

Training Module On Audit of Urban Local Bodies



Regional Training Institute, Kolkata
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March 2006

Preface

The 74th Constitutional Amendment is a watershed in the domain of urban local self governance in India making the urban local bodies (ULBs) constitutional entities empowered to provide improved governance and more effective delivery of civic services to the communities. It is now imperative for the States to devolve more responsibilities, power and resources through devolution of funds and functionaries upon the ULBs as envisaged in the Twelfth Schedule to the Constitution. The Eleventh Finance Commission's Recommendations as accepted by the Government of India, Ministry of Finance, Department of Expenditure, devolved upon the Comptroller & Auditor General of India (C&AG), the responsibility for exercising control and supervision over the proper maintenance of accounts of ULBs and their subsequent audit. The formats for preparation of budget and for keeping accounts are also required to be prescribed by the C&AG.

Accordingly, with a view to recommending budget and accounting formats for ULBs in India a Task Force was constituted by C&AG. The Task Force suggested necessary formats and accounting system for ULBs along with significant accounting policies, notes on accounts as well as information on cost of important utilities and services and MIS reports. The Govt. of India, Ministry of Urban Development, accepted the report.

Subsequently, with the objective of aligning national level perspectives of reforms in municipal finance and financial management with that of the State Governments, the Ministry of Urban Development, Government of India brought out a broad framework of "National Municipal Accounts Manual" based on the recommendations of the Task Force Report. The entire exercise was facilitated and overseen by C&AG.

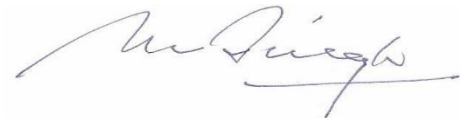
The initiatives undertaken by the C&AG for capacity building of the auditors and accountants included, inter-alia, designating Regional Training Institute (RTI), Kolkata as the nodal centre of excellence for training in audit of local bodies. The RTI, Kolkata did an excellent job in producing two training modules on audit of Panchayati Raj Institutions, which are being used extensively.

RTI Kolkata has now brought out a comprehensive training module on "Audit of Urban Local Bodies". The module has been designed in a manner, which is lucid and easy to understand. Though primarily based on Acts governing municipal administration in West Bengal, it lends itself for customisation to suit specific requirements of other states. The manual covers wide spectrum of subjects including a macro perspective on the historical background of ULBs, their constitution, and organisational structure besides detailed sessions on audit of ULB accounts covering individual areas like budget, receipts, municipal funds, loans & IT audit. Keeping in

mind the need for an auditor to be armed with a more holistic approach, themes like Central Schemes, Environment Management, Social Audit and Gender Sensitisation have also been discussed at length in Sessions 8 and 12 and has raised many thought provoking and pertinent questions leading to the objective of good governance in the urban sector. The organisation of the sessions with detailed guidelines for the instructors, learning objectives as also the use of current illustrations and case studies make the entire module more user friendly and relevant.

This training module is a major step forward in our efforts to render guidance and assurance on the effective use of public funds as also improving the financial accountability frame work in the urban sector.

I hope that this training module will help considerably in upgrading the skill of statutory auditors all across the country.



M. S. Shekhawat
Deputy Comptroller & Auditor General (Local Bodies)

Foreword

The Regional Training Institute (RTI), Kolkata was designated by the Office of the Comptroller & Auditor General of India (C&AG) in December 2003 as the nodal centre of excellence for training in audit of local bodies.

We undertook preparation of the training modules on the audit of local bodies commencing with the rural local bodies, viz. Panchayati Raj Institutions (PRIs) in the first two phases. Accordingly, two training modules, (i) “Audit of Gram Panchayat” and (ii) “Audit of Zilla Parishad and Panchayat Samiti” were brought out successively. These two modules, composed in English, were also rendered into Bengali vernacular for dissemination at the grass root level.

Thereafter, we took up preparation of training module on audit of urban local bodies (municipalities and corporations) in the third and final phase. The preparation ibid was made on the basis of shared experience of related agencies.

The training module entitled “Audit of Urban Local Bodies” is chiefly based on, among others, 74th Constitutional Amendment, Recommendations of 11th and 12th Finance Commissions, National Municipal Accounts Manual, existing Acts and financial rules of Government of West Bengal on municipal governance, etc.

In developing the module emphasis was laid on a collaborative and consultative process involving among others the offices of the Local Bodies Division, Office of the C&AG, Accountant General (Receipt, Works and Local Bodies Audit), West Bengal, Directorate of Local Bodies, Government of West Bengal, Institute of Local Government and Urban Studies (ILGUS) and State Urban Development Agency (SUDA), Government of West Bengal and also NGOs like Mazdoor Kisan Shakti Sangathan, Rajasthan and Parivartan, New Delhi. We gratefully acknowledge the advice of all concerned above, specially the valued support and assistance rendered by the Local Bodies Division, Office of the C&AG of India in finalizing the module.

The team developing the module is comprised of S/Sri Tapanjyoti Mukherjee, Sr. Faculty Member, Sujit Kumar Das, Asstt. Faculty Member and Dibyendu Kundu, Auditor.

We welcome feedback and suggestions on the design and content of this training module.

Rudra Saha
Principal Director

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List of Abbreviations and Acronyms

Sl. No.	Abbreviated Form	Full Form
1	A/c	Accounts
2	AMRUT	Atal Mission for Rejuvenation and Urban Transformation
3	A&OE	Administrative and Office Expenses
4	BMC	Brihanmumbai Municipal Corporation
5	C & AG	Comptroller and Auditor General of India
6	CC	Chennai Corporation
7	MML	Model Municipal Law
	CFC	Central Finance Commission
8	CO	Community Organisers
9	CPT	Chennai Port Trust
10	Dt.	Dated
11	DLRMC	District Level Review and Monitoring Committee
12	FFC	Fourteenth Finance Commission
13	HPC	High Powered Committee
14	HUDCO	Housing and Urban Development Corporation
15	IEC	Information, Education & Communication
16	JMC	Joint Municipal Commissioner
17	LIC	Life Insurance Corporation
18	MC	Municipal Commissioner
19	MoF	Ministry of Finance
20	MSW	Municipal Solid Waste
21	MOUD	Ministry of Urban Development
22	NARC	National Advisory and Review Committee
23	NMD	National Mission

Sl. No.	Abbreviated Form	Full Form
		Directorate
24	NCPRI	National Corporation for Peoples' Right to Information
25	NGO	Non-Government Organisation
26	NMAM	National Municipal Accounts Manual
27	NMD	National Mission Directorate
28	NRTI	National Right to Information
29	PA	Poverty Alleviation
30	PDMC	Project Development and Management Consultant
31	PPP	Public Private Partnership
32	PWD	Public Works Department
33	RTI	Right to Information
34	SBM	Swachh Bharat Mission
35	SFC	State Finance Commission
36	SLB	Service Level Benchmark
37	SMD	State Mission Directorate
38	TFC	Twelfth Finance Commission
39	UBSP	Urban Basic Services for the Poor
40	UEPA	Urban Employment and Poverty Alleviation
41	ULB	Urban Local Bodies
42	UNFCCC	United Nations Framework Convention in Climatic Change
43	UPE	Urban Poverty Eradication
44	VGF	Viability Gap Funding
45	WB	West Bengal



Regional Training Institute, Kolkata

Training Module on Audit of Urban Local Bodies (ULBs) – Municipal Corporations and Municipalities

Training Objective: Familiarisation with the concept of ULBs, its evolution and its importance in the developmental process vis-a vis enabling the participants to

- (i) understand ULBs accounting system;
- (ii) form objective assessment of working of ULBs; and
- (iii) derive audit conclusions

Training Method: Interactive lectures, PowerPoint Presentations and exercises

Sessions at a glance

Day 1

Session	Time	Topic
1	10.30 hrs. to 11.45 hrs.	Historical perspective of ULB: Evolution of municipalities and municipal Corporations in India; Enactment of constitutional provisions.
2	12.00 hrs. to 13.15 hrs.	Constitution and Organisation of ULBs and Powers and Functions of ULBs.
3	14.15 hrs. to 15.30 hrs.	Audit of Municipal Fund, Special Fund, Grants and audit points.
4	15.45 hrs. to 17.00 hrs.	Audit of Loans borrowed by ULBs; its accounting system; sinking fund, and audit points. Audit exercises for session 2,3 and 4.

Day 2

Session	Time	Topic
5	10.30 hrs. to 11.45 hrs.	Budget of ULBs and Audit Points.
6	12.00 hrs. to 13.15 hrs.	Audit of Taxation, and Cess; their accounting system and audit points.
6	14.15 hrs. to 15.30 hrs.	Contd.
6	15.45 hrs. to 17.00 hrs.	Contd. Audit exercise for session 5 & 6.

Day 3

Session	Time	Topic
7 (Pt.-I)	10.30 hrs. to 11.45 hrs.	Accounting system of ULBs; understanding accrual system of accounting; accounting principles; codification structure in ULB accounting system;
7 (Pt.-I)	12.00 hrs. to 13.15 hrs.	Contd.
7 (Pt.-II)	14.15 hrs. to 15.30 hrs.	Public Works and its accounting system; Stores and its accounting system; health and sanitation and its accounting system.
7 (Pt.-II)	15.45 hrs. to 17.00 hrs.	Reconciliation procedure; financial statement. Audit Exercise

Day 4

Session	Time	Topic
8	10.30 hrs. to 11.45 hrs.	Familiarisation with Fourteenth Finance Commission and Schemes like Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Swachh Bharat Mission (SBM)
9	12.00 hrs. to 13.15 hrs.	IT Audit in ULBs
10	14.15 hrs. to 15.30 hrs.	Internal Control.
11	15.45 hrs. to 17.00 hrs.	Audit Mandate, Scope of Audit and Auditing standards.

Day 5

Session	Time	Topic
12	10.30 hrs. to 11.45 hrs.	Environment Management, Services and Social Audit.
13	12.00 hrs. to 13.15 hrs.	Important Observations raised in Audit Reports of Different States
14	14.15 hrs. to 15.30 hrs.	Evaluation Test and submission of feed back form.
15	15.45 hrs. to 17.00 hrs.	Valediction.

Session 1

Session Title:

**Urban Local Bodies (Municipalities
and Municipal Corporations)
—A *Historical perspective***



**Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note**

Session: 1**Session at a glance**

Session Title: Urban Local Bodies (Municipalities and Municipal Corporations) — A Historical perspective

Learning Objectives:

Given the overview of the origin of urban local self government, its evolution through the ages, the system of local self governance in ancient India as well as in post independence India, constitutionalising of Urban Local Bodies, the participants, at the end of this session, will be able to understand the role and importance of urban local self government in urban society. This overview will provide background knowledge about the audit entity and help focus on audit issues.

	Time Required	Training Method
Session Overview: In this session we will discuss the origin, evolution and system of urban local self government in ancient and present India	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 Origin of urban local self government and its growth through the ages.	25 min	Lecture, Group Discussion and PowerPoint slide show
Key Teaching Point 2 Urban self government in ancient India, British India and Post Independence India, Constitutional status of the ULBs, 12 th Finance Commission's recommendations, and *Urban local bodies in West Bengal Scenario.	40 min	Lecture, Group Discussion and PowerPoint slide show
Summary	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

* This is to be adopted as per State specific scenario

Session: 1**Instructor's Guide****Session Title:** Urban Local Bodies (Municipalities and Municipal Corporations) — A Historical perspective

Instructor's Guide	Ref.
Session Overview: Welcome participants to the session and remind them that their active interaction is important for the success of each session. Tell the participants that in this session we will discuss on <ol style="list-style-type: none"> 1. Origin of urban local self government and its evolution 2. Urban self government in ancient India, British India and Post Independence India 3. Constitutional status of the ULBs, 12th Finance Commission's recommendations, and **Urban local bodies in West Bengal Scenario. 	
Learning Objective: Inform by the end of the session, we will acquire the basic concepts of ULBs, its origin and evolution of its role and importance in urban India, through Shaharing our knowledge on the subject.	
Basic Concept: Form ††five groups among participants. Ask what is their understanding of the 'Origin of urban local self government' and its evolution. Encourage each group to discuss among its members and each participant to actively participate in the discussion. Obtain responses from each group and recognize them by noting on the white board. Show PowerPoint Slides and discuss . Ask what is their understanding of the 'urban self government in ancient India, in British India and in modern India' as well as Constitutional status of ULBs. Encourage each group to discuss among its members and each participant to actively participate in Shaharing his knowledge on this matter. Take responses from each group and recognize them by noting on the white board. Show PowerPoint Slides and discuss alongwith 12 th Finance Commission's recommendation on share of states in allocation of fund, ††the position of ULBs and their performance in West Bengal.	PowerPoint Slide: Session 1 History
Distribute Participant's Note	
Summarise: Run Down: During the session we discussed the origin and evolution of urban local self government and their role in India. Thank the participants for their active participations and bring the session to a close.	

** This is to be adopted as per State specific scenario.

†† Number of groups may vary according to no. of participants and sitting arrangement.

‡‡ This is to be adopted as per State specific scenario

Session Title:

Urban Local Bodies (Municipalities and Municipal Corporations) — A Historical perspective

Session Overview:

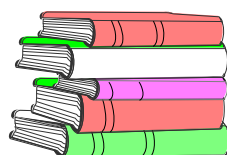
In this session we will discuss the origin and evolution of urban local self government, the system of the same in ancient and present India.

Learning Objectives:

Given the overview of the origin of urban local self government, its evolution through the ages, the system of local self governance in ancient India as well as in post independence India, constitutional status of Urban Local Bodies, the participants, at the end of this session, will be able to understand the role and importance of urban local self government in urban society. This overview would provide background knowledge about the audit entity and help focus on audit issues.

Origin of urban local self government:

Development in all its possible dimensions and in every activity of life – social, economic and political – is the



cry of the day, not only in the developed countries, but especially in the developing countries of Asia, Africa and Latin America as well, which have earned independence after the Second World War. These “New States” aspire for modernity and feel the pressing necessity of rapid national development. There is a tendency in the countries today towards organizing local governments to give them sound footing and to make them play a substantial role in the process of economic and political transformation. The industrial revolution, new scientific and technological advancements, need for social and economic changes are some of the causes which have generally widened the scope of the activities of the state, vis-à-vis, local governments.

