41	148.31	1,109.99	185.61	222.89	3,814.41

NOTES:

- The first year assets BBMP on Bommassalu, Budanurpura, Isarassalu, Kenkere and Arpudur.
- The accounts are provisional and subject to audit.
- Previous year figures have been regrouped, reclassified and restated wherever necessary.
- Property Tax has been accounted on half-yearly basis on 1st April, 2006 and on 1st October, 2006.
- SFC Grants, Exchange on Stamp duty are accounted on the basis of Government order for each release.
- Interest on Long Term Loans are accounted on accrual basis.
- Interest on Investments is accounted on accrual basis.
- Fixed Assets pertaining to Governmental Fund have been shown under Fixed Assets Accounting group.
- Long Term Liabilities pertaining to Governmental Fund have been shown in the Long Term Debt Accounting Group.
- Long term loan balances are subject to reconciliation with the respective lending agencies.
- Changes to amounts shown under Assets and Liabilities as on 1st April 2007 (Opening Balance Sheet) have been accounted by adjusting them to the "Opening Balance Adjustment Account".

Sanjeev Desh
Asst. Commissioner (Finance)
Bruhat Bangalore Mahanagara Palike

Deepak Doreywar
Chief Accounts Officer
Bruhat Bangalore Mahanagara Palike

K. Jalraj
Commissioner
Bruhat Bangalore Mahanagara Palike

Exhibit 16: BBMP financial statements for the year ending 31st March 2007 published in The Economic Times

Under **Phase 2**, financial statements audit requirement has been inbuilt into the Rules itself. Such audit is meant to be conducted by Chartered Accountants. The Rules also provide for internal audit. BBMP has established an internal audit wing comprising of four Audit Officers. However, there is a need to further strengthen the wing as well as the mandate of internal audit by introducing elements of risk-based audit.

H. Present situation

After taking over from BATF, BBMP ran the FBAS system from 2004 until 2015. The core FBAS functions were outsourced to external consultants, but the responsibility of furnishing data for complete and correct accounting was of the BBMP officials. However, BBMP did not undertake any upgrades to the software, neither integration of the software with other IT systems that were implemented was undertaken (such as NIC's property tax system, IFMS etc.).

After 2015, BBMP has outsourced the task of maintaining accrual-based accounts to external consultants. The consultants take data from BBMP systems (manual as well as electronic), digitize the data, and generate financial statements. This is working as a stop-gap arrangement until BBMP implements and transitions to its own accounting software based on the new Accounts Rules.

Accrual accounting is yet to be fully implemented under the above arrangement. For tax revenue, accrual entries are passed at the beginning of the year. Other revenues are not accrued. On the expenditure side, accounting happens only when payments are made. Year-end provision is made for bills received at the Head Office but remaining outstanding at the end of the year. On the same lines, year-end provisions are made for expense outstanding at the end of the year.

BBMP has tried to digitalize various accounts and finance related functions. These include an elaborate system of budgetary control, bills recording and payments, a public works management system, rationalization of bank accounts, complete shift to electronic payments and so on. It is now time to implement a comprehensive accounting and financial reporting system and integrate these solutions into it.

I. Key learnings

1. The transition to accrual accounting is not a one-time exercise. To sustain it over a period, and to preclude a tendency to revert to the legacy system, it is important that the government should own the process in-house and establish a process of continuous improvement. While external consultants can chip in with subject matter expertise, the transition must be owned and managed in-house. Very often, changes to business processes in other municipal functions impacts the accounting processes. A competent in-house team can ensure that the corresponding changes to accounting process flows are carried out so that correct accounting is ensured.
2. It is always desirable to get the auditors on board right from commencement of the reform project. The auditor is an important stakeholder in the project. It is important that he audits only the accounts generated from the system. The BBMP experience shows that unless the accrual-based financial statements

are subject to audit by the auditor, they are never accorded the importance they deserve. Further, there is a tendency to stop generating the financial statements after some time and revert to the old system.

3. It is important to keep upgrading the technology solution and reengineer business processes from time to time. If upgrades are not done in time, even the best of systems can become ineffective over time. BBMP could not capitalize on the excellent initial results since it continued to work with the same system that was first implemented in 2000 even after 15 years.
4. A reform initiative has two sides to it – the demand side (which determines the need for reform) and the supply side (which looks at the reform implementation) – and most reform initiatives do not give equal importance to both the sides. Phase 1 experience of Bangalore showed that when both the sides are addressed holistically, the chances of success increase significantly. While on one hand BATF worked closely with BBMP in ensuring that the required human, technical, technological, and financial resources to achieve the transition to accrual accounting were available, on the other hand, organizations like Janaagraha (with its PROOF initiative) and the Public Affairs Centre (with the citizen scorecard initiative) worked on empowering citizens to demand financial accountability and transparency from BBMP. Likewise, the ward-level MIS ensured that elected representatives drew benefit from the system. These interventions ensured that long after the change agents i.e., BATF withdrew, the change sustained. But even this can take the initiative only that far. Unless a cycle of continuous improvement is established, sustaining the change becomes difficult, as discussed under a separate point.

4.9 ODISHA

The national share of urban population of Odisha is 3.7%. The State has an urbanization rate of 16.7% as against the national average of 31.1% which is the fourth lowest in the country. The State government has devolved 17 of the 18 functions to ULBs. Odisha has 114 urban local bodies including five municipal corporations. The State runs a programme named 'SUJOG - Sustainable Urban Services in a Jiffy' to roll out e-Governance services across all ULBs in the State.

The State has made two attempts towards the transition to accrual accounting in ULBs. The first attempt was around 2012 and the second one is in progress (2021). In the first attempt, the State undertook legislative amendments, prepared the State municipal accounts manual and also implemented a technology solution. The focus, however, was on the municipal corporations alone. In the current reforms (second attempt), the State has revised the MAM and is taking up financial reforms as part of an overall municipal e-Governance initiative. This time the focus is more on implementing a technology solution across all ULBs.

A. Planning and Project Management

The 2012 attempt was largely handled in-house by the Housing and Urban Development Department. The 2020-21 reforms are also being implemented by the H&UDD. A Steering Committee chaired by the Principal Secretary (H&UDD) has been constituted to provide overall direction to the reforms. The Steering Committee has representatives from OUIDF and Janaagraha, a non-government organization and subject matter experts. A Project Management Unit has been set up and outsourced to Ernst & Young, a private firm.

B. Accounting Manual and Rules

In 2012, necessary amendments were introduced in the municipal acts to facilitate implementation of accrual accounting. The Odisha Municipal (Accounts) Rules were also formulated and the Odisha Municipal Accounts Manual was developed. The focus at that time was largely on the municipal corporations only. To cater to all ULBs in the State, during the current implementation, a revised Municipal Accounts Manual has been prepared with Janaagraha's support. However, the revised manual was prepared after the software (DIGIT) implementation started, which means that another round of changes would need to be carried out in the software to bring it in line with the revised manual. Janaagraha has also submitted a set of amendments that would be required in the municipal Acts and Rules to align them to the new accounting system. These are yet to be taken up by the H&UDD.

C. Technology Solution

The 2012 implementation was done on eMunicipality, a software built by M/s Tata Consultancy Services (TCS). The software uses Oracle as the database and is hosted centrally on the Odisha State Data Centre. This software was in use until recently (mid 2021) although the implementation was never complete. The present implementation

is using DIGIT, a municipal e-Governance platform developed by eGov Foundation. In addition to the Finance & Accounts modules, the current implementation covers the trade license, citizen grievance redressal, online building plan approval, water charges, and property tax modules. The data in eMunicipality is proposed to be migrated to DIGIT. Data migration is the responsibility of the implementing agency. The implementing agency is also tasked with digitizing data in physical form to the extent necessary for the rollout. Janaagraha has helped in testing the Finance and Accounts module. Maintenance aspects and helpdesk operation are included in the implementing agency's terms of reference. The DIGIT platform is open-source and the implementing agency is required to hand over the source codes and documentation pertaining to the customization to H&UDD at the end of the implementation.

D. Implementation

The 2012 implementation was largely handled in-house. It covered only the municipal corporations initially and extended to other ULBs. Accounts are being maintained from 2013-14 under the accrual-based system on eMunicipality. The present implementation, which started in late 2019, covers all ULBs in the State. For the present implementation, M/s Price Waterhouse Coopers (PwC) is tasked with customizing the solution and implementing it to suit the needs of Odisha ULBs. Janaagraha is advising the H&UDD in the reforms under a separate Memorandum of Understanding.

E. Opening Balance Sheet

Not much information is available on the process followed for preparing the opening balance sheets during the 2012 implementation. Since the accounts data in eMunicipality is not complete, the task of preparing the opening balance sheet needs to be taken up afresh for all ULBs in the current implementation. This exercise is yet to start.

F. Human Resource and Training

Accountants are deployed in all the ULBs. These Accountants are recruited on a contract basis and are not on the permanent rolls. Vacancies and high turnover are few challenges faced. There is no information on the training activities carried out in the 2012 implementation. Under the present implementation, the project implementing agency has been tasked with imparting training. The terms of reference require 510 staff to be trained. Such training is going on as part of the DIGIT rollout. However, the training is mostly on the DIGIT software. Training on accounts concepts and procedures is not included.

G. Financial statements and audit

The eMunicipality software can generate financial statements. However, due to data completeness issues and delays, the system-generated financial statements are not used in practice. The Directorate of Local Fund Audit is the primary auditor of ULBs in the State. However, the Directorate continues to audit the cash-based accounts and

does not undertake financial statements audit. In order to meet the grant conditions of AMRUT, 14th CFC and 15th CFC, the H&UDD has commissioned financial statements audit separately. Initially, financial statements audit starting from FY 2013-14 was undertaken in the nine AMRUT cities by engaging CA firms. In the past two years, a larger number of ULBs are engaging CA firms for financial statements audit to meet the eligibility conditions of the 15th CFC grants. The State has constituted State-level and district-level Audit Settlement and Monitoring Committees for settlement of Local Fund audit paras.

H. Present situation

Implementation of DIGIT software is underway since September 2021. It is expected to take a few more months for the implementation to fully stabilize. Odisha needs to initiate the connected activities of carrying out the legal amendments, filling up accountant vacancies, roll out accounting and process training, getting the opening balance sheet prepared, and integrating financial statements audit with primary audit by the DLFA.

I. Key Learnings

1. **State-wide approach helps:** It is desirable to adopt a State-wide rollout approach at the reform planning stage itself. Doing so would ensure that the policy changes, the accounts manual, process reengineering, and software design would consider the requirements of all types of ULBs in the State. During the 2012 reforms in Odisha, the focus seemed to be on municipal corporations only, which made it difficult to achieve a State-wide rollout later.
2. **Legacy systems must be discontinued:** In Odisha, the legacy system was allowed to continue in spite of implementing eMunicipality. As a result, stakeholders continued to rely on the legacy system. Over time, the data on eMunicipality lost its relevance since it was inaccurate and incomplete, defeating the original purpose of the implementation itself. Till date, the auditors continue to audit the cash-based accounts and the manual system is used for reporting also.
3. **Important to learn from past experience:** Odisha had rich experience of the 2012 reform implementation which should have ideally informed the strategy for the current implementation. However, key success factors like policy changes before implementation, accounts manual as a precursor to software customization, resourcing ULBs with accountants, conceptual and procedural training in addition to software training, and commencing the opening balance sheet exercise well before rollout have not been ensured in the present implementation. Given that the learnings from past reform efforts would be largely undocumented, it helps if key actors within the system and outside are consulted, and associated files are reviewed before initiating the subsequent reform exercise.
4. **IT implementation as a surrogate for accounting reforms is flawed:** Accrual

accounting transition require significant policy work, process changes, and human resource capacities to be created for the benefit of technology intervention to be realized. Proceeding with implementing the technology solution without addressing the above along with change management aspects significantly increases the risk of failure or results in an inordinately long reform process. It also creates confusion in the end-users (primarily the accounts staff and auditors) who are most affected by the transition. Experience of Tamil Nadu and Karnataka have shown that when the sequencing of reform steps is right, the transition path is smoother.

5. **Need for State capacities:** In the absence of internal capacity in the State (H&UDD in this case), managing engagements with multiple agencies/service providers proves difficult. In the case of Odisha, involvement of multiple agencies (the project management unit, the implementing agency, the DIGIT platform provider, and Janaagraha) posed challenges of coordination and accountability fixing at times. It is desirable that a reasonable level of capacity in public finance, procurement, and contract management, change management and project management, and IT must be created from the inception. This would also ensure that the State is able take over the system once the change agents exit after their engagement.

4.10 RAJASTHAN

The urban population of Rajasthan at 24.87% is much less than the national average of 31.14%¹⁰. It ranks seventh in population and first in land area covered in the country. There are 218 ULBs in Rajasthan: 10 Corporations, 34 Councils, and 147 Municipalities.

A. Planning and Project Management

A Municipal Finance Reforms Cell (MFRC) was created within the Directorate of Local Bodies under Department of Local Self-Government (D-LSG) with an Officer deputed from the Jaipur Municipal Corporation, also a Chartered Accountant, and supported by Janaagraha with a CA deputed at the office of the DLB. This Cell was responsible for the implementation of the reform project. The overall team was led by the Chief Accounts Officer (CAO) at the DLB.

The project was executed through a Memorandum of Understanding (MoU) between D-LSG Rajasthan and Janaagraha Centre for Citizenship and Democracy on 11 May 2015 for the period up to 31 March 2018, and then MoU dated 24 Nov 2017 for period up to 31 Oct 2021, for Janaagraha to provide support on getting accountants and auditors empaneled, and then project managing the completion of audited annual accounts. This project was undertaken independent of the municipal e-Governance initiatives of the State.

B. Accounting Manual

The Rajasthan Municipal Accounting Manual was prepared by the Institute of Public Auditors of India, Rajasthan Chapter, Jaipur based on National Municipal Accounts Manual keeping in view the requirements of the State.

The RMAM comprises 28 chapters over 344 pages including chapters on accounting concepts and conventions, codification structure and chart of accounts, general accounting procedures, 17 chapters on individual function/BS/I & E heads, and chapters on mergers, period end procedures, reconciliation, financial statements, audit reports, budgeting and MIS, and guidelines for opening balance sheet preparation. In addition, there are detailed Forms for each chapter over 150 pages.

Necessary empowerment was given by introducing a new rule 101 vide Rajasthan Municipalities Accounts (Amendment) Rules 2007 (to amend the Rajasthan Municipalities Accounts Rules, 1963) which mandated RMAM in all municipalities of Rajasthan.

C. Technology Solution

Technology was not part of the reform project plan. The Smart Raj project¹¹ commenced and there were preliminary conversations to converge efforts of the

¹⁰ Table 1.3, Handbook of Urban Statistics 2019, MoHUA (2019)

¹¹ <https://urban.rajasthan.gov.in/content/raj/udh/en/organizations/rudsico/sectors-programmes/smart-raj.html>

MFRC and Smart Raj. But subsequently it is understood that Smart Raj itself did not proceed on expected lines¹².

Originally, the large ULBs had their own solutions run by TP Ostwal. These were originally supposed to be subsumed by Smart Raj.

D. Implementation

State-wide scale was determined at inception itself and all the ULBs were included. The MFRC was responsible for continuous monitoring of empanelment, appointment, progress of work by CAs, completion and then publication of audited annual accounts on the Director of Local Bodies (DLB) website.

The focus of the project was more on ensuring that audited annual accounts were completed and published, given that most records were on cash basis, and in manual records.

The MFRC was funded by respective organizations, i.e., govt staff by DLB and Janaagraha staff by Janaagraha. Fees for accounting and audit services were borne by respective ULBs. The fees were ascertained through a tendering process and bidders who were NOT the lowest bidders had to express their consent for the lowest fee if they had to be appointed.

The main incentive to the ULBs/State was performance grants under XIV Finance Commission. The progress as of July 2019 was:

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
No. of ULBs which have completed accounts & audit	177	180	180	151	20
No. of ULBs which have not completed accounts & audit	11	8	8	40	171
Total	188	188	188	191	191

E. Opening Balance Sheet

CA firms engaged for providing accounting services were tasked with preparing the opening balance sheet where not available. No separate process of opening balance sheet certification was carried out. It is not clear how the enumeration of assets and their valuation was carried out.

F. Human resources and Training

The status of human resource capacities was very weak. In certain cases, accounting records were being maintained by firemen, in certain cases by sanitary dafedars etc. CAs were appointed for providing accounting services.

¹² <https://timesofindia.indiatimes.com/city/jaipur/smart-raj-3-firms-to-get-final-termination-notice/articleshow/74142570.cms>

G. Financial Statements and Audit

The financial statements were prepared manually. From the year 2013-14 the financial statements are being audited. Chartered Accountants empaneled by the C&AG of India are invited to apply for tenders subject to certain preconditions and are appointed based on lowest fees bid/accepted. The empanelment/appointment is carried out division-wise.

Under the ongoing Strengthening Public Financial Management in Rajasthan project undertaken with the support of World Bank, the State government is improving the effectiveness of the State Audit Department through measures like organizational restructuring, audit manual, an audit management solution, and training.

H. Present Situation

Implementation is still work in progress. There are several pending areas to be addressed from implementation of accounting software to resolution of qualifications in auditor's reports.

I. Key Learnings

1. **Capacity at the State level:** There's need for greater capacities at the State level itself to run a large program such as this, given the sheer scale (just for project management, even without factoring in training of staff). There was a great degree of person dependence particularly at the level of the DLB.
2. **Decentralized project management:** Possibly, in each Division, having a MFRC member would have worked wonders given the size of the State and scale in terms of number of ULBs.
3. **Empanelment process:** The empanelment process worked well but fixing the fee and then empanelment based on qualitative indicators on the lines of the Karnataka model would have served better.
4. **Getting the best out of outsourcing arrangements:** Checks and balances needed particularly with respect to CAs providing accounting services from the perspective of ownership and availability of records on double entry basis.
5. **Completeness of records:** Completeness of asset registers is a major challenge. This requires a separate track of work engaging specialists to make a full inventory of assets of ULBs.
6. **Helpline for the reform process and after:** There is also a need for a dedicated helpline of sorts with senior professionals at the State level to respond to challenges faced by CAs at the field level, and therefore to ensure better quality audit reports (to minimize number of disclaimers).
7. **Simple working solution before scaling up:** Particularly with respect to this topic, given its significance and sensitivity, it is better to implement a simple finance and accounting solution standalone and then link it to larger ERP level efforts, rather than sacrifice the finance and accounting module

at the altar of an ambitious complex project that is uncertain in terms of completion and timelines.

8. **Speed vs completeness and sustainability of the reforms:** While the Rajasthan model ensured that individual ULBs were able to quickly produce audited financial statements in satisfaction of grant eligibility conditions, it may not be the ideal model. In the absence of credible opening balance sheets and checks and balances to ensure accrual accounting at source as transactions occur, reliability of financial statements as instruments for financial management of ULBs is a matter of concern. The Rajasthan exercise did not involve any major process or systemic changes and purely relied on external help to convert the existing accounts to accrual-based financial statements. With such an approach, the barriers to revert to legacy systems are very low, thus raising questions on the sustainability of the reform. Unlike States like Tamil Nadu and Karnataka, where the reforms have reached a point of no return, in the case of Rajasthan there is a strong likelihood that once external compulsions (grant eligibility conditions in this case) are no longer there, the government machinery would not, by itself, make the effort of getting financial statements prepared on their own.

4.11 TAMIL NADU

Tamil Nadu is the 10th largest State in India by area and 6th largest by population. Urban population accounted for 48.40 % of the population of the State. The State has 661 urban local bodies including 21 city corporations, 110 municipalities, and 528 town panchayats.

A. Planning and Project Management

Phase 1

The architects of the reform were senior officials of the Government of Tamil Nadu (GOTN): Secretary-MAWS, Project Director-TNUDP II, CMA, CEO-TNUDF, Director-LFAD, Finance Specialist, deputed from Chennai Metropolitan Development Authority (CMDA). In 1999, a Government Order was issued confirming the migration to the new accounting system (GO No.87 dated 6/1/1999, MAWS Department, GoTN).

Review mechanisms were set up at all three levels: at ULB level by the respective Commissioners, Regional level by the Joint Directors, and at the State level by the Secretary, CMA, Project Directors, etc. There was close monitoring by the Commissionerate of Municipal Administration (CMA) office and the project was given top priority by the Secretary. It is due to the will of the Secretary supported by the senior officials, the committed commissioners at the ULB level, and the motivated staff at the operating level, the reform could be completed in a very short time. Within two years, the entire migration to accrual accounting system was undertaken by 100% of the ULBs in the State. It is also interesting to note that both the accounting manual under the accrual system, and the software were entirely prepared in-house.

CMA and TNUDP Project Director did the overall monitoring of the implementation including providing periodic instructions. The LFAD did the review of implementation from accounting perspective, apart from certifying the accounts prepared under the accrual system. In the monthly review meeting by CMA office, LFAD also participated, and the problems faced by ULBs were discussed and sorted out. Issues in maintenance of registers, even after training, other teething problems, and field level operational issues were often discussed and resolved. The JCMA focused on ULBs that did not migrate properly to Financial Accounting Systems and took the necessary actions.

Region wise teams were formed to supervise, review, and troubleshoot the process of implementation initially for the Manual and later for the FAS software. For the implementation of the ABAS Manual every month the trial balance was checked by the supervisory team comprising of representatives from the Tamil Nadu Urban Development Project (TNUDP), LFAD, the Manual authors, and in certain cases support of CA firms was used.

There are a few interesting cases of migration enabled by the commitment of the official team at the ULBs. The case of Karaikudi municipality is presented as a part of this study.

Phase 2

During this phase, post 2010, the coordination and project management was done by the CMA's office. Support of external consultants was made use of for project management, design of the software, drafting of the Tamil Nadu Municipal Accounting Manual in line with NMAM, software development, validation of design and testing of software, training, etc. Funding support and guidance from World Bank through the urban development projects also continued.

During this phase new web-based software was designed and implemented in line with the new Manual. All the ULB e-Governance modules were linked to the accounting software over a period, central data base created and hosted at the State Data Centre. Importantly the software was developed based on the municipal accounting manual.

The contracts with external consultants and service providers mandated a regular review of the progress of the project. Apart from that, review at the CMA's office on the progress also contributed to the implementation of accrual accounting in all the ULBs under MAWS (except for GCC which is outside the purview of MAWS).

B. Accounting Manual

Phase 1

Two senior officials of the State - the Joint Director of LFAD and Chief Auditor, Internal Audit Department were identified, and were entrusted with the task of drafting a manual for accrual-based accounting system. It is to be noted that at this time the NMAM was not in existence. GOTN took the support of ICAI for providing comments on the Manual and help in vetting the financial statement formats¹³.

Once the ABAS Manual was ready in 1999-2000 period, MAWS approved the manual for rollout. Extensive training was given to the staff of ULBs and LFAD (details discussed later) before the rollout.

Phase 2

One of the first activities in this phase (2010-11) was the revision of the "Manual for accrual-based accounting system" and preparation of TN Municipal Accounting Manual (TNMAM) in line with National Municipal Accounting Manual. Management and Governance Consulting (MaGC) Private Limited was appointed as the consultant for this task. This engagement was under the TNUDP. Along with the TNMAM, the consultants also prepared the TN Municipal Budget Manual incorporating outcome-based budgeting. The manual was based on a consultative approach involving officials of ULB and LFAD at various levels. Training for over 700 ULB/LFAD staff was also given (details discussed elsewhere in this study).

13 ICAI (2000) brought out 'Technical Guide on Accounting and Financial Reporting by Urban Local Bodies', understanding the need for such interventions.

C. Technology solution

Phase 1

After the implementation of the ABAS Manual, the need for preparing various financial statements prompted the need for having a software for ABAS. During 2004-05 under CMA's supervision Financial Accounting Software was developed, based on the ABAS Manual.

Various aspects of computerizing the record keeping started as early as 2000-01. Initially, the focus was to create database for each of the ULBs. Computerization of the birth and death registrations for generating and downloading the birth and death certificates online was initiated first, and this was followed by functions of Revenue Section. Based on the success of the Birth and Death and Revenue Section activities, Accounts Section showed interest to move to have their activities also computerized.