The municipal government in the urban areas may be conceived as an elected political institution for local popular choice for local civic services. The municipal government has been universally regarded as people's government at the grass roots level in the shape of local government for the urban areas. A municipality, being closest to the local community, is favourably suited to respond to diverse local needs

in the most economical manner, inasmuch as the local public can easily perceive the linkage between taxation and local public expenditure. It enhances people's participation and political awareness.

The word 'municipality' denotes a town, city or district that has its local government and 'corporation' refers to a group of people elected to govern a large town or city and provide public services. The name city or town is given to certain communities by virtue of some legal or conventional distinction and it refers to an urban area incorporated by special or general act of state legislature. Its charter of incorporation prescribes the extent of municipal powers and the frame of local government subject to constitutional limitation and amendment. A municipal town is generally acclaimed to have these characteristics: (a) population of the area should not be less than 20,000; (b) density of the population should not be less than 750 inhabitants per square kilometre of area; (c) one half of the adult population should be chiefly engaged in pursuits other than agriculture, and (d) income from taxation and other sources should likely to be adequate for the discharge of

municipal functions under the Municipal Act (vide Section 3 of West Bengal Municipal Act, 1993).

The origin of urban development dates back to the ancient age. As mentioned in "*New Encyclopaedia Britannica*" it was no accident that the earliest of man's settlements grew in the rich subtropical valleys of the Nile, the Tigris, the Euphrates, the Indus, the Ganges and the Yellow rivers or in such well-watered islands of Crete. Such areas provided favourable environmental factors making town living relatively easy.



Growth of urban development through the ages:

Historians believe that man started living relatively in fixed settlements about 10,000 years ago in the Neolithic age. However, evolution of the Neolithic village into a city took more than 1,500 years in the Old World from 5,000 to 3,500 B.C. Domestication of animals

and technological developments in agriculture tuned with development in transportation facilitated man's settlement in urban places. This is evident from city based settlements in Tigris-Euphrates valley around 3,500 B.C. Urban population at that age was distinguished by literacy, technological progress (chiefly in metals), social controls and political organisation. Such places existed on the Sumerian Coast at Ur and in the Indus Valley at Mohenjodaro and in the valleys of Nile. Cities proliferated along overland trade-roots from Turkestan to the Caspian and then to the Persian Gulf and eastern Mediterranean. The heterogeneous peoples of the Greco-Roman world inherited a technological and non-material culture from Asia that helped nourish the growth of cities. It was in the Greek city-state or 'polis' that the ancient city system of administration reached its peak.

In the medieval age (12th and 13th centuries) more new towns were set up and the age witnessed a singular upsurge toward civic autonomy. Towns in western Europe had various kinds of municipal institutions loosely grouped

together under the designation 'commune'.

The renaissance and industrialisation was a watershed in the modern urban world which witnessed a rapid growth in urban development. The concentration of the manufacturing labour force in 'mill towns' and 'coke towns' resulted in rural depopulation and urbanization of the society. In the century after 1850 world population doubled and the proportion living in cities of more than 5000 inhabitants rose from less than 7 percent to 30 percent. More number of cities and townships came into being consequent on the widespread use of cheap electric power, advent of rapid modes of transit and communications, new building materials, the automobile and rising level of per capita personal income.

The municipal system of government today may be classified in four principal types:

- the decentralized system found in federal constitutions;
- the decentralized system found in unitary constitutions;
- the supervisory system found under "Napoleonic" or French-type administration; and

- the integrated system found in eastern Europe.

In the federal constitutions, local government is usually a matter lying within the jurisdiction of the state or provincial government rather than that of the national government. This is the position in countries like the USA, Germany, India etc. This system accounts for the great diversity of municipal organisation. The decentralized city government in unitary systems is prevalent in countries like the Great Britain and Japan. The system of local government in France, till the administrative reforms of 1982, was derived mainly from the French Revolution and the Napoleonic era, when the basic organisation was a highly centralized administrative state in which the communities were local units of the central government. Historically this French pattern had far reaching influence in Europe, Africa and Asia. In this system the concept of the Mayor and the Prefect took shape, where Prefect was appointed by and responsible to the central government and was assisted by the elected council. The tendency in the Latin American countries is to adopt the basic principles of this supervisory

system involving central government officers of the prefectural type who exercise control over local authorities. The integrated system, followed in the erstwhile Soviet Union and other East European countries, is based on the concept of 'soviets' (elected councils) set up in every province, district, city, town or village throughout the land. This system is also known as "democratic centralism" in which each local authority is responsible to and must carry out the directions of the corresponding organ at the next higher level of government.

The principal problems confronting city governments are broadly similar irrespective of the constitutional type. They concern the planning and development of large cities, particularly those classed as metropolitan areas; the continual erosion of local autonomy by the increase of central governmental control, the municipal dependence on grants and subsidies from the central government, and the immense difficulty of providing adequate traffic and transport facilities, sanitation, water, housing, education, and welfare services at an acceptable standard. Finally, the deterioration of the environment has become a matter of serious concern that

is likely to persist for many years. Gradual accumulation of garbage in the towns and cities is posing a real problem to the ULBs in solid waste management.

Modern day urban planning

With the growth of more and more urban areas in the present day the need for proper civic administration is of paramount importance. A modern day city or town has to look after the following needs:

- orderly arrangement of parts of the city—residential, business and industrial -- so that each part could perform its functions with minimum cost and conflict;
- an efficient system of circulation within the city and outside, using to the maximum advantage all modes of transportation;
- the development of each part of the city to optimum standards, in terms of lot size, sunlight, and green space in residential areas and parking and building spacing in business areas;
- provision of safe , sanitary and comfortable housing in a variety of dwelling types to meet the needs of all families;

- provision of recreation, schools and other community services of adequate size, location and quality;
- provision of adequate and economical water supply, sewerage, utilities and public services.



Urban self government in India

Ancient India

The system of local self governance in urban areas in India has a hoary legacy. The idea of local self government was present even during the grand old days of Vedic India. The cult of “Sabha” (Popular Assembly) and mention of city administration in the ancient epics show evidence of existence of constitutional government at local level. Kautilya’s “Arthashastra” of 300 B.C. talks of city administration by state appointed “Nagaraka” (City Superintendent) performing various civic functions and the accounts of Megasthenes, the great ambassador of the ancient Greek king Seleucus to the royal court of Chandra Gupta, the Mauryan emperor, narrate performance of various civic

administration and formation of local bodies like “Kudumbus”(wards). In the medieval age during the Mughul era distinctive achievements were made in the sphere of local government in urban administration. The office of “Kotwal” was developed as the keystone of municipal organisation.

British India

The foundation of urban local government ushered in the modern era during the British period, inasmuch as the present system of municipal government was by and large introduced in this country by the British Government. Madras bears the unique distinction of being the earliest city in India to be established as a municipal corporation. In 1688 a royal charter was procured by the East India Company for the organisation of a Corporation at Madras. Similarly, Municipal Corporations were created for Calcutta and Bombay by a Royal Charter granted in 1727. More Municipalities and Corporations were set up in different areas progressively. Socio-political obligations chiefly led to the creation of those urban local governments – to bring down pressure on the royal treasury, to look after the health and well-being of

the British soldiers and to facilitate collection of taxes and revenues from the local inhabitants. With the passage of time legislations were made defining the scope and activities of the Municipalities and the Corporations. The first attempt to provide machinery more capable of directing civic affairs came in the 1840's, when the principle of election was introduced to a very limited scale. The Bengal Act X of 1842 was the first municipal legislation outside the Presidency town of Calcutta. The performance of the local bodies under this Act was not considered successful. It was replaced by the Act XXVI of 1850 as an all-India measure. Following the outbreak of a severe epidemic which could not be controlled by the existing governmental machinery, Lord Lawrence extended local self-government to the local areas under the provision of the Bengal Municipal Improvement Act, 1864 to deal with the sanitary problems of larger towns. Lord Rippon's famous Act of 1884 is universally acknowledged as the harbinger of local democracy in urban India. It brought about fundamental changes in the municipal structure, functions and responsibilities and under

this Act, all members of the Board were to be elected. Later, this Act was substituted by the Bengal Municipal Act 1932 which continued to be the basic guiding municipal legislation in the pre-independence era.

Post Independence India

The evolution of municipal administration as an integral part of local self government constitutes a fascinating chapter in the annals of India's administrative evolution. After independence and with the inauguration of the Constitution embodying the principles of democracy and welfare state, the position of local self government institutions has assumed an increasing importance in the political and administrative set-up of the country. The problems of local self government, however, got a good deal of attention in view of the first two conferences of the State Local Self-Government Ministers held in 1948 and 1954. As a result of the recommendations of the Conference in 1954, a Central Council of Local Self-Government was established under Article 263 of the Constitution by a Presidential order in September, 1954. This provided a forum for discussion of

policy and programmes on local self government.

Constitutional status of the ULBs

A wave of decentralization of service delivery to local governments gathered momentum in the 1990s, including countries like Albania, Bolivia, Bosnia, Brazil, Ethiopia, Malawi, Madagascar, Philippines, South Africa, Uzbekistan, Uganda and Zambia. India also implemented a countrywide experiment with decentralization to urban local governments with the passage of 74th Constitutional Amendment in 1992. The 74th Amendment Act, 1992 inserted Articles 243 P to 243 ZG, for uniform compliance throughout the country, the major features of which are:

- a) Granting ULBs constitutional status;
- b) Ensuring free, fair and regular elections;
- c) Fixed tenure of elected body;
- d) Identifying a list of 18 subjects to come under the jurisdiction of the ULBs as enumerated in the Twelfth Schedule;
- e) Setting up of a State Finance Commission once in five years to review ULBs financial position and make suitable recommendations for distribution of funds to ULBs;

- f) Independent State Election Commission to supervise preparation of electoral rolls and control electoral process;
- g) Proportionate reservation of seats and offices of Chairpersons at all levels for SC and ST, with one third reserved for SC/ST women;
- h) One third of total seats and chairperson offices reserved for women;
- i) The centrality of Ward Committees to decentralize governance.

Article 243W enjoins that the Legislature of a State may, by law, endow the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities with respect to:

- the preparation of plans for economic development and social justice;
- the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule.

Thus, the 74th Constitutional Amendment consolidated social gains

conceived in establishing the ULBs throughout the country and imposed a political uniformity on the structure and working of the third tier of governance. The Amendment perceived popular participation as the key factor in decision-making and service delivery.



Urban India in the making

Urbanization trends indicate that the urban population would continue to grow in the next few decades. According to census of 2011 in India out of the total population of 1210.2 million as on 1st March, 2011, about 377.1 million are in urban areas. The net addition of population in urban areas over the last decade is 91.0 million. The percentage of urban population to the total population of the country stands at 31.16. There has been an increase 3.35 percentage points in the proportion of urban population in the country during 2001-2011. It is feared that the adverse consequences of the envisaged rapid growth of urban population will

outweigh the positive impacts, unless specific policies and programmes for improving the governance and management of the urban areas are evolved. The Eleventh Finance Commission (EFC) and Twelfth Finance Commission (TFC) recommended grants-in aid Rs. 2000 crore and Rs. 5000 crore for five years period 2001-05 and 2005-10 respectively for the municipalities in India. While the Thirteenth Finance Commission recommended grants of Rs. 23111 crore for the years 2010-15. The FC-XIII for the first time provided grants for urban local bodies in two parts - a general basic grant and a general performance grant. No conditions were set for accessing the basic grant. However, the FC-XIII set nine conditions to access the performance grant in the case of urban local bodies.

The Fourteenth Finance Commission (FFC) has recommended grants-in-aid of Rs.87,143.80 crore-for Municipalities for the period 2015-20. FFC recommended that ULBs required to spend the grants only on the basic services within the functions assigned to them under relevant legislations. FFC

Grants are recommended in two parts - a basic grant and a performance grant for duly constituted municipalities. The division between basic and performance grant will be on a 80:20 basis. State wise total allocation is shown after Participants' Note of Session I

Performance grants are recommended to address the following issues: (i) making available reliable data on local bodies' receipt and expenditure through audited accounts; and (ii) improvement in own revenues. In addition, the urban local bodies will have to measure and publish service level benchmarks for basic services. Performance grants will be disbursed from the second year, that is, 2016-17 onwards.

Devolution of Funds, Functions and Functionaries

The 74th Amendment Act of constitution, 1992, has marked the beginning of a historical reform to decentralize power at the grass root level in urban areas of the country. This act has provided a constitutional form to the structure and mandate of municipalities to enable them to function as an effective democratic institution of local self government. The functioning of the local self government depends on the devolution of resources, subjects and

functionaries to the Municipalities. With increasing funds being made available to the local self-governments and the gradual transfer of functions to these units, the question of accountability of these institutions has assumed great importance. The need for capacity building in accounts, budgeting, monitoring, etc. becomes more important.

Articles 243W vest powers in the State Legislatures to endow Municipalities with such powers and

authority to function as institutions of self-government. Municipalities are responsible for preparation of plans and their execution for economic development and social justice with regard to 18 subjects in the Twelfth Schedule of the Constitution. These functions broadly relate to public health, welfare, regulatory functions, public safety, public infrastructure works, and development activities. Details of Twelfth Schedule are as follows:

Twelfth Schedule (Article 243-W)

1. Urban planning including town planning
2. Regulation of land use and construction of buildings
3. Planning for economic and social development
4. Roads and bridges
5. Water supply for domestic, industrial and commercial purposes
6. Public health, sanitation conservancy and solid waste management
7. Fire services
8. Urban forestry, protection of the environment and promotion of ecological aspects
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
10. Slum improvement and up gradation
11. Urban poverty alleviation
12. Provision of urban amenities and facilities such as parks, gardens and playgrounds
13. Promotion of cultural, educational and aesthetic aspects
14. Burials and burials grounds; cremations, cremation grounds and electric crematoriums
15. Cattle ponds; prevention of cruelty to animals
16. Vital statistics including registration of births and deaths
17. Public amenities including street lighting, parking lots, bus stops and public conveniences
18. Regulation of slaughter houses and tanneries

The Twelfth Schedule is not mandated and it is up to the State governments to decide as to which of the 12th Schedule functions may be devolved to the ULBs. Most States, have amended their acts to include part or in some cases all of these. In some States only marginal changes that were regarded as mandatory have been carried out and municipal functions listed as 'obligatory' and 'discretionary'. ULBs have to depend upon the State Governments to access funds. Financial transfers to ULBs depend on the willingness of the State Governments to devolve functions and powers to these bodies. In most of the States there is very significant dependence in terms of permission seeking for even relatively simple matters. This further reinforces the lack of financial devolution.

Decentralisation provides closer correspondence between the actual needs of people and the provision that is made by governments to meet those needs. "Planning from below" and contextualized resource allocation for basic services would be more cost effective and produce better outcomes. Yet the quality of basic services provided to local communities is directly

proportional to the degree of community control and supervision. Responsiveness and accountability to the community on the part of service providers can be improved by giving local governance institutions authority to monitor performance and impose sanctions. The increased citizen participation has not been effectively established in ULBs. For various reasons ward committees have not taken off as desired and envisaged in the 74th Amendment Act, which is essential in enhancing citizens participation in governance process. The function of parastatal agencies within the jurisdiction of ULBs often dilute the accountability and decentralization process in the urban context. People's sensitization to their rights, including knowledge of procedures and the responsibilities incumbent on local governance authorities, requires information dissemination to the public at large. The urban areas are characterised by unclear division of responsibilities, a lack of resources and little awareness about existing problems.

Status of devolution of functions to ULBs by different States is as follows:

List of Functions mentioned under the Twelfth Schedule evolved in States

State	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Andhra Pradesh	Y	Y	Y	Y	Y	Y	X	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Delhi	X	X	Y	X	X	Y	X	X	X	X	X	Y	X	X	Y	Y	Y	Y
Gujarat	X	X	X	Y	Y	Y	Y	Y	Y	X	X	Y	Y	Y	Y	Y	Y	Y
Haryana	X	X	X	Y	Y	Y	Y	X	X	Y	X	Y	X	Y	Y	Y	Y	Y
Himachal Pradesh	X	X	X	Y	Y	Y	Y	X	X	X	X	Y	X	Y	Y	X	Y	X
Jammu & Kashmir	X	Y	X	X	X	Y	X	X	X	X	X	X	X	X	Y	Y	Y	Y
Karnataka	Y	Y	X	Y	Y	Y	X	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Kerala	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Madhya Pradesh	Y	Y	Y	Y	Y	Y	Y	Y	Y	X	Y	Y	X	Y	Y	Y	Y	Y
Maharashtra	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Meghalaya	Y	Y	Y	Y	Y	Y	X	X	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Andaman & Nicobar	X	Y	X	Y	Y	Y	X	X	X	Y	Y	Y	X	Y	Y	X	Y	X
Rajasthan	X	X	X	Y	Y	Y	Y	X	X	X	X	X	Y	Y	Y	Y	Y	Y
Tamil Nadu	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Uttar Pradesh	Y	X	Y	X	Y	Y	X	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
West Bengal	Y	Y	X	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Source: iCISA Research Paper and information from sister offices.

Note: “X” refers to functions not devolved by the state to urban local bodies “Y” refers to functions which have been devolved

Function codes: 1. Urban planning including town planning; 2. Regulation of land-use and construction of buildings; 3. Planning for economic and social development; 4. Roads and bridges; 5. Water supply for domestic, industrial and commercial purposes; 6. Public health, sanitation conservancy and solid waste management; 7. Fire services; 8. Urban forestry, protection of the environment and promotion of ecological aspects; 9. Safeguarding interests of weaker sections of society, including the handicapped and mentally retarded; 10. Slum improvement and upgrading; 11. Urban poverty alleviation; 12. Provision of urban amenities and facilities such as parks, gardens, and playgrounds; 13. Promotion of cultural educational and aesthetic aspects; 14. Burials and burial grounds: cremations, cremation grounds and electric crematoriums; 15. Cattle pounds; prevention of cruelty to animals; 16. Vital statistics including registration of births and deaths; 17. Public amenities including street lighting parking lots, bus stops and public conveniences; 18. Regulation of slaughterhouses and tanneries.

14th Finance Commission: Shares of State in allocation(2015-2020)

Sl. No.	State	14 th Finance Commission's recommendation (2015-2020) State-wise allocation per year Rs. in crores	13 th Finance Commission's recommendation (2010-2015) State-wise allocation per year Rs. in crores
1	Andhra Pradesh	3635.80	1919.20
2	Arunachal Pradesh	244.03	31.60
3	Assam	970.54	253.60
4	Bihar	2676.24	727.60
5	Chhattisgarh	1587.91	417.20
6	Goa	219.85	81.90
7	Gujarat	6407.39	1302.20
8	Haryana	2079.94	434.60
9	Himachal Pradesh	201.77	82.30
10	Jammu & Kashmir	1305.64	204.30
11	Jharkhand	1914.55	425.80
12	Karnataka	5856.88	1991.90
13	Kerala	3664.34	725.90
14	Madhya Pradesh	5176.59	1494.30
15	Maharashtra	12412.86	3178.10
16	Manipur	172.70	81.70
17	Meghalaya	31.52	80.30
18	Mizoram	120.21	94.30
19	Nagaland	127.48	76.50
20	Orissa	1772.48	496.10
21	Punjab	2452.94	628.70
22	Rajasthan	4513.12	1194.30
23	Sikkim	49.90	2.70
24	Tamil Nadu	8232.31	2372.00
25	Telengana	3388.90	-0
25	Tripura	223.10	55.70
26	Uttar Pradesh	10249.21	2952.80
27	Uttaranchal	815.83	190.20
28	West Bengal	6639.76	1615.40
	TOTAL	87143.79	23111.2

Source: Report of 13th and 14th Central Finance Commission

Session 2

Session Title:

Constitution, Organisation, Powers and Functions of ULBs



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 2**Session at a glance****Session Title:** Constitution, Organisation, Powers and Functions of ULBs**Learning Objectives:**

Given the inputs on the constitution, organisational structure, power and function of municipalities and municipal corporations through group discussion, lecture and slide show participants will, by the end of the session, acquire the basic concept of municipalities and municipal corporations which will help them to focus on audit issues in the practical job scenario.

	Time Required	Training Method
Session Overview: **In this session constitution, organisation, power and function of municipality and municipal Corporation will be discussed under West Bengal scenario.	5 min	Lecture
Key Teaching Point		
Constitution and organisational structure of ULBs, their power and functions of board of Councillors, Chairman-in-council, Chairman, Mayor-in-council and Municipal Accounts Committee	65 min	Lecture, Group Discussion and PowerPoint slide show
Summary:	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

** This is to be adopted as per State specific scenario

Session: 2

Instructor's Guide

Session Title: Constitution and Organisation of ULBs and Powers and Functions of ULBs.

Instructor's Guide		Ref.
Session Overview: Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss on <ul style="list-style-type: none"> • Constitution of municipalities and municipal corporations • Organisational structure of municipalities and municipal corporations and • Power and function of municipalities and municipal corporations. 		
Learning Objective: Given the inputs on the constitution, organisational structure, power and function of municipalities and municipal corporations through group discussion, lecture and PowerPoint slide show participants will, by the end of the session, acquire the basic concept of municipalities and municipal corporations which will help them to focus on audit issues in the practical job scenario.		
Basic Concept: Form ^{††} five groups among participants. Ask what is their understanding of the 'constitution of municipalities and municipal Corporation', 'Board of Councillors', 'Chairman-in-Council', 'Mayor-in-Council' and 'Municipal Accounts Committee' Encourage each group to discuss among its members and each participant to actively participate in the discussion. Obtain responses from each group and recognize them by noting on the white board. Show PowerPoint Slides and discuss . Ask what is their understanding of the 'powers and functions of municipality and municipal Corporation', 'powers and functions of the mayor of a Corporation', 'powers of the mayor in emergency', 'powers and functions of the municipal commissioner and municipal secretary'. Encourage each group to discuss among its members and each participant to actively participate in sharing his knowledge on this matter. Take responses from each group and recognize them by noting on the white board. Show PowerPoint Slides and discuss .		PowerPoint Slide: Session 2 Constitutions
Distribute Participant's Note		
Summarise: Request any participant to summarise the session Thank the participants for their active participations and bring the session to a close.		

^{††} Number of groups may vary according to the number of participants and sitting arrangement.

Session Title:

Constitution and Organisation of ULBs and Powers and Functions of ULBs.

Session Overview:

In the previous session, we discussed the evolution of municipalities and municipal Corporation in India. In this session we will discuss the constitution, organisation, power and function of municipalities and municipal corporations in the light of Model Municipal Law and provision in these regards in different States.

Learning Objective

Given the inputs on the constitution, organisational structure, power and function of municipalities and municipal corporations through group discussion, lecture and slide show participants will, by the end of the session, acquire the basic concept of municipalities and municipal corporations which will help them to focus on audit issues in the practical job scenario.



Model Municipal Law

Ministry of Urban Development and Poverty Alleviation developed a Model Municipal Law (MML) in October 2003 with a view to establish good urban governance and making urban local bodies

self-sustaining viable entities of local self-government. The MML was to facilitate and assist State Governments in amending/enacting state level municipal statutes accordingly. State Governments have to adapt MML to their specific conditions. The discussion in constitution, organization, powers and functions of ULBs are based on the provision of MML* alongwith Act provisions in different States.

†Constitution of Municipal areas:

The Governor of a State after making such inquiry as he may deem fit, and having regard to the population of any urban area, the density of population therein, the revenue generated for the local administration of such area, the percentage of employment in non-agricultural activities in such area, the economic importance of such area, and such other factors as may be prescribed, by notification, declare his intention to specify such area:

- ❖ a larger urban area having population of three lakhs or more,
- ❖ a smaller urban area having population of twenty-five thousand or more but less than three lakhs, and
- ❖ a transitional area having population less than twenty five thousand :

* Discussion is to be done on State specific scenario

† This part is to be adopted as per State specific scenario.

For this purpose the non-agricultural population in all cases shall be eighty-five per cent or more and “revenue generated for the local administration” shall not include -

- ❖ taxes, if any, distributed to the Municipality by the State Government,
- ❖ loans and grants from the State Government, and
- ❖ loans and grants from the Central Government or any institution or other source.

The Governor by notification, declare an area specified as -

- a larger urban area to be a city,
- a smaller urban area to be a town, and
- a transitional area to be a Nagar Panchayat (by whatever name called).

The notification about the constitution of a municipal area shall be published in the Official Gazette and in at least two leading newspapers, at least one of which shall be in vernacular intelligible to the inhabitants of the local area concerned.

On the expiry of one month from the date of publication of the notification and after consideration of all or any of the objections which may be submitted, the Governor may, by notification, constitute such city, town or transitional area or any

specified part thereof as a municipal area under this Act.

The Municipality shall consist of such number of elected Councillors as there are wards within the municipal area as determined in accordance with the provisions of any law relating to municipal elections in the State.

The Councillors elected in a general election or a by-election of a Municipality in accordance with the provisions of any law relating to municipal elections in the State, shall constitute the Municipality.

Classification of Municipal Areas

The Governor may classify any municipal area on the basis of the population as ascertained at the last preceding census as -

- (a) a larger urban area having population above 3,00,000,
- (b) a smaller urban area of -

Class ‘A’ municipal area having population above 1,50,000 but not exceeding 3,00,000, or

Class ‘B’ municipal area having population above 75,000 but not exceeding 1,50,000, or

Class ‘C’ municipal area having population above 25,000 but not exceeding 75,000, and

- (c) transitional area having population not exceeding 25,000

For the purpose of classification of municipal areas in any hill area, pilgrim

centre, tourist centre or mandi town, the Governor may, by notification, determine separate size of population for each class of such municipal areas.

Regarding population each State Government may specify different figures or different percentage of population having regard to the demographic characteristics of the State.

Power to abolish or alter limits of a municipal area:

The Governor may, by notification, -

(a) withdraw any municipal area or part thereof from the operation of this Act, or

(b) exclude from a municipal area any local area comprised therein and defined in the notification, or

(c) include within a municipal area any local area contiguous to such municipal area and defined in the notification, or

(d) divide any municipal area into two or more municipal areas, or

(e) unite two or more contiguous municipal areas so as to constitute one municipal area, or

(f) revise the boundary of two or more contiguous municipal areas

Constitution (Karnataka Municipalities Act)

The Governor having regard to,—

(a) the population of any area; (b) the density of population of such area; (c) the revenue generated for the local administration of such area; (d) the

percentage of employment in non-agricultural activities in such area; (e) the economic importance of such area; and (f) such other factors as may be prescribed, specify, by notification, such area to be a smaller urban area and such smaller urban area shall be deemed to be a municipal area: No such area shall be so specified as a smaller urban area unless,—

- the population of such area is not less than twenty thousand and not more than three lakhs;
- the density of population in such area is not less than one thousand five hundred inhabitants to one square kilometer of area;
- the revenue generated for local administration from such area from tax and non-tax sources in the year of the last preceding census is not less than rupees nine lakhs per annum or a sum calculated at the rate of rupees forty-five per capita per annum, whichever is higher
- the percentage of employment in non-agricultural activities is not less than fifty per cent of the total employment
- The Governor may while specifying any area to be a smaller urban area may also specify such area to be a
 - city municipal area, in case the population of such area is not less than fifty thousand or

- a town municipal area, in case the population is not less than twenty thousand but less than fifty thousand.
- if a District Head Quarters is situated in such smaller urban area the Governor may; specify such area to be a city municipal area even though it contains population of less than fifty thousand.
- if a District Head Quarters is situated in such smaller urban area the Governor may; specify such area to be a city municipal area even though it contains population of less than fifty thousand.

Constitution (Sikkim Municipalities Act)

- The Governor may declare his intention to specify an area to be a larger urban area, or a smaller urban area, or an area in transition from a rural area to an urban area referred to in the Act as a transitional area. No such declaration shall be made unless the population, -
 - ✓ in the case of a larger urban area, is seventy thousand or more,
 - ✓ in the case of a smaller urban area, is five thousand or more but is less than seventy thousand, and
 - ✓ in the case of a transitional area, is below five thousand:
- The Governor shall, by notification, declare an area specified as

- ✓ a larger urban area to be a city,
- ✓ a smaller urban area to be a town, and
- ✓ a transitional area to be a Nagar Panchayat (by whatever name called)

Municipal Authorities (MML)

The municipal authorities for the purposes of giving effect to the provisions of the Act shall be, -

- in the case of a larger urban area, -
 - the Municipal Corporation,
 - the Empowered Standing Committee,
 - the Mayor, and
 - the Municipal Commissioner;
- in the case of a Class 'A' or Class 'B' or Class 'C' smaller urban area, -
 - the Municipal Council,
 - Empowered Standing Committee,
 - the Municipal Chairperson, and
 - the Municipal Executive Officer;
- in the case of a transitional area, -
 - the Nagar Panchayat,
 - the Empowered Standing Committee,
 - the Municipal President, and
 - the Municipal Executive Officer.