The FAS was developed by an in-house team with 15 Assistant Programmers. Since the team was in-house, it was familiar with existing system and process. Hence, a separate study on system and BPR was not carried out. The in-house team carried out the activities related to software specifications, design, and development. However, no documentation, soft or hard copy, is currently available. Also, at that time the focus was on computerizing the manual operations rather than BPR and integrated accounting as technology was still limited and connectivity was not available.

Since the system was developed in-house, the support was provided by the IT staff in matters relating to technology. Wherever required, external support was sought for.

Phase 2

CMA appointed PwC as the project management consultants "to plan, implement and monitor e-Governance projects in Urban Local Bodies under the control of CMA". In the Project Management Unit (PMU), PwC studied existing systems and processes followed in the ULBs and documented both "AS IS and "TO BE" process, and Functional Specifications Document (FSD) for the functions carried out by the ULBs. Based on this, "Request for Proposal" for appointing System Integrator (SI) for designing and developing centralized web-based solutions was developed.

Bahwan CyberTek (BCT) was appointed as the 'System Integrator' for the design and development of centralized web-based software solution. The solution was named as 'Urban Tree Information System' (UTIS) and it was planned as an ERP system with 29 modules and full integration feature. Currently it features 35+ modules.

Based on the progress and issues thereat, CMA appointed Management and Governance Consulting Private Limited as subject matter expert (consultant) to validate the FSD to support the software development and undertake testing of the first set of outputs from the system for functionality, usability, etc. This brought in the required clarity for the software developer/integrator in the early stages of e-Governance implementation and integration.

D. Implementation

Phase 1

The implementation of the ABAS Manual first took place, and all the records were maintained manually. During 1999-2000, six months' time was given to compile the 24 schedules for the opening balance sheet preparation as on 1st April 2000. Between 16th and 30th March 2001 all the ULBs moved to accrual accounting.

The implementation of the FAS followed the implementation of the Manual. An in-house team that designed and developed the FAS implemented it across all the ULBs. Since the software development was carried out in stages (in the order of Birth and Death Registration, Revenue and Accounts), the implementation was also done in the same order. Initially, a pilot implementation (Trichy Corporation and 5 municipalities) was undertaken before rollout to other ULBs. The FAS was developed between 2001 and 2003, followed by implementation between 2003 and 2004 region wise.

Also, the full rollout was done region by region (totally seven regions) starting with Thanjavur Region and then to other regions. The FAS implementation was also reviewed at various levels periodically. From 2004-05 the ULBs started using FAS for financial accounting and generating financial statements: income and expenditure and balance sheet.

Phase 2

BCT designed, developed, and implemented the UTIS. The implementation started with a pilot implementation in Pallavaram Municipality in Chennai. Based on the learning at Pallavaram, UTIS was implemented across the State, region wise. For every region, implementation was planned for a month. One ULB a day was the rollout plan. The main issue was that the UTIS was implemented on different days and hence the cut-off date for changeover to the new system was different in different ULBs.

MaGC (external consultant) was engaged for supporting the implementation of the modules related to accounts and finance (around 16 modules) by testing the modules, carrying out study on the readiness of the ULBs for implementation, providing inputs for customization of financial statements, registers, reports, etc., as per TNMAM, providing specific inputs for creating chart of accounts, sensitization training on preparing budgets and accounts, etc.

On stabilization, BCT was appointed for maintenance of the software in 2019. Currently BCT is on a three- year contract in this regard up till 2022.

The total cost of implementation during this phase is about Rs. 22 Crore, being the amount paid to various service providers and consultants including software and hardware. This does not include the costs incurred by the MAWS or the ULBs individually as a part of their regular budget.

The software codes prepared by BCT belongs to the CMA and is not under any licensing arrangement with BCT or with any vendors.

E. Opening Balance Sheet

Phase 1

Under the auspices of CMA, opening balance sheets were prepared for every ULB by the in-house team. The Manual for accrual accounting system had a chapter on preparing the opening balance sheet. It prescribed 24 schedules (20 – assets related and 4 – liability related) the preparation of which helped arriving at the opening balance sheet of ULB as of 1st April 2000. The schedules related to capturing the assets of the ULBs required full involvement of the ULB engineers and others focused on liabilities were done by the Accountants at the ULB. The fixed assets were valued based on the guidelines of the Registration department of the State by the Engineering and Town Planning Departments. The ABAS Manual had clear guidelines for the preparation of the opening balance sheet.

After 24 schedules were prepared, LFAD played a significant role in verifying and certifying these schedules and the resulting Opening Balance Sheet that resulted in arriving at opening balances for all the ULBs. There were cases of unreconciled balances, inadequate information about certain assets, issues in exact value of the revenue receivables, etc. However, on a case-to-case basis, these were addressed. In certain cases, the ULBs had taken the help of local CA firms in this regard.

Phase 2

The opening balance sheets were prepared in Phase 1 and for all the ULBs this process got completed during 1999-2000 itself.

F. Human Resource and Training

Phase 1

During this phase, one Assistant Programmer (AP) was placed in each ULB to roll out the FAS software. Many of the APs were involved from the software development stage itself. A large technical team was deployed comprising of one IT expert, 100 assistant programmers, and 55 data entry operators across the State.

Under the banner of the CMA, comprehensive training was imparted. Conceptual training on accounting and FAS was provided to ULB staff and LFAD staff – jointly as well as separately – at different times.

Conceptual training in ABAS Manual and Accounting

The team that prepared the Manual along with few project officials formed a core group which gave conceptual training to the ULB staff and LFAD staff on ABAS Manual and accrual accounting. Later a team was formed at the district level to provide training to the staff of the LFAD. The resource persons for the training were basically from within the department including retired personnel. Around 70 batches of trainees (about 1,400 persons) underwent training. Each batch had 20 participants (16 ULB and 4 LFAD) and the training duration was 5 days. In addition to

this, the training team visited ULBs region-wise and sensitized/supported the ULBs in preparing the accounts.

LFAD separately formed a Core team at the State level during the initial period to provide training to the LFAD staff. There were also instances where CA firms were appointed to prepare and help finalize the accounts of the ULBs and provide training to the staff of the ULB in matters relating to accrual accounting. Training was based on practical approaches. The LFAD visited ULBs and reviewed the registers and hands on training was provided. There were also instances where for some municipalities finalization of accounts under accrual basis was supported by firms of CAs along with training on related areas.

FAS training

Once the FAS software was ready, complete training was provided to the staff of the ULBs at Trichy. IT section was created in each ULB comprising Assistant Programmer and/or Data Entry Operator. Assistant Programmer trained the staff in FAS and later trained/supported the staff of the ULB and region levels. A two-member team went to each ULB to train the staff. Apart from this, in-house training was provided at the ULBs. At that time, there were 107 ULBs under CMA office in Tamil Nadu.

Phase 2

By the time the phase 2 began the employees were familiar in using FAS software and with the basic aspects of accrual accounting, though did not gain expertise in the same. Also, the introduction of a detailed TNMAM with improved chart of accounts and account coding system necessitated detailed training to the ULB/LFAD staff, which included the new format of financial statements, costing of services, financial analysis, etc. Training pertinent to accrual accounting and TNMAM was given by external consultants as a component under TNUDP, while the training on the Urban Tree software was provided by the software integrators.

Conceptual training

Conceptual training was outsourced to MaGC Private Limited during 2013/2014 to provide training on the Municipal Accounting Manual and Municipal Budget Manual. Totally 20 batches were conducted and around 700 officials and staff of the ULB and LFAD were trained at the Tamil Institute of Urban Studies, Coimbatore. The participants, which included accounting staff and important non-accounting and audit staff, were trained right from making entries in the books of accounts until preparation of financial statements as per the new NMAM based Accounting Manual. Two-day training programmes were provided to Municipal Commissioners and Managers, and five-day training programmes were provided to the accounting staff and LFAD staff.

UTIS training

Before the implementation, brief training was imparted to the users. After the implementation, regular trainings were provided. Presently, another set of training programmes to around 15,000 staff on using the UTIS is being planned.

One of the issues that had come up during the reform process is the need for staff with exposure to formal accounting, as accrual accounting is a technical process. This was recognized and the government created a cadre for accounting in 2016¹⁴. However, this decision has not been grounded.

G. Financial Statement and Audit

Phase 1

ULBs in Tamil Nadu are mandated to prepare accounting statements on accrual basis. While there was a shift in the way the financial statements were prepared from cash to accrual accounting, in the absence of FS audits, whether they completely followed accrual accounting is not clear.

ULBs in Tamil Nadu moved to accrual accounting from 2000-01. LFAD staff were trained in accrual accounting along with ULB staff. Audit of the ULBs is based on the accrual-based accounts only. However, the focus was not on certifying the statements, but on the audit of vouchers and issues of proprietary nature.

Phase 2

Annual accounts closing in more than 80% of the ULBs is stated to be complete by the night of 31st March, after which permission for making entries is not given except in genuine cases like corporations where the volumes of transactions are large. Still there are some irregular cases of ULBs which need attention. Whether the accounting happens perfectly as per the accrual accounting system across all the ULBs needs to be verified.

ULBs in Tamil Nadu follow Fund Accounting comprising of three funds. The financial statements are generated and audited separately for all the three funds. While there is a provision in the software for generating summary financial statements, that is not being done currently. Thus, overall financial position of the ULB is not known.

During this phase, the TN Municipal Audit Manual was updated in line with the TNMAM requirements. The Manual was prepared by MaGC based on a specific mandate from the Finance Department, GoTN. The LFAD staff were also given training on using the Manual.

During 2014¹⁵ the LFAD Act was passed, and the State appointed LFAD as the statutory auditor of the ULBs. The financial statements of ULBs are audited and certified by the LFAD. The use of Chartered Accountants is restricted to certifications for the purpose of withdrawal of finance commission funds, etc.

The audit of accounts for all the Corporations are under progress for 2020-21, and for 60 out of the 121 ULBs, the audit for 2020-21 is under progress and for the balance the audit is under progress.

¹⁴ GO Ms.No.26, Municipal Administration and Water Supply (ME1), 10th February 2016 - Tamil Nadu Municipal Accounts Service - Constituted - Framing of Service Rules

¹⁵ The Tamil Nadu Local Fund Audit Act, Act No. 24 of 2014

H. Present Situation

Currently the ULBs in the State have moved to accrual accounting as per the TNMAM. The entire accounting happens through Urban Tree (an integrated ERP) that covers almost all the activities carried out by the ULB, with over 35 modules. In recent times the ERP has enabled workflow automation that will, over time, enable operations of the ULBs to become paperless. The creation, verification, and approval of transaction documents are stated to happen electronically in the ULBs. Thresholds for escalations in case of delays have also been set. However, the extent to which this implementation is working/used effectively is not clear.

In terms of human resources, though cadre for Accountants was created by GoTN for the ULBs in 2016¹⁶, it is yet to be implemented. Many ULBs use the support of external consultants for preparing accrual based financial statements.

Data for all ULBs is available in the State Data Centre. Any report on any ULB can be generated online real-time at the CMA's office. The full capability of the reporting facility of the software seems to be underutilized.

Technical issues can be reported by any ULB by raising a ticket to the CMA office which will coordinate with the software consultants to resolve the issue.

In the recent times the LFAD auditors have also been given access to view the accounting related documents and to audit the accounts of the ULBs from LFAD office. However, this facility is yet to be used by LFAD and the status of financial statement audit cannot be known through the system.

Currently actions are underway by the consultants and State data center for addressing cyber security aspects, and creating backup servers, etc.

The need for a Cell or Division at CMA office with accounting specialists for handling issues in relation to accrual accounting matters and liaising with software consultants is recognized. Also, whether all the ULBs are recording the transactions as per accrual accounting needs to be assessed. Sustainability of the reforms undertaken may need to be addressed in the days to come.

I. Key learnings

Phase 1

1. **Need to have persons with knowledge in accounting:** The State had taken huge efforts to impart knowledge on accrual accounting to all the key personnel. However, these trainings could not bring about a comprehensive understanding of the subject. While there was separate cadre for health, education, and engineering executives, there was no specific accounting cadre. This has influenced the quality and speed of implementation. Also, some of the technical intricacies of accrual accounting like accounts finalization could not be followed comprehensively by some sections of the staff.