The presiding officer of the Municipality shall be, in the case of –

- the Municipal Corporation, the Mayor,
- the Municipal Council, the Municipal Chairperson, and

- the Nagar Panchayat, the Municipal President.

Authorities (Mumbai Municipal Corporation Act.)

Municipal authorities charged with execution of the Act:

- a Corporation;
- a Standing Committee;
- an Improvements Committee;
- a Bombay Electric Supply and Transport Committee;
- an Education Committee;
- a Municipal Commissioner;
- a General Manager of the Undertaking.

Authorities (Sikkim Municipalities Act)

The municipal authorities for the purpose of giving effect to the provisions of this Act shall be,

- in the case of a larger urban area, -
 - the Municipal Corporation
 - the Executive Authority, and
 - the Mayor;
- in the case of a smaller urban area,
 - the Municipal Council
 - the Executive Authority, and
 - the Municipal Chairperson;
- in the case of a transitional area, -
 - the Nagar Panchayat,
 - the Executive Authority, and
 - the Municipal President.

Empowered Standing Committee (MML)

In every Municipality there shall be an Empowered Standing Committee (Any State Government may choose to adopt the Mayor-in-Council System)

- The Empowered Standing Committee shall consist of –

- in the case of a Municipal Corporation, the Mayor, the Deputy Mayor, and seven other Councillors;
- in the case of a Class 'A' or Class 'B' Municipal Council, the Municipal Chairperson, the Municipal Vice-Chairperson, and five other Councillors;
- in the case of a Class 'C' Municipal Council, the Municipal Chairperson, the Municipal Vice-Chairperson, and three other Councillors; and
- in the case of a Nagar Panchayat, the Municipal President, the Municipal Vice-President, and three other Councillors.

- The Deputy Mayor or the Municipal Vice Chairman or the Municipal Vice President, as the case may be, of a Municipal Corporation or a Municipal Council or a Nagar Panchayat, shall be elected by the Councillors from among the Councillors.

- The other members of the Empowered Standing Committee shall be nominated by the Chief Councillor from among the Councillors within a period of seven days of his entering office.

- The Deputy Mayor and the other members of the Empowered Standing Committee shall assume charge
- The Chief Councillor shall be the presiding officer of the Empowered Standing Committee.
- The manner of transaction of business of the Empowered Standing Committee shall be such as may be prescribed.
- The Empowered Standing Committee shall be collectively responsible to the Municipal Corporation or the Municipal Council or the Nagar Panchayat, as the case may be.
- Subject to the provision of the Act and Rules the executive power of a Municipality shall be exercised by the Empowered Standing Committee.

Ward Committee

Every Municipal Corporation having a population of three lakhs or more may, at its first meeting after the election of Councillors thereto or as soon as may be thereafter, group the wards of the Corporation in such manner that each group constitute a Wards Committee.

Each ward of a Municipality shall have a Ward Committee.

Each State Government may take a view whether it proposes to set up a “Ward Committee” for each Ward in

addition to a “Wards Committee” for a number of contiguous wards.

It shall be the duty of the Wards Committee, subject to the general supervision and control of the Empowered Standing Committee, to discharge, within the local limits of the group of wards, the functions of the Municipality relating to the provision of:

- supply-pipes and drainage and sewerage connections to premises,
- removal of accumulated water on the streets or public places due to rain or otherwise,
- collection and removal of solid wastes, disinfection, provision of health immunization services and slum services,
- provision of lighting, repair of category IV and category V roads, maintenance of parks, drains and gullies,
- issue of licenses under the provision of the Act, and
- such other functions as the Municipality may, from time to time, determine by regulations.

Board of Councillors and Chairman in Council (West Bengal Municipal Act) :

- The municipality established for a town shall mean the Board of Councillors charged with the authority of municipal government of the town. It consists of-

- such number of elected members as there are wards within the municipal area,
- persons having special knowledge or experience in municipal administration as may be nominated by the State Government, but such persons do not have the right to vote in the meetings of the municipality.

• The municipality shall be a body by the name of the municipality. All executive actions of the Chairman-in-Council shall be expressed to be taken in the name of the municipality.

Board of Councillors:

- The Councillors, elected in election of a municipality and the members, nominated by the State Government, shall constitute the Board of Councillors.
- The Board of Councillors shall hold office for a period of 5 years from the date appointed for its first meeting after the general election. However, this Board shall continue in office till the next Board assumes office.
- All the powers or functions vested with the municipal authorities for the purpose of shaping up the municipal administration shall be exercised or performed by such person or persons to be designated as the Administrator or the Board of Administrator as the State Government may, by notification, appoint.

Chairman-in-Council:

- There shall be Chairman-in-Council consisting of Chairman, Vice-Chairman and other members not exceeding five (Gr.-A municipal area), four (Gr.-B municipal area), and three (Gr.-C municipal area).
- In respect of municipal areas under Gr.-D & Gr.-E category, all the powers and functions vested with the Chairman-in-Council shall be examined and performed, as the case may be, by the Chairman of the concerned municipality
- The Vice Chairman and the other members shall be nominated by the Chairman from amongst the Councillors of the municipality within a period of 30 days of his entering into the office.
- All executive powers of the municipality shall vest in the Chairman-in-Council.
- The manner of transaction of business of the Chairman-in-Council shall be such as may be prescribed.
- The Chairman-in-Council shall be collectively responsible for the municipality.

Chairman:

- The Chairman shall be the executive head of the municipality and the municipal administration shall be under his control.
- The Chairman shall allocate the business among the members of the Chairman-in-Council.
- The Chairman may transact any business or make any order authorized by any law in

force, but shall not act in opposition to or in contravention of any decision of the Board of Councillors.

The Mayor-in-Council (Madhya Pradesh Municipal Corporation Act):

- In every Corporation there shall be a Mayor-in-Council constituted by the Mayor from amongst the elected Councillors within seven days from the date of election of Speaker.
- The Mayor-in-Council shall consist of the Mayor and not less than 5 and not more than 10 members in every Corporation:
- Each Corporation shall have such departments as may be prescribed and member of the Mayor-in-Council may be made incharge of such department as may deem fit by the Mayor.
- The Mayor shall be the ex-officio Chairman of the Mayor-in-Council and shall preside over the meetings of the Mayor-in-Council, if present. In the absence of the Mayor, the members present in the meeting shall choose one of them to preside over the meeting.
- The Mayor-in-Council, Mayor and the members shall exercise such powers and perform such functions as may be prescribed.
- The functions and the conduct of business of the Mayor-in-Council shall be such as may be prescribed.

Municipal Accounts Committee (MML)

The Municipality shall, at its first meeting in each year or as soon as may be at any meeting subsequent thereto, constitute a Municipal Accounts Committee.

The Municipal Accounts Committee shall consist of -

- (a) such number of members, as the Municipality may determine, to be elected by the Councillors, not being the members of the Empowered Standing Committee, from amongst themselves, and
- (b) such number of persons, not being Councillors, or officers or other employees of the Municipality and not exceeding two in number, having knowledge and experience in financial matters, as may be nominated by the Municipality.

Each State Government may specify the numbers of members having regard to the number of Councillors.

It shall be the duty of the Municipal Accounts Committee:

- (a) to examine the accounts of the Municipality showing the appropriation of sums granted by the Municipality for its expenditure and the annual financial accounts of the Municipality,
- (b) to examine and scrutinize the report on the accounts of the Municipality by the Auditor appointed under the Act to satisfy itself that the moneys shown in the accounts as having been disbursed were available for,

and applicable to, the services or purposes to which they were applied or charged and that the expenditure was incurred in accordance with the authority governing such expenditure,

(c) to submit report to the Municipality every year and from time to time on such examination and scrutiny,

(d) to consider the report of the Auditor appointed under the Act in cases where the State Government or the Municipality requires him to conduct a special audit of any receipt or expenditure of the Municipality or to examine the accounts of stores and stocks of the Municipality or to check the inventory of the properties of the Municipality including its land holdings and buildings, and

(e) to discharge such other functions as may be prescribed.

The Municipal Accounts Committee may call for any book or document if, in its opinion, such book or document is necessary for its work and may send for such officers of the Municipality as it may consider necessary for explaining any matter in connection with its work.

Municipal Accounts Committee (Madhya Pradesh Municipal Corporation Act):

- The Corporation shall, at its first meeting in each financial year or as soon as may be at any meeting in each financial year or as soon as may be at any meeting

subsequent thereto, constitute a Municipal Accounts Committee.

- The Municipal Accounts Committee shall consist of seven members to be elected by the elected Councillors of the Corporation from amongst themselves in accordance with the system of proportional representation by means of the single transferable vote and the voting at such election shall be by secret ballot. The Members of Mayor-n-Council shall not be eligible for such election.

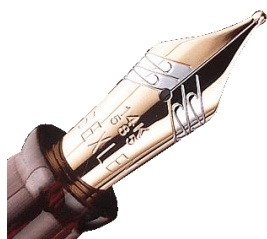
- The members of the Committee shall elect from amongst themselves one member to be its Chairman.

- Subject to the provisions of sub-section (1) the members of the Municipal Accounts Committee shall hold office until a new committee is constituted.

- Municipal Accounts Committee shall consider the report of the auditor, appointed under the Act, in respect of accounts of the Corporation and submit the same to the Corporation along with its views.

- The manner of transaction of business of the Municipal Accounts Committee shall be such as may be prescribed.

- To submit report to the Corporation every year and from time to time on such examination and scrutiny.



Power and Functions of ULBs (Model Municipal Law)

Core municipal functions

The Municipality may, having regard to its managerial, technical, financial and organizational capacity, and the actual conditions obtaining in the municipal area, decide not to take up, or postpone, the performance of, any of the core municipal functions as below:

- provide on its own or arrange to provide through any agency the following core municipal services :-

- ✓ water-supply for domestic, industrial, and commercial purposes,
- ✓ drainage and sewerage,
- ✓ solid waste management
- ✓ preparation of plans for economic development and social justice,
- ✓ communication systems including construction and maintenance of roads, footpaths, pedestrian pathways, transportation terminals, both for passengers and goods, bridges, over-bridges, subways, ferries, and inland water transport system,

- ✓ transport system accessories including traffic engineering schemes, street furniture, street lighting, parking areas, and bus stops
- ✓ community health and protection of environment including planting and caring of trees on road sides and elsewhere,
- ✓ markets and slaughterhouses,
- ✓ promotion of educational, sports and cultural activities, and
- ✓ aesthetic environment, and
- perform such other statutory or regulatory functions as may be provided by or under the Act or under any other law for the time being in force.

The State Government may direct a Municipality to perform any of the functions as aforesaid, if such function is not taken up, or is postponed, by the Municipality.

The Municipality may plan, build, operate, maintain or manage the infrastructure required for the discharge of any of the functions, as aforesaid, either by itself or by any agency under any concession agreement.

Functions assigned by the Government

- The Municipality may with the approval of, the Central Government or the State Government, as the case may be, undertake any function belonging to the functional domain of the Central

Government or the State Government and such functions may include primary education, curative health, transport, supply of energy, arrangements for fire prevention and fire safety, and urban poverty alleviation.

- each State Government may consider and decide whether the costs for performing those functions which strictly speaking do not belong to the functional domain of the Municipalities shall be underwritten by the sponsoring Government - Central or State.

Other functions

A Municipality may, having regard to the satisfactory performance of its core functions which shall constitute the first charge on the Municipal Fund, and subject to its managerial, technical and financial capabilities, undertake or perform, or promote the performance of, any of the following functions :-

- in the sphere of town planning, urban development and development of commercial infrastructure, -
 - ✓ planned development of new areas for human settlement,
 - ✓ measures for beautification of the municipal area by setting up parks and fountains, providing recreational areas, improving river banks, and landscaping,
 - ✓ collection of statistics and data, significant to the community, and

- ✓ integration of the development plans and schemes of the municipal area with the district or regional development plan, if any;

- in the sphere of protection of environment,

- reclamation of waste lands, promotion of social forestry and maintenance of open spaces,
- establishment and maintenance of nurseries for plants, vegetables and trees and promotion of greenery through mass participation,
- organization of flower-shows and promotion of flower-growing as a civic culture, and promotion of measures for abatement of all forms of pollution;

- in the sphere of public health and sanitation,
 - ✓ mass inoculation campaigns for eradication of infectious diseases,
 - ✓ construction and maintenance of municipal markets and slaughterhouses and regulation of all markets and slaughterhouses,
 - ✓ reclamation of unhealthy localities, removal of noxious vegetation and abatement of all nuisances,
 - ✓ maintenance of all public tanks and regulating the re-excavation, repair and up-keep of all private tanks, wells and other sources of water-supply on such terms and

<p>conditions as the Municipality may deem proper,</p> <ul style="list-style-type: none"> ✓ construction and maintenance of cattle pounds, ✓ provision for unfiltered water-supply for non-domestic uses, ✓ advancement of civic consciousness of public health and general welfare by organizing discourses, seminars and conferences, and ✓ measures for eradication of addiction of all kinds including addiction to drugs and liquor; <ul style="list-style-type: none"> • in the sphere of education and culture, - <ul style="list-style-type: none"> ✓ promotion of civic education, adult education, social education and non-formal education, ✓ promotion of cultural activities including music, physical education, sports and theatres and infrastructure therefor, ✓ advancement of science and technology in urban life, ✓ publication of municipal journals, periodicals and souvenirs, purchase of books, and subscription to journals, magazines and newspapers. ✓ installation of statues, portraits and pictures in appropriate manner, ✓ organization, establishment and maintenance of art galleries and 	<p>botanical or zoological collections, and</p> <ul style="list-style-type: none"> ✓ maintenance of monuments and places of historical, artistic and other importance. <ul style="list-style-type: none"> • in the sphere of public welfare, <ul style="list-style-type: none"> ✓ establishment and maintenance of shelters, in times of drought, flood, earthquake, or other natural or technological disasters, and relief works, for, destitute persons within the limits of the municipal area, ✓ construction or maintenance of, or provision of aids to, hospitals, dispensaries, asylums, rescue homes, maternity houses, and child welfare centres, ✓ provision of shelter for the homeless, ✓ implementation programmes for liberation and rehabilitation of scavengers and their families, ✓ organization of voluntary labour and co-ordination of activities of voluntary agencies for community welfare, and ✓ campaigns for dissemination of such information as is vital for public welfare; and • in the sphere of community relations,-
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- ✓ civic receptions to persons of distinction and paying homage on death to persons of repute,
- ✓ organization and management of fairs and exhibitions, and
- ✓ dissemination of information of public interest.