16 G.O. Ms. No. 26, Municipal Administration and Water Supply (ME 1) dated 10th February 2016.

2. **Need for exposure of the staff to information technology:** Though comprehensive trainings were given to the staff in the usage of software, the lack of exposure to information technology, in general, affected the speed of implementation creating huge dependence on the IT staff (AP) in the ULBs.
3. **Need to retain staff after training:** Many staff were moved out immediately or soon after the training. Efforts were taken, and instructions were given not to move such staff for five years after training. However, the governing staff rules and regulations superseded such decisions resulting in gaps.
4. **Periodic review at all levels and stages:** One of the key features of the entire process was periodic review from the top level. The middle level at the regions also were empowered in conducting review. The ULB level team also were motivated by the tone at the top and hence could carry out the reviews regularly.
5. **Technology up-gradation:** While the participation of the staff at every stage of the reform process and the computerization did help the entire process, it also created a huge demand for increased computerization.
6. **Involvement of the LFAD from the beginning:** One of the outstanding features of the project is the involvement of LFAD staff at all the stages of the project including the drafting of the Manual, certifying the opening balance sheet, providing training, conducting reviews, supporting the implementation, etc. This also enabled the creation of the demand for good quality accounts from the ULBs.

Phase 2

1. **Continuity at the top level:** The top-level changes are unavoidable in a typical government setup. However, on a continuous basis there has been support in Tamil Nadu (TN) from the Secretary, the CMA/DMA, etc. and other top-level officials.
2. **Initiatives being a part of Urban Development Project:** The reform project was not an isolated accrual accounting or computerization project. This was part of the statewide development programme and funding. This dovetailing of the accounting related matters as a part of developmental suite at the State level is a very important reason for enabling a major migration project.
3. **Use of experts:** While in the phase 1, the involvement of the experts was minimal the experience gained during the process convinced the policy makers and the executives that the help of experts and service providers was required. This is a very important decision to enable transformative changes in technical areas like accrual accounting and ERP.
4. **Accounting cadre:** The accounting process is not only technical, it involves - operations, coping up with the changes enabled by external agencies like banks, government, vendors, and so on. Hence, having a cadre for accounting is essential.
5. **Centralized and Single Data Base:** Creation of a centralized and single database for the entire State enabled by a Data Centre and one ERP

working across is important both from a governance perspective and from an information perspective. Otherwise, each of the ULBs will have different set of chart of accounts, formats, and processes. Thus, standardization and quality can be maintained across the State.

6. **Inclusive approach to training:** Training that considers the key stakeholders, in this case the ULB and LFAD staff, along with non-accounting, and administrative staff is important. Involving the stakeholders together in training makes the training effective and enable understanding and resolving of mutual issues. The other aspect of training is to simulate to the extent possible field realities and actual ULB data in training. Henceforth, a standardized and structured computer-based training could be more effective.
7. **Review of consolidated and analytical data:** The policy makers and decision-makers in the government and at senior positions in the ULBs need to have analytical and summary data generated from the single database. This will enable a culture of data-based decision-making and make the ULBs update the transactions without any delay.

Accrual Accounting in Town Panchayats in Tamil Nadu

The 528 Town Panchayats (TP) are spread across 17 regions in the State of Tamil Nadu. The Director of Town Panchayats under MAWS oversees the TPs at the State level. Every TP is headed by an Executive Officer with support staff (clerical level from one to three) depending on its size. The TPs operate out of the Collector's Office at the district level.

Town panchayats are stated to follow double-entry accrual-based accounting system since 2002-03 and are using the old accounting manual of CMA office (which is not in line with NMAM). Manual which was prepared through outsourcing and Account code numbers communicated. Exhaustive training was given by LFAD.

There was no common software up to 2010. Pre-matrix software was introduced from 2010-11 and adopted by all TPs. However, there seems to have been some issues in this. Existing software is proposed to be replaced by the new software being developed by NIC. Currently, pilot exercise is being carried out in three districts – Kanchipuram, Chengalpattu, and Tiruvallur. There is no clear plan for training to the staff of the TPs.

Even though accrual accounts followed from 2002-03, online collection is not yet implemented. Only manual collection of tax is done by issuing receipts. In general, the accounts are stated to be completed by 31st March. The audit is stated to be completed for the year 2019-20 and under progress for the year 2020-21.

Key Learning

The Directorate of TPs seems to be trying to implement their own systems. Instead of reinventing the wheel, the Director Town Panchayats must work closely with the CMA and try to implement the current system in municipalities to TPs as well. This would help them really cut down on the implementation timelines and shorten the learning curve.

4.12 CHENNAI

The Greater Chennai Corporation (GCC) is the oldest municipal institution in India established on 29th September 1688. Chennai is located on the Coromandel coast on the Northern end of the State of Tamil Nadu. The city stretches along the Coromandel coast for much of its superb sandy beach and extends inland. Its irregular shape covers about 426 Sq. Km. The estimated present population of Chennai is 7.1 Million as per 2011 Census.

A. Planning and Project Management

As per GO.Ms.No.2034 Rural Development & Administration Department dated 24.8.1979, the decision to switch over to accrual-based accounting system from 1.4.1980 was taken. Until that time, accounting was done on cash basis. It started from a need to resolve issues and discrepancies in accounting and financial information flow. Based on discussions and brainstorming at the top level, it was decided that by transitioning to an accrual system of accounting, various problems could be solved along with improving the integrity of accounting. A. F. Ferguson & Co were contracted for this purpose, and they prepared the Accounting Manual and supported GCC for few years.

From 1980s, phased computerization of various revenue modules took place in GCC. Since most functional modules need to be linked to accounting, the need for comprehensive computerization of accounting was recognized.

The reform process that is being discussed relates to the post-2008 period, when the major chunk of financial accounting and financial process reforms took place. There has been continuous support for the reform from the leadership team for the tech-enabled reforms.

The team within GCC had frequent reviews and followed an open-door policy towards innovation and technology that had helped GCC achieve the target they had set for themselves in the reform process.

B. Accounting Manual

The Accounts Manual prepared by A. F. Ferguson & Co was the basis for introduction of accrual accounting in GCC. Initially, in the 1980s the books of accounts were maintained manually and updated in an electronic database. The migration to electronic recording and accounting took place from 2010 in eGov-ERP. During the migration process, a huge amount of accounting data available for the previous years in the legacy system was moved into the eGov-ERP database.

Currently, the GCC follows the Chart of Accounts based on the NMAM - with a move to 9 digit account code from the 3-digit old code. The eGov-ERP has incorporated the NMAM requirements and refinements required for the operations of GCC.

The changes to the accounting requirements and process requirements were given by the CAO and his team, from time to time. These changes were incorporated by the e-Gov team and over a period of time all the processes were captured by the eGov-ERP.

C. Technology Solution

GCC started with COBOL, Foxpro based software basically to capture the data and generate reports. The data capture was done through an EDP Cell from the books of accounts that were manually maintained. The data entered had to be checked and validated before reports were generated. The reconciliation had to be done manually.

There was a significant jump in the technology utilization and internalization after 2008. e-Gov was engaged as an expert agency for providing the IT solution. e-Gov helped GCC in building an ERP which started to rollout with 13 modules and the number of modules doubled as of 2021. The technology used is open source java platform using JavaScript. The software is hosted at the State Data Centre.

The eGov-ERP captures all the aspects of the functioning of the GCC. Online real-time transactions take place and everyday over 10,000 transactions are stated to be captured by the system. The eGov-ERP Application is integrated with more than 10 external solutions for various needs through APIs.

The eGov-ERP provides for workflow-based operation and the transactions follow the maker-checker-approver hierarchy. All the required operational controls can be configured. The system also handles the requirements of around 2,000 internal users and externally about 400,000 taxpayers access the system. The software is also integrated with SMS, WhatsApp, and email systems so that required escalations can be made automatically, and communications made easy.

The accounting system is completely integrated to all the functions, departments, and offices within the GCC. The eGov-ERP is also linked to ten banks and departments/functions of the State Government like Single-window Portal of the State Registration Department (so that seamlessly property tax can be originated and taxed), and so on.

D. Implementation

Implementation towards moving into accrual accounting has been happening since early 1980s. Based on this decision the consultant (A. F. Ferguson & Co) was engaged. In the initial phase of the implementation, the consultants provided training to various levels of employees.

Change management issues arose basically because the accounting staff did not understand the rationale for increased record maintenance like different types of vouchers, sub-ledgers, etc. Also, since all the data had to be fed to electronic database (by EDP Cell) and the accuracy of the records had to be confirmed by manual comparison, the staff felt that there was increased workload. The EDP section handled the data entry and generation of the reports. Though the auditors were involved in discussions, no specific training seems to have been imparted to them.

Over the time, GCC upgraded the technology solution and major changes to accounting and financial management happened after the turn of the century. Up to the year 2010, the focus was on getting the right process and data creation in electronic format (database); after that, the focus seems to have been on onboarding technology spread to all functions across the GCC. The electronic database was used to generate trial balance for the accounting function.

Effectively from 2008 the process of implementing eGov-ERP was embarked with the support of e-Gov (contracted through ELCOT - TN State arm for technology) technical support. From then started the journey of the GCC towards e-Governance and process reforms in a major way. With technology support of eGov, the GCC digitalized 100% of the accounting operations. Apart from the support team from eGov, the entire process was handled internally by GCC. This massive initiative covering over 2,000 users over a period of about 10 years cost about Rs.10 Crore including the hardware and software costs. The software codes are ownership based and belong to the GCC and not license based.

Strong leadership has been the main reason behind the successful implementation. At the Commissioner's level, at the Accounting function level, and at the IT function level leadership has been consistently positive towards achievement of the project successfully. It is also understood that functionaries were given freedom to take the required action during the reform process.

E. Opening Balance Sheet

The opening balance sheet was prepared as on 1.4.1980 by A. F. Ferguson & Co. The assets were valued as per government norms and accounted. Thus, from the accounting year 1980-81 GCC has been preparing financial statements based on accrual accounting.

The financial statements are prepared for the different funds and consolidated financial statements are not prepared.

F. Human resources and Training

Extensive training was imparted in initial days as per needs. In the initial period, the focus was on accrual accounting and getting to prepare financial statements. Also, at that time the preparation of accounting records and financial statements were manual. The training focused on such skill sets. However, the audit staff were not trained in the new system.

Between the period 2010 and 2015 during the implementation of NMAM based eGov-ERP, retired officials gave training on conceptual aspects including basic accounting and the NMAM requirements. Training on using the software was given by the e-Gov team to onboard the employees to the eGov-ERP.

GCC, as at the time of this study, does not have any cadre for accounting. Currently over 200 personnel are working under the accounts department.

G. Financial Statements and Audit

At any point in time the accounting statements and reports can be generated from the software. The bank accounts are reconciled mostly electronically, the closing entries are passed as and when various reconciliations are completed. Considering the size of the GCC, it takes a few months to close the books completely and prepare financial statements.

The accounts for the year 2020-21 have been completed and submitted for audit.

GCC houses a resident LF Audit team headed by a Joint Director, three Assistant Directors with total team size of 30 for the concurrent audit. There is also a resident C&AG team with six members for conduct of the Statutory Audit. Username and Passwords have been given to both the audit teams for the conduct of the respective audits.

The GCC website has uploaded detailed financial statements starting from the year 2016-17 and financial statements summary of 2020-21 (provisional) in pdf format which can be downloaded by the users¹⁷.

H. Present Situation

GCC has completely migrated into accrual system of accounting on an electronic platform using eGov-ERP with all the workflows embedded in it. Based on this online real-time system and the integration it has provided with all other activities of the GCC, the financial information is available for decision making. Dashboards for various function have also been made with differing level of usages. Technically, the internal accounting is completed on 31st March or a few days later each year, with external party reconciliations and accounting consuming time, based on their response.

e-Gov has deployed a six-member team for maintenance of the software and on an ongoing basis operational requirements and process reengineering are addressed. Currently the GCC is planning for up-gradation of both hardware, and software technologies. Business continuity plan and disaster recovery sites are under implementation.

The manuals that were created in the initial period may require updating. The accounts department, based on the ongoing requirements, may need to clearly draw up job descriptions of various designations. Refresher training in both accounting and IT may have to be done on a regular basis in a structured way. This is important as the processes keep changing and the requirements from the accounting system are increasing. In such a data-rich and technology enabled environment financial analytics is likely to help the GCC both in strategic and operational decisions.

I. Key Learnings

1. **Engagement of the consultant through specialized agencies:** Both while engaging A. F. Ferguson & Co initially in the 1980s and while engaging e-Gov around 2010, GCC used the services of government agencies who had expertise in the required technical area. AFF was contracted through Madras Metropolitan Development Authority (now Chennai) who had the technical wherewithal in accounting and e-Gov through Electronic Corporation of Tamil Nadu (ELCOT) who understood IT. This gave comfort to the GCC and had to focus only on the requirements and not on the selection of consultants.
2. **Prior experience of the change agent:** e-Gov being a not-for-profit organization working in the government space, understood the processes,

17 <https://chennaicorporation.gov.in/gcc/department/finance/>

the limitations, and the operations that are typically under the governmental systems and exposure of workforce to technology has helped in understanding the requirements and delivery modes. e-Gov had the required experience having implemented the solution in Karnataka. The learnings were useful in GCC implementation.

3. **Role of the Top Management:** Right from the 1980s the will of the management has played a major role. When in no other part of India introduction of accrual accounting was thought about, the top management thought it fit to introduce it to address various issues in accounting, finance, and reporting, immediately took the decision of engaging experts and went into action.
4. **Availability of the top management:** In any governmental system 'continuity' of a person or a practice is very difficult to sustain. In the case of GCC, although the top management changed periodically, the focus on getting the accrual accounting system implemented was never lost. While there could have been different level of priority by different leaders, the overall continuity of focus on this project has been noteworthy.
5. **Role of the employees:** Once the policy decision was taken to move to implement accrual accounting, the employees took the task seriously, though there were additional workload for several years in maintaining manual books and checking the same after digitizing.
6. **Benefits of the computerization understood by the employees:** During the period when electronic data was maintained through the EDP Cell, the employees understood the benefits provided by computerization; for instance, the report generation, availability of the data trail, speed of preparation of required reports, etc. This helped in the successful implementation of eGov-ERP through the cooperation and support of employees in the migration process.
7. **Automated controls** in the software helped in improving the integrity of the processes and reduced the cost of operations.

4.13 KARAIKUDI MUNICIPALITY

Karaikudi is in Sivaganga district of Tamil Nadu. Karaikudi municipality was constituted on 09-05-1928 and subsequently upgraded as Selection Grade Municipality from 14-12-1988. Now the municipality is upgraded as special grade municipality as per G.O.Ms.No. 74 (MAWS) dated 28.5.2013. It has a population of 1,06,714 as per 2011 census and an area of 13.75 Sq. Km., The town is divided into 36 wards. The executive wing is headed by a Commissioner and he is assisted by a team of officials like Health Officer, Municipal Engineer, Town Planning Officer, Manager, Accountant, Revenue Inspector, and other officers. Karaikudi has been declared a “Heritage town”. The “SambaiOothu” is a gift to the Municipality which gives plenty of water to this town. Karaikudi is also an educational town.

A. Background

Even after various initiatives taken at the State level, Karaikudi was lagging in updating accounting records even in 2011-12, after about a decade into reforms. Though FAS, a software that was developed in-house by the department, was implemented, only basic vouchers were being prepared using FAS. All other accounting transactions were recorded using MS Excel. Not all aspects of the revenue were accounted for fully; for instance, some of the grants and interest were not fully accounted for or reconciled. Subsidiary registers were not updated, e.g., deposit and advance registers. Only the Demand Collection Balance Register was being updated for property tax revenue. Bank reconciliation was being done properly. Three years’ accounts finalization was pending.

B. The setting of a new trend

With the entry of a new Accountant the situation changed. It was realized that the key issue was that the officials who had been overseeing accounting entries lacked a comprehensive understanding of accrual accounting and the underlying processes.

The following steps were initiated:

- The first was to update the three years’ pending accounts.
- The software was fully implemented- demand register and other registers were streamlined.
- Account Codes were properly updated.
- Reconciliations that were pending till then also got updated. Then day to day reconciliation started.
- Practical training was given to the accounting staff both in accounts and in using FAS.
- Review was conducted by Commissioner every month coupled with weekly staff training.
- Commissioner followed up and was regularly informed.

- Though there were limitations in the accounts code (4 digits), assets were not revalued, etc. In general, the staff were geared up to the situation and practiced accrual-based accounting in a phased manner.

Highlights during Phase 1:

Although comprehensive migration took place only after 2011-12, the activities were basically related to Phase 1 for the State of Tamil Nadu as a whole¹⁸. The key features of the change management were:

- All the accounting staff were imparted training in the handling of accrual-based accounts and FAS in the afternoon of every Saturday. This happened regularly.
- On 31st March, all accounting staff used to work overnight till 4 am to update all the records relating to the year to close the accounts. This included the last few days entries, reconciliations, etc.
- The Commissioner participated actively in all meetings, and the next day morning – on the 1st of April, the accounts would be submitted to LFAD for audit.
- Commissioner used to host a party for the staff after the submission of accounts.
- Staff were given special entries of appreciation in service record and were presented with a memento.

Highlights during Phase 2:

The creation of Accounting Manual as per NMAM, and introduction of web-based software were the major changes initiated during the second phase¹⁹.

- Codification was elaborate with 7 digits which could accommodate all the requirements.
- The break-up account head-wise was made available for audit.
- Not many problems were faced, as procedures and codifications were followed.
- Software was made user friendly.
- Extensive training to both ULB and LFAD staff was given.
- Doubts, if any, were cleared both on the Manual and the software by the concerned persons (consultants).
- Pilot testing was done before full rollout. Data from Karaikudi municipality was used for the testing, as comparable statements were already available.

¹⁸ Discussed in detail in the note on State-wide municipal financial reform rollout in Tamil Nadu.

¹⁹ Discussed in detail in the note on State-wide municipal financial reform rollout in Tamil Nadu.

C. Financial Statement and Audit

The LFAD started to take up the accounts of Karaikudi municipality at first for audit. The audit issues observed were considerably reduced after the introduction of the new system. The audit covered 100% verification of vouchers. Checking of the opening/closing balances, provisions, subsidiary book, creation of liabilities, reconciliation, and certification, etc. were done by LFAD. There were some delays (lack of staff or inadequate time. e.g., depreciation calculation differences); however, overall, the quality of accounting has significantly improved.

D. Current position

Currently, Karaikudi municipality continues to be one of the first Municipalities in the State to complete the accounts and submit them for audit within the first few days of April each year.

E. Key Learning

No system is too broke to fix: The situation in several ULBs across the country is relatable to the position of Karaikudi before 2012. It is easy to conclude that despite best efforts at the State-level, it is very difficult to bring about change at the local level. The Karaikudi experience gives the assurance that with a disciplined, systematic approach, it is possible to set things right within a couple of years.

Importance of having the right leadership and technically qualified personnel: What sets the Karaikudi experience apart is the strong commitment from the ULB leadership to remedy the sorry state of affairs. Also, much of the accounting related issues were because of incompetence which was taken care of once the personnel with the right skill sets were deployed.

4.14 CANTONMENT BOARDS

Cantonment Boards, under the provisions of sub-section (2) of Section 10 of the Cantonments Act, 2006, are deemed municipalities under clause (e) of Article 243P of the Constitution, for the purposes of receiving grants and allocations and implementing Central Government schemes relating to development of infrastructure and social welfare. Cantonment Boards have the power to raise resources through taxation, fees, lease rent in respect of lands under their management, and rentals in respect of properties belonging to and vested in the Board²⁰. There are 62 Cantonments in the country which have been notified under the Cantonments Act, 1924 (succeeded by the Cantonments Act, 2006).

The population living in cantonments accounts forms around 0.56 percent of the total urban population of the country. According to the 15th Central Finance Commission, the composition and nature of a CB is similar to that of a municipality, and this makes it qualify as the local government of the cantonment area²¹.

A. Planning and Project Management

The larger transition to accrual accounting was devised by the Directorate General of Defence Establishments (DGDE) on developing an accounting software to handle municipal e-Governance, and the pilot CBs were monitored during implementation.

The DGDE constituted the Consultant Monitoring Committee (CMC) – which was the project management unit–to discuss and plan the rollout project, on framing of Cantonment Account Code, and development of accounting software through outsourcing. The CEOs of the two CBs chosen for pilots were responsible for the rollout of the new accounting policy with the accounting carried out in the computerized environment.

The CMC comprised of consultants, the Chief Executive Officers (CEO) of the pilot project, CAs, and Programmers of the pilot CBs as members including a technical officer from National Informatics Centre (NIC). A Gantt Chart was prepared with clear timelines covering various aspects of the project implementation.

B. Accounting Manual

The work on preparation of a new account code commenced in mid-2012. A broad sequence of chapters based on NMAM, and relevant operating environment were outlined. Preliminary drafts were discussed in detail and improved upon over a period of 18 months. In parallel, other details like the revised account code including the chart of accounts, formats of forms /outputs to be notified, responsibility for maintenance of records etc. were discussed and finalized. After numerous iterations, the draft approved by CMC was put up for consideration by the higher authorities in DGDE. After incorporation of the suggestions made by them and after due deliberations, the draft Cantonment Board Accounting Rules were finalized by 2015.

²⁰ Annual Administration Report of Cantonment Boards (2019-2020)

²¹ 15th Finance Commission Report, (2021), para 7.134

Approval of the draft CBAR in the Defence and Law ministries took approximately two years, after which they were published in draft form in the Gazette in 2017 for inviting public comments, objections, and suggestions. The final CBAR were ready to be notified in 2018. After ensuring that the necessary infrastructure including software, IT connectivity, servers and backup systems were in place, the CBAR 2020 were eventually notified in March 2020, to take effect from 1st April 2020. The CBAR 2020 contain provision to maintain accounts in a digital environment.

C. Technology Solution

The application was customized to the requirements of CBAR 2020 by M/s ABM Knowledgeware, Mumbai. The modules covered creation of chart of accounts (11 digit code), budget, receipt voucher, bill booking, payment voucher, contra voucher, and all reports like Trial Balance, Income and expenditure, receipt and payments and Balance Sheet. The solution for implementing finance and accounting module was designed with a central architecture, catering to all the CBs. It was also integrated with the property tax module.

The application frontend is using JAVA with Oracle as the database in a Red Hat Linux environment. It is hosted on the National Informatics Centre (NIC) Cloud in Platform-as-a-Service (PAAS) mode and connected to all CBs. Some of the features of the application are: help desk support, reporting command wise, and Cantonment Board wise.

The software consultants will hand over the application with the source code and technical documentation of the solution, after the handholding period.

D. Implementation

Implementation, supervised by the CMC, contained clear plans for data migration, software testing, etc. The data migration was planned and executed using MS-Excel into which data from physical records was entered along with data import from other systems. From Excel, the data was migrated to the database. All the required fields for accrual data were included.

A project consultant was appointed centrally through a bidding process. Each Cantonment Board was required to appoint a local CA firm as a consultant for which the Terms of Reference was finalized centrally.

The software was alpha tested followed by user acceptance testing at both the pilot locations before rollout.

E. Opening Balance Sheet

Details of assets (comprising land, building, machinery, furniture, advances, receivables duly valued), and the liabilities (salary, deposits, pending bills) were prepared in 29 forms for arriving at the OBS. OBS has been prepared for all the CBs.

F. Human resources and Training

Local chartered accountants were hired and data entry operators with knowledge of Tally were also hired on contract. The Accountants of CBs were trained by the local CAs and also training was given by the software consultant periodically.

Three levels of training were imparted to CEOs, Accountants and end users and programmers (local administrators). The training covered key areas like:

- the structure of the new account code and chart of accounts,
- use of software platform by end-users,
- for capture of data for preparation of opening balance sheet.