Each State Government may consider the various lists under other functions and may add or delete any function.

Power and Functions of Municipality: (The Orissa Municipal Corporation Act)

The Corporation administration of the city includes the obligatory and discretionary duties of the Corporation and shall vest in the Corporation.

It shall be the obligatory duty of the Corporation to make adequate provision on the following matters:

- erection of substantial boundary marks of such description and in such positions as may be approved by the Government defining the limits or any alternation in the limits of the city;
- the watering, scavenging and cleaning of all public streets and places in the city and removal of all sweepings therefrom ;
- the collection, removal, treatment and disposal of solid wastes, sewage, offensive matter and rubbish and the preparation of compost manure from such

solid wastes, sewage, offensive matter and rubbish;

- the construction, maintenance and cleansing of drains and drainage works and of public latrines, water closets, urinals and similar public conveniences;
- the lightening of public buildings vested in the Corporation, public streets and Corporation market ;
- the maintenance of Corporation Office and of all public monuments and open spaces and other property vested in the Corporation ;
- the naming or numbering of streets and public places in the city and the numbering of premises;
- the regulation of offensive and dangerous trades or practices ; the maintenance, charges and
- regulation of places for the disposal of the dead and the provision of new places for the said purpose and disposing of unclaimed dead bodies ;
- the construction or acquisition and maintenance of public markets and slaughter houses and the regulation of all markets and slaughter houses ;
- the construction, acquisition and maintenance of cattle pounds ;
- public, vaccination in accordance with the provisions of law in force in the State of Orissa relating to public vaccination ;

- the reclamation of unhealthy localities, the removal of noxious vegetation and abatement of all nuisances ;
- the registration of births and deaths ;
- the construction, maintenance, alteration and improvement of streets, bridges, subways, culverts, causeways or the like ;
- the removal of obstructions and projections-in or upon streets, bridges and other public places ;
- the management and maintenance of all Corporation water works and the construction or acquisition of new works necessary for sufficient supply of water for public and private purposes ;
- preventing the spread of infectious disease ;
- the securing or removal of dangerous buildings and places
- the improvement of the city;
- the provision of public parks, gardens, playgrounds, community recreation grounds, cultural centres ;
- the preservation and conservation of heritage buildings;
- the fulfilment of any obligation imposed by or under this Act or any other law for the time being in force ;
- subject to adequate provision being made for the matter herein before specified, the provision of relief to destitute persons in the city in times of famine and the

establishment and maintenance of relief work in such times;

- the maintenance of a vigilance organization in respect of its various functions; and
- the compilation and maintenance of records and statistics relating to the administration and functions of the Corporation under this Act.

On availability of resources, the Corporation may perform the discretionary duties and provide for, from time to time, either wholly or partly, for all or any of the following matters, namely : -

- the construction, establishment, maintenance and development of hospitals, dispensaries, old age home, sanatorium, leprosy asylums and rescue house, swimming pools, public wash houses, bathing places, public streets or places of drinking fountains for human beings and water tank for animals, theatres, places of entertainment, rest houses, Kalyan Mandap, Town Hall and Community Centres, establishment, maintenance and improvement of schools and colleges and hostels.
- the organization, maintenance and management of maternity and infant welfare homes or centres and orphanages, chemical or bacteriological laboratories, in times

- of scarcity of shops or stalls for the sale of necessities of life, transport facilities including metro services,
- the provision of milk to expectant, shelter to destitute or homeless persons and any form of poor relief
 - maintenance of dairies or farms, an ambulance service, religious institution like temple, mosque, church, gurudwar, pagoda
 - the planting and maintenance of trees on road sides and elsewhere
 - the holding of exhibitions, athletics or games
 - the regulation of lodging houses, camping grounds, rest houses and holiday homes in the city ;
 - granting of rewards for information (i) which may tend to secure the correct registration of vital statistics and (ii) regarding the infringement of any provisions of this Act, Rules etc.
 - Taking of any measure, which are likely to promote public safety, health, conveyance and orderly urban growth ;
 - Corporation shall, on certain conditions and limitations imposed by the **Government** may have powers with respect to:
 - the preparation of plans for economic development and social justice

- the performance of functions and implementation of schemes

Power of Government

- Government may, at any time, require the Corporation or the Commissioner
 - ✓ to produce any record, correspondence. plan or other document ;
 - ✓ to furnish any return, plan, estimate, statement, account or statistics relating to the proceedings, duties or works of the Corporation or any of the Corporation authorities
 - ✓ to furnish, or obtain and furnish, any report
- The Government may depute any officer not below the rank of Secretary to inspect or examine the records, of Corporation office or any service or work undertaken by the Corporation or any of the Corporation authorities or any property taken by the Corporation or any of the Corporation authorities or any property belonging to the Corporation and to report thereon to the Government.

Powers and functions of the Mayor of Corporation:

- The Mayor shall exercise such powers and discharge such functions as are conferred or imposed on him by or under the Act.
- He shall, for the convenient transaction of the business of the Corporation, allocate among the Corporators

such business and in such manner as he thinks fit.

- All executive actions of the Mayor shall be expressed to be taken in the name of the Corporation.

Power of Mayor in emergency

If the Mayor is satisfied that an emergency has arisen and is of the opinion that immediate execution of any work or doing of any act, which ordinarily requires the approval, sanction, consent or concurrence of the Corporation, or the Standing Committee, is necessary, for the maintenance of services or safety of the, public or for the prevention of extensive damage to any property of the Corporation, he may direct the execution of such work, or doing of such act without such approval, sanction, -consent or concurrence and in such cases, he may direct that the expenses of such execution, or doing shall be paid from the Corporation fund.

Mayor shall report forthwith to the Corporation or to the Standing Committee as the case may be, the actions taken in this regard and the reasons thereof.

Powers and Functions of the Municipal Commissioner

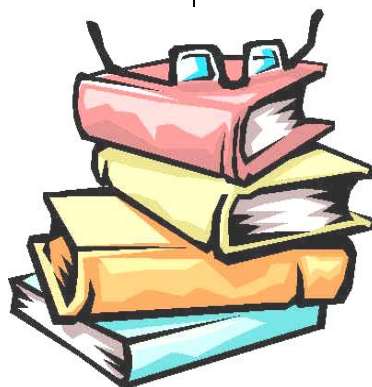
- The Commissioner shall be the principal Executive Officer of the Corporation and shall, subject to the supervision and control of Mayor –

➤ exercise, such powers and functions as are specifically conferred or imposed upon him by or under the Act ; and

➤ assign the duties and supervise and control the actions and proceedings of all officers and employees of the Corporation

- All officers and employees of the Corporation shall be subordinate to the Commissioner.

- Any powers, duties and functions conferred or imposed upon or vested in the Corporation by any other law for the time being in force shall, subject to the provisions of such law and to such restrictions, limitations and conditions as the Corporation may impose, be exercised, performed or discharged by the Commissioner.



Session: 3

Session Title:

**Audit of Municipal Fund,
Special Fund & Grants**



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 3**Session at a glance**

Session Title: Audit of Municipal Fund, Special Fund, Grants.

Learning Objectives:

Given the inputs on the salient features of municipal fund, different accounts to be credited to the fund, maintenance of fund, grants and municipal special fund, the participants will, at the end of the session, acquire basic concepts of municipal funds, and grants which will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: ⁹ In this session we will discuss of municipal fund, different accounts to be credited to the fund, maintenance of fund, grants nature of grants and municipal special fund.	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 The municipal fund and different accounts to be credited to it, custody of the municipal fund and procedure for maintenance of fund.	20 min	Lecture, Group Discussion and PowerPoint slide show
Key Teaching Point 2 Grants, nature of grants.	15 min	Lecture, Group Discussion and PowerPoint slide show
Key Teaching Point 3 Municipal special fund	10 min	Lecture, Group Discussion and PowerPoint slide show
Key Teaching Point 4 Audit points on municipal fund, grants and special fund.	20 min	Lecture, Group Discussion and PowerPoint slide show
Summary:	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

⁹ This is to be adopted as per State specific scenario

Session: 3

Instructor's Guide

Session Title: Audit of Municipal Fund, Special Fund, Grants.

Instructor's Guide	Ref.
Session Overview: Welcome participants to the session and remind them that their active participation is critical for the success of each session. Tell the participants that in this session we will discuss on Municipal Fund, Grants, Special Fund and Audit points thereon.	
Learning Objective: Given the inputs on the key features of municipal fund, the accounts to be credited to the fund and its maintenance, grants etc. through lecture, group discussion as well as PowerPoint slide show, the participants will, at the end of the session, acquire basic concepts of municipal fund, its maintenance, grants and special fund as well as probable audit points thereon which will help them to focus on audit issues at the practical job scenario.	
Basic Concept: Form ††† five groups amongst participants. Ask what is their understanding of the 'municipal fund', 'different accounts to be credited to the fund', 'utilisation, maintenance and custody of the fund' Encourage each group to discuss amongst its members and each participant to actively participate in the discussion. Obtain responses from each group and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss . Ask about their understanding of the 'grants' received by municipality and municipal Corporation, 'nature of grants', 'general grants and specific grants'. Encourage each group to discuss amongst its members and each participant to actively participate in Shaharing his knowledge on this matter. Obtain responses from each group and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss . Ask about their understanding of the 'municipal special fund'. Encourage each group to discuss amongst its members and each participant to actively participate in Shaharing his knowledge on this matter. Obtain responses from each group and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss . Request each participant to jot down the probable audit points on the municipal fund, grants, special fund in their note books. Encourage each group to discuss amongst its members and each participant to actively contribute few points on this matter. Obtain responses from each group and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss .	PowerPoint Slide: Session 3 Fund Grants
Distribute Participants' Note	
Request any participant to summarise the session Thank the participants for their active participations and bring the session to a close.	

††† Number of groups may vary according to the number of participants and sitting arrangement.

Session Title:

Audit of Municipal Fund, Special Fund, Grants.

Session Overview:

In the previous session, we discussed the evolution of municipalities and municipal Corporation in India and its constitution, organisation, power and function. In this session we will discuss the Municipal Fund, Grants, Special Fund and Audit points thereon.

Learning Objective:

Given the inputs on the key features of municipal fund, the accounts to be credited to the fund and its maintenance, grants etc. through lecture, group discussion as well as PowerPoint slide show, the participants will, at the end of the session, acquire basic concepts of municipal fund, its maintenance, grants and special fund as well as probable audit points thereon which will help them to focus on audit issues at the practical job scenario.



*The Municipal Fund (Model Municipal Law): Municipal Fund

Municipal Fund is a fund which shall be held by the Municipality in trust for the purposes of this Act, and all moneys realized or realizable under the Act and all moneys otherwise received by the Municipality shall be credited thereto.

* This is to be adopted as per State specific scenario

. Subject to such directions as the State Government may issue in this behalf, and keeping in view the classification of municipal areas, the receipts and expenditures of the Municipality shall be kept under such heads of accounts, including those for water-supply, drainage and sewerage, solid waste management, road development and maintenance, slum services, commercial projects and other account heads as may be specified and the general account head, in such manner, and in such Form, as may be prescribed, so as to facilitate the imposition of user charges and preparation of any subsidy report under the Act.

For example “commercial projects” shall include municipal markets, market development projects, property development projects, and such other projects of a commercial nature as may be specified by the Municipality from time to time.

Every head of account shall be split up into a revenue account and a capital account and all items of receipts and expenditures shall be kept appropriately under such revenue account or capital account, as the case may be.

The Mumbai Municipal Corporation Act 1988 defines Municipal Fund as follows:

- all moneys received by or on behalf of the corporation under the provisions,

of the Act or of any other enactment at a time in force, or under any contract,

- all proceeds of the disposal of property by, or on behalf of, the corporation.
- all rents accruing from any property of the corporation,
- all moneys raised by any tax, levied for the purposes of this Act,
- all fees and fines payable and levied under the Act or under any rule, regulation, or by-law in force thereunder
- all moneys received by or on behalf of the corporation [from any Government] or private individuals by way of grant or gift or deposit, and
- all interest and profits arising from any investment of or from any transaction in connection with any money, belonging to the corporation, and
- all moneys received by the Corporation towards grants from state government having regard to the proceeds of the entertainments duty

shall be credited to a fund which shall be called " the municipal fund "

Application of Municipal Fund

The moneys credited to the Municipal Fund from time to time shall be applied for payment of all sums, charges and costs necessary for carrying out the purposes of the Act and the rules and the regulations made thereunder and for payment of all

sums payable out of the Municipal Fund under any other law for the time being in force.

No payment shall be made out of the Municipal Fund unless such expenditure is covered by a current budget grant and a sufficient balance of such budget grant is available. notwithstanding any reduction or transfer thereof under the provisions of this Act :

Provided that this section shall not apply to any payment in the following cases:-

- refund of taxes and other moneys which are authorized by this Act,
- repayment of moneys belonging to contractors or other persons and held in deposit and all moneys collected by the Municipality or credited to the Municipal Fund by mistake,
- temporary payment for works urgently required by the State Government in the public interest,
- expenses incurred by the Municipality on special measures on the outbreak of dangerous diseases, natural or technological hazards or in any other emergent case,
- sums payable as compensation under this Act or the rules or the regulations made thereunder,
- sums payable –
 - under orders of the State Government on failure of the

- Municipality to take any action required by the State Government under any provision of the Act, or
- under any other law for the time being in force, or
 - under the decree or order of a civil or criminal court against the Municipality, or
 - under a compromise of any claim, suit or other legal proceeding, or
 - on account of the cost incurred in taking immediate action by any of the municipal authorities to avert a sudden threat or danger to the property of the Municipality or to human life, and

such other cases as may be determined by regulations.