G. Financial Statements and Audit

All the financial statements are generated through the system. All reports are codified by suffixing the letter 'S' as system generated. The FS are to be ready within 3 months, from the end of the financial year. Accrual-based FS are being audited from 2020-21. Local Audit Officer of CDA and C&AG local office also conducts periodic audits.

H. Present Situation

Implementation has been completed in all the 62 CBs across the country. All budgets, financial statements are system generated. All modules of the software are being fully used.

I. Key Learnings

- Framing the accounting rules and training the staff/ accountants on new accounting rules with accrual-based accounting were very challenging.
- Stepping up the Central Server architecture to NIC Cloud, from a local CBs data centre needed a lot of careful planning.
- Maintaining the application in a local server during implementation of pilot project, and stepping up of the same on a centralized environment, was a greater challenge. However, it was found advantageous during the rollout and maintenance of the application.

Annex 5: Status of accrual system adoption in different states from C&AG reports



Note: The following compilation was originally undertaken by the CP&GFM of ICAI in 2019 and updated in December 2021. Some of the status information may not be current.

#	States	Maintenance of Accounts by ULBs	Link
1	Andhra Pradesh (Page 35) March 2017	<ul style="list-style-type: none"> CDMA stated (September 2017) that the Double Entry Accrual Based Accounting System (DEABAS) was being adopted in all the 110 ULBs. The ULBs adopted the software developed by the Centre for Good Governance of Model Accounting System for maintenance of accounts. The State Audit Department had audited the annual accounts of all the ULBs for the financial year up to 2015-16. Audit of annual accounts of 2016-17 was in progress. 	https://cag.gov.in/uploads/download_audit_report/2017/Report_No_6_of_2018_-_Local_Bodies_Government_of_Andhra_Pradesh.pdf

#	States	Maintenance of Accounts by ULBs	Link
2	Assam (Page 71) March 2015	<ul style="list-style-type: none"> The Government of Assam had accepted (March 2011) the National Municipal Accounting Manual (NMAM). DMA stated that due to shortage of staff, the ULBs were unable to comply with the formats as prescribed in NMAM and only some of the ULBs were maintaining their accounts on accrual-based double-entry system but details of number of ULBs maintaining their account on accrual-based double-entry system was not provided by the DMA. DMA stated that the accounts were updated till 2014-15, test check revealed that four (Donkamoka TC, Hamren TC, Howraghat TC & North Guwahati TC) ULBs did not maintain their Annual Accounts. As the Annual Accounts were not maintained, head wise receipt and expenditure; and the financial performance of ULBs could not be ascertained. 	https://cag.gov.in/uploads/download_audit_report/2016/Assam_Local_Bodies_Report_2_2016.pdf
3	Bihar (Page 54) March 2015	<ul style="list-style-type: none"> Section 87 of the BMA, 2007 stipulates that the State Government shall prepare a Bihar Municipal Accounting Manual (BMAM) for implementation of accrual-based Double Entry Accounting System (DEAS). BMAM has not been finalized as of December 2015. The UD&HD notified (January 2014) the 'Bihar Municipal Accounting Rules, 2014' and issued (February 2014) instruction to all ULBs regarding migration from Cash System of accounting to accrual-based DEAS from 1 April 2014. The UD&HD stated (August 2015) that in 19 ULBs, first phase of implementation of DEAS including preparation of Fixed Assets Register (FAR), Opening Balance Sheet and Annual Financial Statement up to FY 2011-12 was completed and for other ULBs, appointment of competent Chartered Accountant firms for the purpose was underway. 	https://cag.gov.in/uploads/download_audit_report/2016/Bihar_Performance_Audit_LB_PRI_Report_1_2016.pdf
4	Chhattisgarh (Page 3) March 2013	<ul style="list-style-type: none"> Department stated that all the Municipal Corporation, 28 out of the 32 Municipal Councils and 73 out of the 127 Nagar Panchayats have implemented the accrual system of accounting. In addition to this, 20 administrative offices of the UADD have also implemented the accrual system of accounting. As per the decision taken in the National Seminar organized (September 2003) by the Ministry of Urban Development, GOI, a Steering Committee was to be formed in all the States to oversee the implementation of budget and accounting formats as suggested by the Task Force. The formation of any such committee was not intimated by the department. 	https://cag.gov.in/uploads/download_audit_report/2014/Chhattisgarh_ULB_PRI_2012.pdf
5	Goa (Page 8) March 2012	<ul style="list-style-type: none"> Based on NMAM, the State Government issued (January 2008) Notification amending the Goa Municipal Account Code, incorporating the Accrual Based Accounting Formats. The ULBs are still maintaining their accounts on cash basis. The DMA replied (November 2013) that all the ULBs were directed to adopt the Accrual Based Accounting Formats. 	https://cag.gov.in/cag_old/sites/default/files/audit_report_files/Goa_ULB_PRI_2011.pdf

#	States	Maintenance of Accounts by ULBs	Link
6	Gujarat (Page 79) March 2013	<ul style="list-style-type: none"> As per FC recommendations, an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual (NMAM) was to be adopted by 2011-12. All ULBs were to thus introduce accrual-based double-entry accounting system as per the NMAM. The MCs and NPs have adopted the accrual-based double-entry accounting system since 2006-07. NMAM envisages all States to develop State specific Municipal Accounts Manual. The draft Municipal Accounts Manual has been approved by the Government. The vetting by the Legislative and Parliamentary Affairs Department and publishing in the Government Gazette is however pending. The annual accounts for the year 2016-17 in respect of 30 NPs are yet to be finalized. 	https://cag.gov.in/uploads/download_audit_report/2018/Report_No_5_of_2018_-_Local_Bodies_Government_of_Gujarat.pdf
7	Himachal Pradesh (Page 21) March 2013	<ul style="list-style-type: none"> The ULBs were directed (April 2009) by the Director, Urban Development to adopt the double entry system of accounting. The ULBs test-checked during 2016-17 had maintained their accounts in double entry system. According to Section 252 of Himachal Pradesh Municipal Act, 1994, accounts of the income and expenditure of the municipality shall be kept in accordance with such rules as may be prescribed. The municipality shall within a period not exceeding three months from the end of the financial year prepare the accounts for that year. During test-check of records, it was noticed that annual accounts for the years 2013-14 to 2015-16 had not been prepared in two ULBs whereas these accounts were required to be prepared and approved by elected house of the Municipality. The Secretary and Executive Officer concerned stated (February 2017) that annual accounts will be prepared regularly in future. 	https://cag.gov.in/uploads/download_audit_report/2019/Report_of_2017_-_Annual_Technical_Inspection_on_Panchayati_Raj_Institutions_and_Urban_Local_Bodies_Government_of_Himachal_Pradesh_year_endi.pdf
8	Jammu & Kashmir (Page 3) March 2015	<ul style="list-style-type: none"> Jammu and Kashmir Government prepared the J&K Municipal Accounting Manual, 2011 which was not fully adopted by all the ULBs and hence not fully implemented. Although, Srinagar Municipal Corporation (SMC) and Jammu Municipal Corporation (JMC) had prepared annual accounts on accrual basis, yet primary records were being maintained on single entry system by these corporations. Other ULBs, except Municipal Council Kathua, had not prepared annual accounts. Two Examiners/ Chief Accounts Officers, one each at Jammu and Srinagar, functioning under the control of Director, Local Fund, Audit and Pensions, (LFA&P) compile the monthly accounts rendered by the ULBs. 	https://cag.gov.in/uploads/download_audit_report/2016/Annual_Technical_Inspection_Report_on_Urban_Local_Bodies_for_the_year_ended_31_March_2015,_Government_of_Jammu_and_Kashmir_0.pdf

#	States	Maintenance of Accounts by ULBs	Link
9	Jharkhand March 2016 (Page 49, 50)	<ul style="list-style-type: none"> As per section 112 of JM Act, 2011 the Municipal Commissioner or the EO shall prepare and maintain accounts of income and expenditure of the MC on Accrual Based Double Entry Accounting System. The UD&HD does not maintain consolidated information about finalization of Annual Accounts of ULBs. Hence, status of preparation of Annual Accounts by all the ULBs in the State could not be commented upon. However, in 20 test-checked ULBs it was observed that only eight (Adityapur, Chas, Chatra, Gumla, Jamshedpur, Jugsalai, Mango and Pakur) had been preparing their Annual Accounts and of this, six ULBs had been preparing it on accrual basis while two had been preparing it on cash basis. Thus, in absence of annual accounts of 12 ULBs and failure in maintenance of accrual-based accounts of two ULBs, financial position of those ULBs along with their Assets and Liabilities could not be verified. 	https://cag.gov.in/uploads/media/ATIR-JH-2016-ENG-PDF-S-20200622145015.pdf
10	Karnataka March 2015 (Page 57)	<ul style="list-style-type: none"> The State Government has brought out the KMABR based on the NMAM with effect from 1 April 2006. As of 31 March 2015, all the ULBs were preparing the fund-based accounts in double-entry system except BBMP. BBMP was maintaining FBAS based on the Bengaluru Mahanagara Palike (Accounts) Regulations, 2001. 	https://cag.gov.in/uploads/download_audit_report/2016/Karnataka_%20Local%20Bodies_Report_4_2016.pdf
11	Kerala March 2011 (Page 20)	<ul style="list-style-type: none"> In respect of the accounting formats based on NAMAM for ULBs, the Government has issued new accounting rules, The accrual system of accounting has been implemented in all the ULBs as of March 2012. 	https://cag.gov.in/uploads/download_audit_report/2010/Kerala_TL_Local_Self_Government_Institutions_2010-11.pdf
12	Madhya Pradesh March 2016 (Page 32)	<ul style="list-style-type: none"> The Urban Development and Housing Department, Government of Madhya Pradesh, published (July 2007) Madhya Pradesh Municipal Accounting Manual (MPMAM), as suggested in NMAM, for adoption of accrual basis accounting system by ULBs from 1 April 2008. Test check of records of 63 ULBs during the year 2015-16 revealed that four ULBs prepared their budget and accounts as per MPMAM and 24 ULBs did not prepare their budget and accounts as per MPMAM but they were preparing their accounts as per the existing accounting rules of Madhya Pradesh Municipal Corporation, Act 1956, and Municipalities Act, 1961. Remaining 35 ULBs did not produce relevant records/information to Audit. In reply, UADD stated (August 2016) that MPMAM was implemented in 154 ULBs out of 379 ULBs of the State. Thus, only 41 percent of ULBs could implement MPMAM as of August 2016, though it was adopted by State Government in April 2008. 	https://cag.gov.in/uploads/download_audit_report/2017/Report_No.4_of_2017_Local_Bodies_Government_of_Madhya_Pradesh.pdf