Investment of surplus money

- Surplus moneys standing at the credit of any of the heads of accounts of the Municipal Fund which are not required, either immediately or at any early date, to be applied for the purposes of this Act by the Municipality, may, in accordance with such regulations as may be made by the Municipality in this behalf, be transferred by the Municipality, either in whole or in part, to any other head of account of the Municipal Fund :
- Provided that no money shall be transferred permanently from any of the heads of accounts to any other head of

account without the previous approval of the Municipality

- Surplus moneys standing at the credit of the Commercial Projects Account of the Municipal Fund shall not be transferred to the General Account of the Municipal Fund.
- Surplus moneys which are not transferred may be invested in public securities or small savings schemes, approved by the State Government, or deposited at interest with such scheduled bank as may be determined by the Empowered Standing Committee.

Profit or loss, if any, arising from the investment as aforesaid shall be credited or debited, as the case may be, to the account to which such profit or loss relates.

Municipal Special Fund

- Municipality and municipal corporation may, constitute special funds for any purpose mentioned in the statute. The statutes may also prescribe the manner in which such funds shall be constituted and disposed off.
- Special funds are created for objects for which it is considered essential to allocate separate funds from the Municipal Funds or by earmarking certain percentage of specific receipts of the municipalities and municipal corporations. A separate account may be created and all moneys collected for the

specific purpose shall be transferred to the Special Funds Account. All expenditures incurred for the specific purpose shall be debited to the respective fund accounts.

- The following is an illustrative list of the Special Funds that may be created by the municipalities and municipal corporations :

- Fire Brigade Fund
- Road Fund
- Water Supply Reserve Fund
- Tree Authority Fund, etc.
- City Development Funds
- Solid Waste Management Fund
- Pension Fund
- General Provident Fund / Contributory Provident Fund
- Welfare Fund, etc.
- Gratuity / Leave encashment Fund
- Asset Replacement Fund
- Sinking Fund etc

Some State Acts contain provisions for Special Funds such as,

- In Bombay Municipal Corporation Act, 1888, there is a provision for constitution of Consolidated Water Supply and Sewage Disposal Loan Fund, constitution of Water and Sewage Fund, constitution of Fines Fund and constitution of Welfare Fund. Enabling powers have also been assigned for Special Funds which may be created with the approval of the Corporation

- In the Gujarat Municipal Corporation Act, provides for constitution of Special Funds as may be prescribed by rules or such Other Funds as may be necessary for the purposes of the Act
- The Kolkata Municipal Corporation Act, provides a unique example whereby it is provided that the Municipal Fund shall be maintained in the six accounts as follows:
 - the water supply, sewerage and drainage account,
 - the road development and maintenance account,
 - the bustee service account,
 - the commercial project account (including municipal markets, market development projects, property development projects and such projects of a commercial nature as may be specified by the Corporation from time to time),
 - the solid waste account, and
 - the general account which shall relate to all moneys received by or on behalf of the Corporation other than those specified.

Water-supply, Sewerage and Drainage Account

- There shall be placed to the credit of the Municipal Fund in the Water-supply, Sewerage and Drainage Account—

- an amount equal to thirty per cent of the amount realised on account of the property tax other than the amount realised from bustees;
 - the money realised by the Corporation under the provisions of Chapter XVII, Chapter XVIII and Chapter XIX of the Act;
 - such sum as may be transferred each year by the Corporation from the General Account; and the amount received from the State Government.
 - The State Government shall in each year give to the Corporation an amount equal to the sum transferred by the Corporation to the Water-supply, Sewerage and Drainage Account. Such amount shall include any - money given by the State Government to the Corporation as subvention for a specific purpose or given towards the payment of salaries and allowances, if any, of the officers and employees of the Corporation in so far as their work relates to water-supply, sewerage and drainage.
 - The moneys credited to the Municipal Fund in the Water-supply, Sewerage and Drainage Account shall be applied for the purposes of water-supply, sewerage and drainage.
- Road Development and Maintenance Account—**
- There shall be placed to the credit of the Municipal Fund in the Road Development and Maintenance Account—
 - such subvention as the State Government may give from time to time from the proceeds of the tax on motor vehicles;
 - fees realised on account of parking of vehicles ;
 - an amount equal to twenty five per cent of the total grant made by the State Government to the Corporation under the provisions of taxes on Entry of Goods into Calcutta Metropolitan Area Act, 1972.
 - The State Government shall in each year give to the Corporation an amount which shall include any money given by the State Government to the Corporation as subvention for a specific purpose or given towards the payment of salaries and allowances, if any, of the officers and employees of the Corporation in so far as their work relates to road development and maintenance.
 - The money credited to the Road Development and Maintenance Account shall be applied for the purposes of development and maintenance of roads.
- Bustee Services Account**
- There shall be placed to the credit of the Municipal Fund in the Bustee Services Account—
 - the amount of the property tax realised from bustees;

- such amount not less than rupees fifty lakhs in each year as may be transferred by the Corporation from the General Account; and
- the amount received from the State Government.
- The State Government shall in each year give to the Corporation a sum not less than double the amount transferred by the Corporation from the General Account for credit to the Bustee Services Account.
- The money credited to the Municipal Fund in the Bustee Services Account shall be applied for the purposes of maintaining and providing civic services to the bustees.

Commercial Projects Account

- There shall be placed to the credit of the Municipal Fund in the Commercial Projects Account—
 - the receipts on account of the commercial projects of the Corporation; and
 - such sum as may be transferred in each year by the Corporation from the General Account.
- The State Government shall in each year give to the Corporation an amount which shall include any money given by the State Government to the Corporation as subvention for a specific purpose or given towards the payment of salaries and allowances, if any, of the officers and employees of the Corporation in so far as

their work relates to commercial projects. The money credited to the Municipal Fund in the Commercial Projects Account shall be applied for the purposes of—

- meeting the development and maintenance costs of commercial projects,
- undertaking new commercial projects.

Solid Waste Account

- There shall be placed to the credit of the Municipal Fund in the Solid Waste Account—
 - an amount equal to fifteen percent of the amount credited on property tax;
 - the money or cheque credited by the Corporation under section 210B and under the provisions of Chapter XX;
 - such sum as may be transferred in each year by the Corporation from the General Fund;
 - the amount received from the State Government or from any other source.



Custody of Municipal Fund (in case of Mumbai Municipal Corporation)

- All moneys payable to the credit of the municipal fund shall be received by the Commissioner and shall be forthwith paid into Bank of Bombay to the credit of an

account, which shall be styled the account of the municipal fund of Greater Bombay

- If the Municipal Commissioner is of opinion that due to a strike in such bank or any other reason, it is not possible to operate the aforesaid account, he may pay such moneys payable to the credit of the municipal fund as may be received by him into any corresponding new bank for such period or periods as he deems fit

- No payment shall be made by the Bank out of the municipal fund except on a cheque signed by two persons in the manner specified below

- i. by either the Commissioner, the Director or a Deputy Commissioner, or in the absence of all of them, by a municipal officer who is authorized by the Standing Committee to sign the cheques, and
- ii. by either the Chief Accountant or Deputy Accountant.

- Payment of any sum due by the corporation in excess of one hundred rupees (or such higher amount as the Standing Committee from time to time may fix generally or for any specified class of payments) shall be made by means of a cheque

- Payments not covered by preceding provision may be made by the Commissioner in cash or cheques for a sum

not exceeding five thousand rupees each (or such higher amount as the Standing Committee may from time to time fix) signed as aforesaid, being drawn from time to time to cover such payments.

Application of Municipal Fund (in case of Kolkata Corporation)

- The moneys credited to the Municipal Fund from time to time shall be applied for payment of all sums, charges and costs necessary for carrying out the purposes of the Act and the rules and regulations made thereunder or for payment of all sums payable out of the Municipal Fund under any other enactment in force for the time being.

Payments not to be made out of Municipal Fund unless covered by a budget grant (Mumbai Municipal Corporation)

- No payment of any sum shall be made by the Commissioner out of the municipal fund, unless the expenditure of the same is covered by a current budget grant and sufficient balance of such budget-grant is still available, notwithstanding any reduction or transfer.

- following items shall be excepted from this prohibition namely:—

- sums of which the expenditure has been sanctioned by the, standing committee;
- temporary payments for works urgently required in the public service;

- refunds of taxes and other money-, which the Commissioner is authorised to make;
- repayments of moneys belonging to contracts or other persons held in deposit and of moneys collected or credited to the municipal fund by mistake;
- sums which the Commissioner is empowered to pay by way of compensation;
- sums payable in any of the circumstances of a decree or order of a civil or criminal court
- expenses incurred by the Commissioner in the case of an emergent necessity for funds, and upon a representation by the Bombay Electric Supply and Transport Committee to the Corporation, the Corporation may, with the previous sanction of the State Government authorise the Commissioner to pay from the municipal fund into the Bombay Electric Supply and Transport Fund such sums as may be specified, as a temporary advance for meeting such emergency.

Procedure when money not covered by a budget grant is paid (Mumbai Municipal Corporation)

Whenever any sum is expended by the Commissioner he shall forthwith communicate the circumstances to the standing committee, who shall take action or recommend the corporation to take such

actions as shall, in the circumstances, appear possible and expedient for covering the amount of the additional expenditure.

Exclusive use of fund for a particular purpose

- The State Government may require a Municipality to earmark a particular portion of the Municipal Fund or a particular grant or a part thereof, or any item of receipt under any head or any percentage thereof, or any share of the tax receivable by the Municipality under any other law for the time being in force or any part thereof, to be utilized exclusively for any specified purpose, and it shall be mandatory on the part of the Municipality to follow the same. The State Government may also formulate separate sets of rules for observance by different groups of Municipalities in this regard.

Expenditure on physical assets outside Kolkata

- Expenditure on physical assets outside Kolkata may be made if a resolution to that effect is carried by not less than one-half of the total number of members of the Corporation.

Power to incur expenditure beyond the limits of a Municipality (for Municipalities, West Bengal)

- The Board of Councillors may, with the approval of the State Government, authorise expenditure to be incurred beyond the limits

of municipal area for creation of physical assets in that area as well as for maintenance thereof.

Power to incur expenditure (for Municipalities and other Corporations, West Bengal)

- No expenditure for any work or for purchase of any material shall be made without the approval of the Board of Councillors at a meeting if the estimated cost of the work or purchase rupees five thousand but does not exceed rupees five lakh:
- Provided that where the estimated cost of the work or purchase exceeds rupees twenty five lakh, approval of the State Government shall be obtained.

Temporary payments from the Municipal Fund for works urgently required in the public interest (for Mumbai Corporation)

- On the written requisition of a Secretary to the State Government, the Commissioner may at any time undertake the execution of any work certified by such Secretary to be urgently required in the public service, and for this purpose may temporarily make payments from the municipal fund so far as the same can be made without unduly interfering with the regular working of the municipal administration.
- The cost of all work so executed and of the establishment engaged in executing

the same shall be paid by the State Government and credited to the municipal fund.

- On receipt of any requisition, the Commissioner shall forthwith forward a copy thereof to the corporation, together with a report of the steps taken by him in pursuance of the same

Investment of surplus moneys (for Mumbai Corporation)

- Surplus moneys at the credit of the municipal fund which cannot immediately or at an early date be applied or of any loan raised thereunder may be deposited at interest in the Bank of Bombay or be invested in public securities.
- All such surplus moneys which it is necessary to keep readily available for application to such purposes, and all such surplus moneys which cannot in the opinion of the Municipal Commissioner, concurred in by the standing committee, be favourably deposited or invested as aforesaid, may be deposited at interest at any bank or banks in the City of Bombay which the standing committee may select for the purpose.
- All such deposits and investments shall be made by the Commissioner on behalf of the corporation, with the sanction of the standing committee, The Commissioner may at any time withdraw any deposit so made or dispose of any securities and re-deposit, or re-invest the,

money so withdrawn, or the proceeds of the disposal of such securities. No order for making any deposit or investment, withdrawal or disposal under this section shall have any validity unless the same be in writing, signed by three persons in the manner specified. for signing of cheques,

- The loss, if any, arising from any such deposit or investment shall be debited to the municipal fund.

Financial assistance from the State Government (Model Municipal Law)

Implementation of Recommendation of State Finance Commission

After taking into consideration the recommendations of the State Finance Commission the State Government shall determine –

(a) the devolution of net proceeds of the taxes, duties, tolls and fees to the Municipalities,

(b) the assignment of taxes, duties, tolls and fees to the Municipalities,

(c) the sanction of grants-in-aid to the Municipalities from the Consolidated Fund of the State, and

(d) the other measures required to improve the financial position of the Municipalities.

Assistance from State Government

The State Government, may, from time to time, give grants or financial assistance to the Municipality with or without direction as to the manner in which

such grants or financial assistance shall be applied.

The State Government may, for giving such grants or assistance, lay down a scheme which may include the conditions of release of such grants or assistance and may provide for the division of Municipalities into different classes for that purpose.

The State Government may give grants to the Municipality for implementation, in full or in part, of any scheme included in the annual development plan of the Municipality.

Loans, Endowments and Provident Funds (for Municipalities and other Corporations, West Bengal)

- Funds held by the Municipality as Provident Fund deposits and Endowments, shall on no account be used by the Municipality for any other purpose. [Rule 13, Chapter IV, The West Bengal Municipal (Finance and Accounting) Rules, 1999]

- Subject to the provisions of the Local Authorities Loans Act, 1914, the Municipality may, with the prior permission of the State Government, obtain loan from any public financial institution or any Nationalized Bank or such other lending institution as the State Government may approve and the State Government may, if it considers so necessary, stand as guarantor for payment.

- The State Government may advance from the public funds or stand as guarantor for funds of any financial institution on the security of the Municipal Fund and, in the case of a joint scheme on the security of the Municipal Fund and the fund of other local authorities, if any, to provide for the cost of installation or maintenance relating to any project or scheme for civic services and such advance shall be recoverable under the Local Authorities Loans Act, 1914 and the rules made thereunder.
- Funds raised by loans or contributions for special purposes and grants-in-aid received for specific purposes shall not be used by the Municipality for any other purpose except with the sanction of the State Government. [Rule 14, Chapter IV, The West Bengal Municipal (Finance and Accounting) Rules, 1999]
- The State Government may require the Municipality to observe such financial discipline in the matter of debt servicing, including creation of a sinking fund, as the State Government may think fit and proper and, in doing so, the State Government may prescribe different sets of rules for observance by different groups of Municipalities.

Grants

Introduction

- The municipalities and municipal corporations receive grants from the State

and/or Central Government(s). Such grants could be either for general purposes or for carrying out specific projects/schemes or in form of reimbursements for specific expenditures.

Nature of grants

- Grants received by the municipalities and municipal corporations may be of a capital or revenue nature.
- A *Capital Grant* is usually utilised for capital expenditure i.e. creation of a fixed asset (like purchase of land, building, equipment, facilities, etc.). The benefits of such expenditure are of an enduring nature and spread over an extended period of time.
- A *Revenue Grant*, on the other hand, is generally utilised for meeting recurring expenditure, the benefits of which usually expire within the accounting year in which it is incurred. Revenue Grants are usually in the nature of a subsidy.
- Grants for a non-specific purpose is termed as General Grants and for a specific purpose is termed as Specific Grants.

General grants

- Grants received for general (unspecified) purposes are usually in the form of a lumpsum payment from the State Government to facilitate meeting certain expenditure (usually revenue in nature) relating to the municipalities and municipal corporations activities.
- Following is an illustrative list of the General Grants that may be received by the

municipalities and municipal corporations from the State Government:

- Motor Vehicles Tax grant
- Stamp Duty grant
- District Court grant

Specific grants

- The municipalities and municipal corporations usually also receive grants for carrying out specific projects/schemes or for meeting specific expenditures. These can be Revenue or Capital in nature based on the purpose for which they are received. Certain Specific Grants can have both, capital and revenue components, e.g., grant for construction of new roads and subsequent repairs and maintenance of roads. Specific Grants may either be received in advance or as a reimbursement of the expenditure incurred by the municipalities and municipal corporations

- The following is an illustrative list of Specific Grants that may be received by the municipalities and municipal corporations:

- Revenue Grants for meeting expenditure incurred during the ordinary course of activities of the municipalities and municipal corporations:
- Dearness Allowance Expenditure Reimbursement Grant,
- Grant for Chemicals used for Water Supply Works, etc.
- Revenue Grants for operating specific projects/schemes:
 - Census Grant,

- Pulse Polio Grant,
- Family Welfare Grant etc.

- Capital Grants for meeting capital expenditures under specific projects/schemes:

- Backward Classes Development Grant,
- Integrated Urban Areas Development/Integrated Development of Small and Medium Towns Grant,
- Public Toilets Construction grant, etc.

- When a Specific Grant is received in advance, the municipalities and municipal corporations are required to submit an “Utilisation Certificate” in the manner, prescribed in the Grant Sanction Order.

- The claim for grant receivable as a reimbursement of expenditure incurred is made by submitting “Statement of Expenditure” to the sponsoring agency at such intervals as prescribed in the Grant Sanction Order.

- Some Specific Grants require opening of a Designated Bank Account from which all expenditures in respect of the grant are paid and/or maintenance of separate Books of Accounts.

Central Finance Commission Grants vis-à-vis Fourteenth Finance Commission Grants

- Fourteenth Finance Commission has recommended Rs.87143.71 crore as grants for ULBs for the period 2015-2020. Certain

basic features of the recommendations are as follows:

- Urban Local bodies should be required to spend the grants only on the basic services within the functions assigned to them under relevant legislations.
- Grants are recommended in two parts - a basic grant and a performance grant.
- A detailed procedure for the disbursement of the performance grant to urban local bodies would have to be designed by the State Governments concerned, subject to certain eligibility criteria viz. submission of audited annual accounts by ULBs that relate to a year not earlier than two years, publishing the service level benchmarks relating to basic urban services, show an increase in own revenues over the preceding year.
- The grants recommended shall be released in two instalments each year in June and October.

Audit points on Municipal Fund

- Could the auditor analyse the break up of the total amount of the Fund under different heads and ensure that the total amount tallies with total amount of collections/receipts under different heads?
- Was there any case of misclassification in credit to the Fund? If so, how was the same regularized?

- Was there any case of irregularity / misclassification in appropriation from Fund? If so, how was it regularized?
- Was there any case of utilization of any amount from the Fund without proper appropriation? If so, the reasons therefore should be analysed?
- Was any expenditure made on physical assets outside the limits of a Municipality without the approval of the State Government? If so, the same was irregular and the reasons therefore should be analysed.
- Was the Bank Account operated by the persons authorized to do so?
- Was proper follow up action as per prescribed norms taken in case of expenditure from the Fund not covered by budget grant?
- Was a written requisition from a Secretary to the State Government to the Corporation forthcoming in case of temporary payments from the Fund for works urgently required in the public interest? Was it categorically certified by the Secretary that the work was urgently required in the public interest? Could the auditor ensure that the payment thereof was made from the Fund without unduly interfering with the regular work of municipal government and the cost thereof was recovered from the State Government and credited to the Fund?

- Was investment of surplus money, if any, made in accordance with the prescribed norms with the prior approval of the State Government?
- Was there any case of exclusive use of fund by a Municipality for a particular purpose at the instance of the State Government? If so was it done as per norms prescribed by the State Government?
- Was any loan raised by a Municipality from any financial institution only with the prior approval of the State Government? Could the auditor ensure that the Municipality observed the required financial discipline in the matter of debt servicing, vis-à-vis, creating a sinking fund as per norms prescribed by the State Government?
- Was approval of the State Government obtained in respect of work etc. estimated to cost more than Rs. 5 lakh?

Audit points on Grants

- Were proper accounts kept in respect of grants received from Central and State governments?
- Were such grants received for general purposes or specific projects/schemes?
- Was there any case of utilization of the grant for any purpose other than the purpose for which the same was sanctioned? If so, the reasons therefore should be forthcoming. Was prior approval of the authority sanctioning the grant obtained in that case?

- Did the municipality/corporation keep separate accounts for Capital and Revenue grants?
- Was any amount received as General Grants accounted for as Specific Grants or vice versa? If so, how was the same regularized?
- In case of receipt of a Specific Grant in advance, did the municipality/corporation submit a "Utilisation Certificate" in the manner prescribed in the Grant Sanction Order?
- In case of grant receivable as a reimbursement of expenditure incurred, did the municipality/corporation submit a "Statement of Expenditure" to the sponsoring agency at the prescribed intervals? Was there any case of non-receipt of the amount of reimbursement due to such non-submission or delay in submission? If so, the reasons therefor should be analysed.
- Did the municipality/corporation open a Designated Bank Account in case where the concerned Specific Grant so require and maintain separate Books of Accounts for the same?
- Did the municipality/corporation constitute special funds for any purpose? If so, was a separate Special Fund Account maintained for the same?
- Were the State Government's grants based on the formula recommended by the State Finance Commission? What were the reasons for deviation from the recommendatins?
-



Session: 4

Session Title:

**Audit of Loans, its accounting system,
Sinking Fund.**



**Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note
and
Audit Exercises for Session 2, 3 & 4**

Session: 4**Session at a glance****Session Title: Audit of Loans, its accounting system and Sinking Fund.****Learning Objectives:**

Given the inputs on the salient features of loans received by municipalities and municipal corporations, its accounting system and Sinking Fund and audit points thereon through group discussion, lecture and exercises the participants will, at the end of the session, acquire basic concepts of accounting system of loans received by municipalities and municipal corporations, provision and maintenance of sinking fund which will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: *In this session we will discuss of loan received by municipality and municipal Corporation, its accounting system and sinking fund.	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 Loans received by municipalities and municipal corporations, power to raise loan, manner of repayment of loans, application and maintenance of sinking fund and its accounting system.	30 min	Lecture, Group Discussion and PowerPoint slide show
Key Teaching Point 2 Audit points on loans and sinking fund.	15 min	Lecture, Group Discussion and PowerPoint slide show
Application Audit exercises on constitution and organisation of ULBs, power and function of ULBs, Municipal Fund, Special Fund, Grants, Loans and Sinking Fund.	20 min	Exercise
Summary:	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

* This is to be adopted as per State specific scenario

Session: 4

Instructor's Guide

Session Title: Audit of Loans, its accounting system and Sinking Fund.

Instructor's Guide		Ref.
Session Overview: Welcome participants to the session and remind them that their active participation is critical for the success of each session. Tell the participants that in this session we will discuss on loans received by municipalities and municipal corporations, its accounting system, Sinking Fund and Audit points thereon.		
Learning Objective: Given the inputs on the key features of loans received by municipalities and municipal corporations, its accounting system and Sinking Fund through lecture, group discussion as well as PowerPoint slide show, the participants will, at the end of the session, acquire basic concepts of accounting system of loans received by municipalities and municipal corporations, provision and maintenance of sinking fund as well as probable audit points thereon which will help them to focus on audit issues at the practical job scenario.		
Basic Concept: Form *five groups amongst participants. Ask about their understanding of the 'loans received, its utilisation, accounting system and manner of repayment by municipality and municipal corporation', 'application and maintenance of sinking fund'. Encourage each group to discuss amongst its members and each participant to actively participate in the discussion. Obtain responses from each group and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss . Form †five groups amongst participants. Ask about their understanding of the 'audit points on loans and sinking fund'. Encourage each group to discuss amongst its members and each participant to actively contribute few points on this matter. Request each participant to jot down the probable audit points on the loans and sinking fund. Obtain responses from each group and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss .		PowerPoint Slide: Session 4 Loan, its accounting system
Distribute Exercises and request the participants to solve it with individual effort. Discuss the questions given in the exercise with the suggested solution.		
Distribute Participants' Note		
Request any participant to summarise the session Thank the participants for their active participations and bring the session to a close.		

* Number of groups may vary according to the number of participants and sitting arrangement.

† Number of groups may vary according to the number of participants and sitting arrangement.

Session Title:

Audit of Loans, its accounting system and Sinking Fund.

Session Overview:

In the previous sessions we discussed evolution, constitution, organisation, powers, functions municipal fund, grants etc. In this session we will discuss of loans received/raised by municipalities and municipal corporations, its accounting system and application and utilisation of sinking fund.

Learning Objectives:

Given the inputs on the salient features of loans received by municipalities and municipal corporations, its accounting system and Sinking Fund and audit points thereon through group discussion, lecture and exercises the participants will, at the end of the session, acquire basic concepts of accounting system of loans received by municipalities and municipal corporations, provision and maintenance of sinking fund which will help them to focus on audit issues at the practical job scenario.

Introduction

- On sanction by the State Government, the municipalities and municipal corporations may borrow funds, either by issuing debentures, or other wise, for the purposes specified in the approval. These borrowings are generally secured by movable and immovable properties vested in the ULB. Unless specifically approved by

the State Government, the loans cannot be used for any purpose other than that specified in the approval.

- Where the terms of sanction provide for the establishment of a sinking fund for the repayment of loan, the ULB shall establish it and credit to it, funds from the Municipal Fund. Similarly, if the terms provide for a creation of an escrow account for repayment of loans, the ULB shall create it and credit to it, the income earmarked for this. The purpose of establishment of a sinking fund or an escrow account is to accumulate money, including interest, adequate to repay the loan as per the repayment schedule.



Power to raise Loans (Model Municipal Law)

The State Government shall frame a comprehensive debt limitation policy applicable in the case of loans, including short-term loans, to be raised by the Municipalities, laying down, inter alia, the general principles governing the raising of loans by the Municipalities, the limit of the loans which any Municipality may raise having regard to its financial capacity, the rate of interest to be paid for such loans, and

the terms and conditions, including the period of repayment thereof

The Municipality may, by a resolution passed at a meeting of the Municipality, raise a loan within the limits set by the comprehensive debt limitation policy, by the issue of debentures or otherwise, on the security of the property tax or of all or any of the other taxes, surcharges, cesses and fees and dues under the Act or on the guarantee by the State Government, of any sum of money which may be required for the purpose of –

- construction of works under this Act, or
- acquisition of lands and buildings for the purposes of the Act, or
- paying off any debt due to the State Government, or
- repayment of a loan raised under the Act, or
- acquisition of a public utility concern which renders such services as the Municipality is authorized to render under the Act, or
- purchase of vehicles, locomotive engines, boilers and machinery necessary for carrying out the purposes of the Act, or
- under the Act or any other law for the time being in force, authorized to borrow

- no portion of loan shall, without the previous sanction of the State Government, be applied to any purpose other than that for which it has been raised, and
- no portion of any loan raised for any of the above purposes shall be applied to the payment of salaries or allowances to any officer or other employee of the Municipality, other than those who are exclusively employed for the purpose for which the loan has been raised.

Repayment of Loan

Every loan raised by the Municipality shall be repaid within the time approved and such repayment shall be made either from a Sinking Fund established in respect of such loan or partly from such Sinking Fund and, to the extent to which such Sinking Fund falls short of the sum required for the repayment of such loan, partly from the loan raised for the purpose as may be approved by the State Government.

Power of Corporation to borrow money (Madhya Pradesh Municipal Corporation Act)

- The Corporation in pursuance of a resolution passed at a special meeting convened for the purpose, may by the issue of debentures or otherwise on the security of the immovable property vested in the Corporation or of all or any taxes, duties, tolls, cesses, fees and dues or of both the immovable property and all or any tax,

duties, tolls, cesses, fees and dues raise a loan of any sum which may be required-

- (i) for the construction of works under this Act, or
- (ii) for the acquisition of land for the purposes of this Act, or
- (iii) for the payment of a loan raised under this Act, or any other loan or debt for the repayment of which the Corporation is liable; or
- (iv) generally for carrying out the purposes of this Act, including the advance of loans authorized there under:

Provided that-

- no loan shall be raised for the construction of any work other than a permanent work, which expression shall include any work of which the cost should in the opinion of the Government be spread over a term of years;
- no loan shall be raised without the previous sanction of the Government;
- the terms upon, the period within and the method by which the loan is to be raised and repaid, shall be subject to the approval of the Government; and

-When any sum of money has been borrowed

- no portion thereof shall, without the previous sanction of the Government, be applied to any purpose other than that for which it was borrowed; and

- no portion of any sum of money borrowed shall be applied to the payment of salaries or allowances of any municipal officers or servants, other than those who are exclusively employed upon the works for the construction of which the money was borrowed:

- Provided that with the previous sanction of the Government, part of the salaries or allowances of any municipal officer or servant employed in part upon the construction of such work may be paid out of the sum so borrowed.