#	States	Maintenance of Accounts by ULBs	Link
13	Maharashtra March 2019 (Page 21-22)	<ul style="list-style-type: none"> The Urban Development Department, (UDD) Government of Maharashtra adopted (July 2005) NMAM for implementation from 2005-06. As per the information furnished by 26 out of the 27 MCs, the system of maintaining the accounts on accrual basis was implemented in 22 MCs while four MCs were yet to implement the same. All the Municipal Councils had prepared their accounts on accrual basis. The Nagar Panchayats have commenced the work of accrual-based accounting system. 	https://cag.gov.in/uploads/download_audit_report/2021/English-Annual%20Technical%20Inspection%20Report%20on%20Local%20Bodies%20for%20the%20year%20ended%2031st%20March%202019-060e6b9f366b1e3.42580815.pdf
14	Manipur March 2014 (Page 32)	<ul style="list-style-type: none"> The State Government issued an order to all ULBs in March 2011 for adoption of NMAM in maintenance of their accounts with immediate effect. It was, however, observed in audit that none of the test audited ULBs had adopted NMAM as of March 2014. All ULBs test-audited maintained only cash books, receipts, and payments accounts. Thus, accounts of the ULBs do not depict their true and correct financial position. 	https://cag.gov.in/uploads/download_audit_report/2015/Manipur_Local_Bodies_Report_2015.pdf
15	Meghalaya March 2016 (Page 20)	<ul style="list-style-type: none"> There are no Panchayati Raj Institutions (PRIs) in Meghalaya. However, there are six Urban Local Bodies (ULB). viz. (i) Shillong Municipal Board, (ii) Tura Municipal Board, (iii) Jowai Municipal Board, (iv) Williamnagar Municipal Board, (v) Baghmara Municipal Board and (vi) Resubelpara Municipal Board. The main function of these Municipal Boards is to provide civic amenities, e.g., water supply, street lighting, drainage, and sanitation. As per the Meghalaya Municipal Act, 1973, the accounts of these ULBs are to be submitted within four months after the close of the financial year. Except Shillong Municipal Board, the other five ULBs had not maintained their annual accounts as per prescribed format. The audit of accounts of these ULBs is conducted under Section 20(1) of Comptroller and Auditor General's (Duties, Powers, and Conditions of Services) Act, 1971. Audit findings arising out of conduct of such audit are conveyed to the State Government in the form of an Annual Technical Inspection Report (ATIR). 	https://cag.gov.in/webroot/uploads/download_audit_report/2017/Report_No.1_of_2017_-_State_Finance_Government_of_Meghalaya.pdf
16	Mizoram March 2017 (Page 21-22)	<ul style="list-style-type: none"> Ministry of Urban Development, Government of India in consultation with the C&AG developed the National Municipal Accounts Manual (NMAM) (December 2004). The NMAM is based on accrual-based double-entry accounting system for greater transparency and control over finances. The AMC is required to prepare its budget and maintain its accounts in the formats as prescribed in NMAM with appropriate codifications and classifications. It was noticed in audit that Annual Financial Statements of the AMC had been finalized up to the year ending March 2017 which was audited and certified by the Directorate of Local Funds Accounts (June 2017). The audited Annual Financial Statements for the AMC for the year ended March 2017 was approved by the Board of Councilors (July 2017). 	https://cag.gov.in/uploads/download_audit_report/2018/Report_of_2018_Annual_Technical_Inspection_on_Rural_Local_Bodies_and_Urban_Local_Body_Government_of_Mizoram.pdf

#	States	Maintenance of Accounts by ULBs	Link
17	Odisha March 2015 (Page 49)	<ul style="list-style-type: none"> Accounts of ULBs are prepared by the respective ULBs. Accounts of ULBs are certified by the Director, Local Fund Audit as per Rule 20(h) of the Orissa Local Fund Audit Rules, 1951. All the 102 Accounts of ULBs as per Audit Plan were certified by the DLFA, during 2015-16. Adoption of modern accrual based double entry system of accounting was mandatory for ULB level reform set by the GoI. However, migration to double-entry accounting system has been accomplished only in the mission cities since financial year 2012-13. In other ULBs, cash-based manual accounting system was prevailing (March 2016). (Mission Cities-Bhubaneswar Municipal Corporation, Cuttack Municipal Corporation, Berhampur Municipal Corporation, Rourkela Municipal Corporation, Sambalpur Municipal Corporation, Puri Municipality, Balasore Municipality, Bhadrak Municipality and Baripada Municipality) 	https://cag.gov.in/uploads/download_audit_report/2016/Report_Report_No.8_of_2016_-_Local_Bodies_Government_of_Odisha.pdf
18	Punjab March 2016 (Page 13-14)	<ul style="list-style-type: none"> The fact remains that even after a lapse of more than 10 years, NMAM could not be adopted till September 2015. The reply of the department regarding the latest status of the manual was awaited (May 2016). The accounts of the ULBs are monitored by the Commissioner in case of Municipal Corporations and the President in case of Municipal Committees and Town Councils. However, there is no provision for certification of accounts of the ULBs in the Punjab Municipal Corporation Act, 1976. 	https://cag.gov.in/cag_old/sites/default/files/audit_report_files/Punjab_Annual_Technical_Inspection_Report_on_PRI_and_ULB_2016.pdf
19	Rajasthan March 2017 (Page 77)	<ul style="list-style-type: none"> There were 190 ULBs i.e., seven Municipal Corporations (M Corps), 34 Municipal Councils (MCs) and 149 Municipal Boards (MBs) as of March 2017. As per Rule 25(xi) of Rajasthan Local Fund Audit Rules 1955, a certificate of correctness of annual accounts shall be included in Director's Report. Director, LFAD intimated (June 2017) that accounts of only 122 ULBs (64 percent) had been certified during the year 2016-17. In absence of certification of accounts, the correctness of accounts could not be verified by Audit. On the lines of NMAM, Rajasthan Municipal Accounting Manual (RMAM) was prepared. Accordingly, the LSGD directed (December 2009) all ULBs to maintain the accounts on Accrual Based (Double Entry) Accounting System from 1 April 2010. The Local Self Government Department intimated (August 2017) that all the ULBs were maintaining the accounts on Accrual Based (Double Entry) Accounting System. The Director, LFAD intimated (May 2017) that only 48 ULBs were maintaining accounts on the above system. 	https://cag.gov.in/uploads/download_audit_report/2018/Chapter_3_Overview_of_the_Functioning_Accountability_Mechanism_and_Financial_Reporting_Of_Urban_Local_Bodies_of_Report_No_2_of_20.pdf
20	Sikkim March 2013 Page 49	<ul style="list-style-type: none"> The Urban Development and Housing Department, Government of Sikkim had drafted (March 2008) the Sikkim Urban Local Bodies Accounting Manual based on NMAM. The Manual was in the process of approval by the Government. Till date of audit, the accounts were maintained under the Double Entry System. 	https://cag.gov.in/uploads/download_audit_report/2012/Sikkim_TL_ULB_PRI_2012.pdf

#	States	Maintenance of Accounts by ULBs	Link
21	Tamil Nadu March 2017 Page 22	<ul style="list-style-type: none"> ◆ Accrual-based accounting system is followed in all the ULBs. ◆ GCC stated (October 2017) that in conformity with the National Municipal Accounting Manual (NMAM), the chart of accounts was revised and accounts up to 2015-16 were finalized. ◆ CMA stated (December 2017) that consequent upon the introduction of NMAM, GoTN prepared a new Municipal Accounting Manual incorporating the principles laid down in NMAM, to suit the requirement of ULBs in Tamil Nadu on the principles of need base and not merely to coincide with NMAM. ◆ Accounts from 2014-15 were compiled based on this newly updated Municipal Accounting Manual adopting new accounting software created on the basis of new coding structure. 	https://cag.gov.in/uploads/download_audit_report/2018/Report_No_1_of_2018_-_Local_Bodies_Government_of_Tamil_Nadu.pdf
22	Telangana March 2017 (Page 38)	<ul style="list-style-type: none"> ◆ The ULBs adopted the software Model Accounting System developed by the Centre for Good Governance for maintenance of Accounts. ◆ DMA stated that maintenance of database format of the finances of ULBs was adopted in all 72 ULBs. Records of Janagon Municipality showed discrepancies between annual accounts maintained manually and online. 	https://cag.gov.in/webroot/uploads/download_audit_report/2018/Local%20Bodies%20AR%202016-17%20Full%20Report.pdf
23	Tripura March 2013 Page 33	<ul style="list-style-type: none"> ◆ The Urban Development Department (UDD), Government of Tripura had drafted (June 2010) the 'Tripura Municipal Accounting Manual' based on the NMAM. ◆ Though the Manual had been finalized in 2011 but was not yet implemented by the ULBs. The UDD instructed the Agartala Municipal Council and 15 Nagar Panchayats to switch over to the Accrual Based Double Entry Accounting System explicitly w.e.f, April 2011. However, none of the ULBs had introduced the same. 	https://cag.gov.in/uploads/download_audit_report/2012/Tripura_ULB_PRI_2012.pdf
24	Uttar Pradesh March 2016 (Page 20)	<ul style="list-style-type: none"> ◆ It was noticed that even after a lapse of more than 12 years, ULBs did not adopt NMAM (August 2016). ◆ It was noticed in 21 test-checked ULBs (NNs:2, NPPs:8, NPs:11) that accrual-based accounts on DEAS were not prepared in 17 ULBs and partially prepared in four ULBs. Further, quality and reliability criteria of the records could not be ascertained. ◆ In reply, for not implementing NMAM and Annual Accounts on DEAS, Director, Local Bodies, Lucknow stated (July 2016) that the Uttar Pradesh Municipal Account Rules 2012 have been prepared and forwarded to GoUP for their approval. 	https://cag.gov.in/uploads/download_audit_report/2016/Report_of_2016_-_Annual_Technical_Inspection_on_Urban_Local_Bodies_Government_of_Uttar_Pradesh_for_the_year_ending_31_March_2016.pdf

#	States	Maintenance of Accounts by ULBs	Link
25	Uttarakhand March 2015 (Page 19)	<ul style="list-style-type: none"> ◆ National Municipal Accounting Manual (NMAM) was developed by the Ministry of Urban Development, Government of India under the guidance of the C&AG of India in November 2004. ◆ On the basis of this manual, the Uttarakhand Government had prepared in December 2011, its own Uttarakhand Municipal Accounting Manual (UMAM) for all the tiers of Urban Local Bodies in the State. The State Government has also issued directions to all ULBs in the State to adopt the double-entry accounting system for maintaining their accounts. 	https://cag.gov.in/uploads/media/UK-ATIR-for-year-ending-March-2015-English-Final-20200625125505.pdf
26	West Bengal March 2014 (Page 4)	<ul style="list-style-type: none"> ◆ Accounting Manual for ULBs (except Kolkata Municipal Corporation) in West Bengal, based on the National Municipal Accounts Manual, was prepared in February 2006 for switching over to double-entry accounting system. ◆ Accordingly, Section 84 (effective from October 2006) of the West Bengal Municipal Act, 1993 and Rule 22 (2) (effective from January 2007) of the West Bengal Municipal (Finance and Accounting) Rules, 1999 were amended for mandatory preparation of Balance Sheet, Income & Expenditure Account, Receipt & Payment Account and Cash Flow Statement with effect from the financial year 2006-07 for the ULBs in Kolkata Metropolitan Area and from 2007-08 for other ULBs. 	https://cag.gov.in/uploads/download_audit_report/2016/West_Bengal_ULB_Report_of_2014.pdf

Annex 6: Statutory provisions in State laws empowering accrual accounting in ULBs



In India, State governments are authorized to frame laws on matters relating to the system of accounting in local bodies. For introducing accrual accounting in ULBs, it is imperative that the necessary statutory empowerment is in place. This should cover matters relating to fiscal management, system of accounting, financial statement preparation and their audit, budgeting, transparency and disclosure of fiscal information, and related areas. The enabling provisions provide clarity and direction to the implementors undertaking the accrual transition project.

MoHUA's www.cityfinance.in portal carries a comparison of statutory provisions of 28 states pertaining to municipal finance matters²², presented across 70 questions grouped under 13 criteria. The comparison was reviewed as part of this study and the key findings are summarized here.

Most states seem to have amended their Municipal Acts to give a legal backing to accrual accounting. Nine out of the 28 States including Bihar, Jharkhand, and Karnataka have framed Finance and Accounts Rules/Accounts Code in addition to amendments in the Municipal Acts and developing the MAM. In five states, including Andhra Pradesh and Tamil Nadu, the policy requirements around accrual accounting are distributed over the Act and the MAM without framing exclusive Rules.

22 <http://www.cityfinance.in/municipal-law>

6.1 BUDGETING

In most of the States (18), there is no mention about the basis of budget preparation (including study states Gujarat and New Delhi). Statutes in eight States prescribe the budgets to be prepared on cash basis. Kerala and Uttar Pradesh prescribe accrual basis of budgeting.

Budget statements like budget summary, major head-wise budget, function-wise budget, estimate of revenue and capital receipts, estimate of revenue and capital payments, etc. are prescribed in 15 of the 28 States. Bihar and Tamil Nadu prescribe outcome-based budgeting. Andhra Pradesh, Odisha, Rajasthan, and Telangana include revenue trend analysis as part of the budget statements. Budget calendar has been prescribed only in eight of the 28 States including three of the study States. Medium term fiscal plan, one of the ingredients for good public finance management, is prescribed only in Assam and Karnataka.

6.2 ACCOUNTING

In most of the States (21), double-entry accrual-based accounting system is prescribed either specifically in the law or in Government Orders, except in Gujarat, Haryana, Himachal Pradesh, Manipur, Mizoram, Nagaland, and Tripura. There is no uniformity in the way States have linked MAM to the statute although the MAMs contain references to the respective statutes.

6.3 FINANCIAL STATEMENTS

The contents of financial statements, commonly referred to as 'annual accounts' have been prescribed in the municipal law in 19 States. Balance sheet, income and expenditure account, statement of cash flows, receipt and payments account, notes to account have been prescribed in many States, except Gujarat, which mentions receipt and payment account alluding to cash basis of accounting. In eight States,²³ there is no mention of these financial statements. Nine States²⁴ (including four of the study States) have also prescribed presentation of financial performance indicators as part of annual accounts.

6.4 STATUTORY AUDIT AND FINANCIAL STATEMENTS AUDIT

Statutory audit is conducted by the State Audit Department (called Local Fund Auditor or equivalent) in eleven States. In six States, the Local Fund Examiner under State C&AG does the audit. Statutes in three States allow the Local Fund Auditor or a CA firm to be appointed by the State Government to audit the accounts. In six States, there is a generic mention as auditor appointed by the State Government or Director of Accounts. In Tripura, the Act has not prescribed anything in this regard. Separate audit of financial statements or certification of financial statements as part of statutory audit is largely not prescribed (except Karnataka and Tamil Nadu).

²³ Haryana, Himachal Pradesh, Manipur, Meghalaya, Mizoram, New Delhi, Tripura, Uttar Pradesh

²⁴ Andhra Pradesh, Chhattisgarh, Jammu & Kashmir, Jharkhand, Kerala, Madhya Pradesh, Odisha, Rajasthan, Tamil Nadu

In the case of Karnataka, while the State Audit and Accounts Department is the statutory auditor, CA firms do the financial statements audit. In Tamil Nadu the LFAD undertakes certification of financial statements as well as part of its statutory audit.

6.5 INTERNAL AUDIT

Statutes in 10 of the 28 States have prescribed internal audit, while the laws in the other 18 States are silent on this point.

6.6 ANNUAL REPORT

Annual report is called by different names in different States: performance report, financial report, administrative report and so on. Except in six States, there is a requirement for preparation of an annual report in the statutes. In most of these States, the statutes prescribe the contents of the annual report, which generally include financial statements, auditor's report, performance statements, management discussion and analysis, etc.

The review indicates that while in Bihar, Karnataka, and Tamil Nadu the statutory enablement for accrual accounting in ULBs is reasonably comprehensive, in most other States, the northeastern states in particular, further enablement is needed. Since legislative amendments are daunting and time-intensive, yet indispensable. Policymakers need to work out alternative approaches to hasten the implementation. Like certain States have done, once the decision to move to accrual accounting is taken, the government needs to work out mechanisms to implement the reforms through quasi-legal instruments like Government Orders and Executive Orders and initiate the legislative amendments in parallel.

Annex 7: Key recommendations on municipal finance matters in CFC and SFC reports



7.1 FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT

1. Enactment of a Fiscal Responsibility and Budget Management Act for ULBs - Tamil Nadu 3rd SFC Summary (para 127)
2. Government may prescribe a ceiling for borrowing by ULBs to prevent them from falling into a debt-trap-Tamil Nadu 3rd SFC Summary (para 138)
3. Comprehensive review of debt-bearing capacity of ULBs-Tamil Nadu 3rd SFC Summary (para 139)
4. Ceiling on borrowing may be fixed at four times of own resources. Also, debt servicing may be fixed at 25% of total revenue receipts-Tamil Nadu 2nd SFC Report (para 61).
5. Shelf of projects for each ULB for a 5-year period commencing from 2007-12 has to be prepared and the same shall be discussed in the DPC meetings-Tamil Nadu 3rd SFC Summary (para 151).
6. Recommendations to improve the fiscal position-Tamil Nadu 2nd SFC Report (para 42)
 - a. All ULBs shall wipe out revenue deficit by 2004,
 - b. Ensure a 5% cash reserve in each year's income,

- c. Fix statutory ceiling on debt level,
 - d. Quarterly review of budget allocation and spending,
 - e. Limiting the salary and pension commitment to 49% and deploy at least 51% for O&M, assets creation, debt servicing and investment,
 - f. Fixing responsibility for time and cost overruns on line agencies and government departments.
7. ULB should be encouraged to undertake credit rating and access bond markets for financing infrastructure – Rajasthan 4th SFC Report (para 10.2).
8. ULBs to prepare outcome-based budget timely as per the Manuals, which must be consistent with the long and short term plans that promote strategic priorities of the communities and be uploaded on the website for citizen's feedback. – Bihar 5th SFC Report, Summary of main recommendations (para xxv).
9. Approved budgets not to show any deficit–Bihar 5th SFC Report, Summary of main recommendations (para xxv).
10. To improve use of resources, local bodies must promote three interrelated outcomes: Bihar 5th SFC Report, Summary of main recommendations (para 10.11.2)
 - a. Aggregate fiscal discipline: Ensuring that actual expenditures are consistent with actual total revenues, to keep spending within sustainable limits;
 - b. Allocative efficiency: Consistency between budgets allocated to programs and activities that promote the strategic priorities of the communities; and
 - c. Operational efficiency: Provision of public services at a reasonable quality and cost.
11. The ULB must at least meet its establishment and O&M expenditure through own revenue so that other sources of revenue could be used for financing capital investment projects.–Bihar 5th SFC Report, Summary of main recommendations (para 10.12.3a).
12. The procedures to be followed by the Finance Standing Committee to review different aspects of financial management and to scrutinize the transactions and records may be issued in the form of Rules.–Kerala 4th SFC Report, Part II, Summary of Recommendations (para 17.17).
13. Revenue estimates should not be in excess of the average annual growth over the previous three years. If there are rate increases of taxes/non-tax items, then the proportionate increase should be allowed. This should be ensured through legislation. Any shortfall of more than 10% of the estimate may be viewed as malfeasance for action by the Ombudsman.–Kerala 4th SFC Report, Part II, Summary of Recommendations (para 17.19).

7.2 TRANSPARENCY, ACCOUNTABILITY, AND DISCLOSURE OF FISCAL INFORMATION

1. Availability, on the public domain, of unaudited annual accounts for previous year and audited accounts for the preceding previous year as an entry-level condition for accessing grants – 15th CFC (para 7.21).
2. Consolidation of local body accounts with State and Union government accounts
3. Notification of floor rates of property tax.
4. Eligibility criteria for release of performance grants for municipalities:
 - a. Submission of audited accounts that relate to the year not earlier than two years preceding the year in which the municipality seeks to claim the performance grant.
 - b. Increase in its own revenues over preceding year as reflected in the audited accounts.
 - c. Measure and publish the Service Level Benchmarks relating to basic urban services each year for the period of award.
5. Creation of a database of financial information of local bodies. – 12th CFC (Chapter 8 para 8.26)
6. Maintenance of accounts through use of technology. – 12th CFC (Chapter 8 para 8.43)
7. Display information about devolved funds and grants from the State and Central governments prominently. They should further display in detail the work-wise utilization of these funds–Rajasthan 4th SFC Report (para 12.33).
8. A new chapter titled “Fiscal Accountability” be introduced in the Kerala Panchayat Raj Act and Kerala Municipality Act covering the following points.– Kerala 4th SFC Report, Part II, Summary of Recommendations (para 17.29).
 - a. Making person(s) responsible for diversion of funds to pay an interest of 2% per month on the diverted funds till they are recouped.
 - b. Any decision of local governments to divert funds should be made illegal so that officers concerned need not obey them.
 - c. Payments of deducted and collected items should be made automatic. Deducted items should be sent to the appropriate authority within 30 days and the library cess should be remitted within 30 days of the succeeding financial year. Same time limit may be prescribed for the 2% contribution of Urban Local Governments to the Urban Poverty Alleviation Fund.
 - d. Repayment of loans, payments of dues to Kerala Water Authority and Kerala State Electricity Board in respect of street lights and public water supply should be made the first charge on own revenues and General Purpose fund. Any penalties may be collected from the Secretary concerned.

- e. Transfers to implementing offices/heads of offices for payment of electricity/water/telephone charges etc., should be automatic.
- f. Deposit works should be resorted to only if they are part of the Budget and based on proper estimates. There should be an agreement with the implementing agency covering the issues like time of completion, cost increases etc.
- g. Splitting up of works to obtain technical sanction by lower level authorities should be banned. Cost increase of public works more than the technically sanctioned estimate should be allowed only with the approval of an authority to be prescribed for the purpose.
- h. Technical Advisory Groups and District Planning Councils should be made liable for wrong decisions.
- i. The Secretaries and ex-officio Secretaries should mandatorily give their advice on file, and it should be indicated in the minutes of the local government while decisions are taken. If no advice is tendered or wrong advice is given the official would be responsible; otherwise the elected members involved in the decision would be liable.
- j. Implementing officers and ex-officio Secretaries should be made responsible for provision of details for budget preparation, provision of data on performance and for follow up of audit findings in respect of their area of functioning. Repetition of the kind of mistakes once pointed out by audit and rectified should be brought within the definition of malfeasance.
- k. All audit findings having financial implications for individuals should be finalized within six months. Audit Monitoring Committees should ensure this.
- l. The provision to recover monetary loss caused to Local governments by action or inaction by elected members or officials jointly or separately should be introduced in the Kerala Panchayat Raj Act and Kerala Municipality Act.
- m. An appellate system should be prescribed for hearing and deciding first appeals against charge and surcharge decisions which could be a statutory body consisting of Director of Local Fund Audit, State Performance Audit Officer and a representative of C&AG.
- n. As regards illegal decisions, the existing provisions should be modified to allow officials the freedom not to implement them subject to the condition that they give it in writing with the rationale in detail. If the local governments, feel that the stand of the officer is not correct they may refer it to Government and the decision of government shall be binding or the local governments may insist on carrying out the decision in which case the officer could take up with Government and await decision. Time limit for decision could be sixty days.

7.4 HUMAN RESOURCE CAPACITIES

1. 25% of the posts of ADs may be earmarked for direct recruitment so as to induct professionals such as Chartered Accountants-Tamil Nadu 2nd SFC Report (para 64d).

7.5 INTERNAL CONTROLS AND AUDIT

1. C&AG report must be placed before a committee of the State legislature - 11th CFC
2. Maintenance of inventory of assets must be made mandatory for release of grants - Odisha 4th SFC (para 10.5)
3. Deletion of written-off assets from the Assets Register-Tamil Nadu 3rd SFC Summary (para 131)
4. Introduction of pre-audit in place of concurrent audit-Tamil Nadu 3rd SFC Summary (para 144) referring to 2nd SFC report.
5. High-level Committee formed to look into long-pending audit objections should meet once in six months-Tamil Nadu 3rd SFC Summary (para 147)
6. Implementation of management audit-Tamil Nadu 2nd SFC Report (para 68).
7. The audit report incorporating major irregularities noticed in the local bodies may be compiled and presented before the Committee of legislature for local bodies, for which the Director of Local Fund Audit can function as a Secretary or Convenor.
8. All ULBs to prepare Action Taken Report in respect of each audit report and submit these reports along with ATRs within 30 days for approval by its Audit Committee.-Bihar 5th SFC Report, Summary of main recommendations (para xxvii).
9. Regional Director of Urban Affairs must be put in charge of inspecting cash books of at least 10% of local bodies every month and report regularly to the heads of department concerned.-Kerala 4th SFC Report, Part II, Summary of Recommendations (para 17.15).
10. The State Performance Audit Authority should come up with inter-local government comparison of revenue and expenditure with special reference to efficiencies. This should be published annually.-Kerala 4th SFC Report, Part II, Summary of Recommendations (para 17.24).
11. The Performance Audit system should be revamped to make it an effective internal audit system which is online and corrective rather than fault-finding. It should not do formal audit. A detailed checklist may be developed for performance audit to be developed into a Manual.-Kerala 4th SFC Report, Part II, Summary of Recommendations (para 17.90).
12. C&AG to continue to provide technical guidance and support; states to facilitate local bodies in timely accounts compilation and audit. - 15th FC Report (para 7.20).





सत्यमेव जयते

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