-The amount of the loan, the period within which it shall be repaid, and the term upon and the method by which the loan is to be raised and repaid shall be notified in the Gazette by the Government.

Limit to the power of raising loans:

- Borrowing powers of the Corporation shall be limited so that the sums payable shall not at any time exceed together with the balances of all the outstanding loans and debts due by the Corporation in the whole, double the annual value of the lands and buildings in the City.

Power of Corporation to open a credit account with a bank:

- Whenever the borrowing of any sum has been sanctioned instead of borrowing such sum or any part thereof from the public or

any member thereof, take credit on such terms as may be sanctioned by the Government from any bank on a cash account to be kept in the name of the Corporation to the extent of such sum or part, and with the previous sanction of the Government, may grant mortgages of all or any of the property vested in the Corporation by way of securing the repayment with interest of the amount of such credit or of the sums advanced from time to time on such cash account.

Time for repayment of loans:

- The time for repayment of any loan shall in no case exceed fifty years.

Manner of repayment of loans:

- Every loan raised by the Corporation shall be repaid within the time approved by the following methods as may be approved
 - by payment from a sinking fund
 - by equal payments of principle and interest
 - by equal payments of principle, or
 - in the case of a loan, borrowed before this Act comes into force by the method which was in operation for the repayment of such loan;
 - from any sum borrowed
 - partly from the sinking fund established in respect of the loan and partly from money borrowed.

Establishment and maintenance of Sinking Funds for loans (Model Municipal Law)

The Municipality shall establish a Sinking Fund in respect of each loan raised under the Act for the repayment of moneys borrowed, or debentures issued, and shall, every year, pay into such Sinking Fund such sum as shall be sufficient for the repayment, within the period fixed for the loan, of the moneys borrowed or the debentures issued.

A Sinking Fund or any part thereof shall be applied to the discharge of the loan or a part of the loan for which such Fund was created and, until such loan or part thereof is wholly discharged, such Fund shall not be applied to any other purpose.

Every loan raised by the Municipality under the Act shall be repaid within the time approved and such repayment shall be made either from a Sinking Fund established under the Act in respect of such loan or partly from such Sinking Fund and, to the extent to which such Sinking Fund falls short of the sum required for the repayment of such loan, partly from the loan raised for the purpose as may be approved by the State Government

Municipal Bond

According to such guidelines and procedure as the Central Government may lay down from time to time and with the previous approval of the State Government, the Municipality may issue tax-free

Municipal Bonds for financing of projects for development of urban infrastructure.

The fund to be raised from the Municipal Bonds shall be used for capital investment for development of urban infrastructure in the spheres of water-supply, sewerage, drainage, solid waste management, markets, roads, bridges, and urban transport, and for reforming and improving the efficiency of existing systems of municipal administration and for repayment of loans for the aforesaid purposes raised through earlier issues of municipal bonds or otherwise.

Sinking Funds for loans (Madhya Pradesh Municipal Corporation Act)

Whenever the repayment of a loan from sinking fund is sanctioned Corporation shall establish fund and shall pay into it sums with compound interest on such dates as approved under the said proviso, which would be sufficient, after payment of all expenses, to pay off the loan within the time approved by the State Government.

Power to discontinue payment towards Sinking Fund:

- - If at any time the sum standing to the credit of the sinking fund established for the repayment of any loan is of such amount that if allowed to accumulate at compound interest it will be sufficient to repay the loan at the time approved, then with the permission of the Government, further

payment into such fund may be discontinued.

Investment of the amount at the credit of a Sinking Fund:

All money paid into a sinking fund shall, as soon as possible be invested by the Corporation in-

- Government securities, or
- securities guaranteed by Government, or
- municipal debentures of the City; and shall be held by the Corporation for the purpose of repaying from time to time the debenture issued by it
- All dividends and other sums received in respect of any such investment shall, as soon as possible after receipt, be paid into the appropriate sinking fund and invested.
- Money standing to the credit of two or more sinking funds may, at the discretion of the Corporation, be invested in a common fund, and it shall not be necessary for the Corporation to allocate the securities held in such investment among the several sinking funds.
- When any part of a sinking fund is invested in municipal debentures or is applied to paying of any part of a loan before the period fixed for repayment, the interest which would otherwise have been payable on such debentures or on such part of the loan shall be paid into the sinking fund and invested.

- Any investment made under this section may from time to time subject to the provisions of sub-section (1) be varied or transferred from one sinking fund to another: Provided that the former sinking fund shall be increased by a sum equal to the sum taken for the purposes of transfer to the later sinking fund.

Power of Corporation to invest in its own debentures.-

- For the purpose of investing any portion of the municipal fund, including the sinking funds, the Corporation may set apart for issue at par in the name of Corporation, any portion of the debentures to be issued on account of any loan. The intention to reserve and set apart such debentures shall be notified as a condition of the issue of the loan.
- The issue of any such debentures to the Corporation shall not operate to extinguish or cancel any such debentures, but every debenture so issued shall be valid in all respect as if issued to and in the name of any other person.
- The purchase by, or the transfer assignment or endorsement to, the Corporation, of any debenture issued by the Corporation shall not operate to extinguish or cancel any such debenture, but the same shall be valid and negotiable in the same manner and to the same extent as if held by,

or transferred, assigned or endorsed to any other person.

Application of Sinking Funds:

- Until any loan is wholly repaid, the Corporation shall not apply the money at the credit of the concerned Sinking Fund for any purpose other than the purpose of repayment of such loan.

Annual statement by Municipal Commissioner:

The Commissioner shall at the end of each year prepare a statement showing—

- the amount and date of borrowing of loans raised by the Corporation which are outstanding and the annual loan charges;
- in the case of every loan for which a sinking fund has been established the accumulation in the sinking fund at the close of the year, showing separately the amount paid to the credit of the fund in the year;
- the loans repaid during the year and the balance due at the close of the year;
- the particulars of securities in which the sinking fund have been invested or which have been reserved for the investment of these funds,
- Every such statement shall be laid before a meeting of the Corporation and a copy of such statement shall be sent to the Government.

Annual examination of Sinking Funds:

- All sinking funds established under the Act shall be subject to annual examination by the auditor who shall satisfy himself that the provisions are being complied with and that the cash and the current value of the securities belonging there to are actually equal to the amount which should be at the credit of such funds had investments been regularly made and had the rate of interest as originally estimated been obtained there from.
- The Corporation shall forthwith pay into any sinking fund any sum which the auditor may certify the fund to be deficient, unless the Government by general or special order sanctions a gradual readjustment.
- If the cash and the value of the securities at the credit of any sinking fund are in excess of the amount which should be at its credit the auditor shall certify the amount of such excess sum and the Corporation may thereupon transfer the excess sum to the municipal fund.
- If any dispute arises as to the accuracy of any certificate given by the auditor the Corporation may after making the payment or transfer, refer the matter to the Government whose decision shall be final

Accounting Principles

The procedures and methods of accounting system in respect of different issues like loan, borrowing etc. are based on the

recommendations of NMAM. The actual applications of these provisions are subject to acceptance by the respective States vis-vis suitable modifications of their accounting system.

- Interest expenditure on loan shall be recognised on accrual basis.
- Interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets shall be capitalised.
- A provision shall be made for the interest accrued between the date of last payment of interest and the date of financial statements and shall be charged to the current period's Income and Expenditure Statement.
- The expenses incurred while issuing of debentures or bonds (Issue Expenses) shall be deferred and amortised in equal instalments over a period of 5 years or the tenure of the loan whichever is earlier. In case, the debentures & bonds are prematurely redeemed, the amount of issue expenses outstanding during the year shall be written-off and charged to the Income and Expenditure Statement as expense of the year when such an event happens. However, all other expenses in respect of raising loans other than those considered, as issue expenses shall be expensed off in the year in which they are incurred.

Accounting for Receipt of Loan

- The amount borrowed as per the terms of the sanction shall be entered after its actual receipt in the register of loans maintained by the Accounts Department of the Municipalities and Municipal Corporations. A separate folio shall be allotted for each loan taken. In case, sanction has been obtained for issuing debentures, the

particulars of the debenture holder shall be recorded in the Register of Debentures. Amount received as loan shall be deposited in the Designated Loan Bank Account.

Raising / Borrowing of Funds

- On receipt of loan, the Accounts Department shall pass the entries as shown in the table given below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450- (b)	Designated Loan Bank Account	Dr.	10,00,000		Cash Book
331-70-(a)	To Bonds & debentures	Cr.		10,00,000	Ledger, Register of Debenture

Figures are illustrative

Accounting of interest payable on loan / debentures

Recording of interest accrued:

- For interest payment, on receipt of approval for payment of interest from the

authorities designated by the municipalities and municipal corporations, the Accounts Department shall pass the entry as shown in the table given below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
240 – (b)	Interest & Finance Charges	Dr.	1,00,000		Journal Book
350-12-(a)	To Interest Accrued & due – Loans	Cr.		1,00,000	Ledger, Register of Loans, Register of Debenture

Figures are illustrative

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
290- (a)	Transfer to Sinking Fund	Dr.	1,00,000		Journal Book,
311-50-(b)	To Sinking Fund	Cr.		1,00,000	Ledger, Register of Sinking Fund

Figures are illustrative

- Investments made in respect of Sinking Fund shall be entered in a Sinking Fund Investment Register. The accounting entries/procedures to be followed for investments of such moneys are similar to those followed in respect of other investments.
- Interest earned on Investments, profit/loss on disposal of Investments, if

any, shall be updated in the Register of Sinking Fund.

- On examination, if it is observed that the present value of sinking fund investment is less than the value of the Fund stipulated in the terms of sanction, the difference shall be made good from the Municipal Fund. The Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
290-(a) 311-50-(a)	Transfer to Sinking Fund To Sinking Fund	Dr. Cr.	5,000	5,000	Journal Book Ledger, Register of Sinking Fund

Figures are illustrative

Repayment of Loan/Redemption of Debentures in case where Escrow Account is created:

- Where the terms of sanction for raising loan or issuing debentures provide for the establishment of an Escrow account, an amount equivalent to that stipulated in the sanction shall be transferred to the Escrow account based on collections of earmarked

income. For e.g. if a loan has been taken for building Water Supply Infrastructure, then out of the water supply income collected, an amount equal to certain percentage of water tax shall be deposited into the Escrow account. For creation of Escrow Account, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-41-(a)	Designated Bank Account	Dr.	3,00,000		Cash Book Ledger, Register
450-21-(a) 110-02-(a)	Bank Account To Tax Revenues – Water Taxes	Dr. Cr.	7,00,000	10,00,000	of Loans, Register of Debenture

Figures are illustrative

Investment of amount lying in Escrow Account:

- Investments made in respect of Escrow account shall be entered in an Escrow Account Investment Register. The accounting procedures to be followed for investments of such moneys are similar to those followed in respect of other investments. They relate to investments, maturity of investment, recording of interest, profit/loss on sale/maturity of investments, etc.
- Interest earned on Investments, profit/loss on disposal of Investments, if any, shall be updated in the Escrow Account Investments Register.

Accounting and payment of Interest on Loans/ Debentures

Accounting and payment of interest on Loans/ Debenture/ Bonds raised/ issued

will be same as provided in the section "Accounting of interest payable on loan / debentures" above, reference to which is invited. The only difference being payment will be out of Escrow Bank Account instead of Main Bank Account.

Accounting for Expenditure incurred in raising loans or issuing debentures

The municipalities and municipal corporations may incur expenses such as credit rating fees, security creation fees, stamp duty, etc., at the time of raising loan or issuing debentures. These expenses shall be deferred and be classified as Loan Issue Expenses and on payment being made, the Accounts Department shall pass the entry as shown in the table given below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
480-10-(a)	Loan Issue Expenses – Deferred	Dr.	50,000		Cash Book,
450-21-(a)	To Bank Account*	Cr.		50,000	Ledger,

Figures are illustrative

- The Loan Issue Expenses shall be amortised in equal instalments over a period of 5 years or the tenure of the loan whichever is lower. For instance, issue expenses of Rs. 50,000 incurred for raising loan shall be amortised over a period of 5 years in equal instalments of Rs. 10,000/- every year. At the end of each financial year,

for amortising the relevant portion of Loan Issue Expenses, the Accounts Department shall pass the entry as shown in the next page:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
270-50-(a)	Miscellaneous	Dr.	30,000		Journal Book
480-10-(a)	Expenditure written off To Loan Issue Expenses Deferred	Cr.		30,000	Ledger,

Figures are illustrative

Internal Controls

- The Head of the Accounts Department shall ensure that adequate provision is made for the interest accrued between the date of last payment of interest and the date of Financial Statements and is charged to the current period's Income and Expenditure Statement.
- The Head of the Accounts Department shall carry out physical verification of Sinking Fund Investment documents and compare with the Sinking Fund Investment Account.
- The Head of the Accounts Department shall monitor the funds borrowed and ensure proper utilisation of funds.
- The Head of the Accounts Department shall ensure that the present value of the sinking fund investment ties up with the value of the Fund as per the State Government's sanction. If any mismatch is observed, the adequate funds shall be transferred from the Main Bank Account to Sinking Fund Bank Account.

- The Head of the Accounts Department shall ensure that the transfers to escrow account out of income collected are as per the conditions of borrowings.
- The Chief Executive Officer/Head of the municipalities and municipal corporations shall specify such appropriate calendar of returns /reports for monitoring.
- All Reconciliation Statements shall be certified by the Head of the Accounts Department and verified.



Audit points on Loans

- In case of raising of loans, could the auditor ensure that the same was within the power of the Corporation?
- Was there any case of raising of loans without the prior sanction of the State Government?
- Were the necessary particulars, viz. the rate of interest to be paid for such loans and

the terms and conditions of repayment approved by the State Government?

- Was there any case where any portion of the loan was applied for any purpose other than that for which the loan was raised? If so, was the previous sanction of the State Government obtained for the same?
- Could the auditor ensure that there was no case of application of any portion of the loan raised for the “Construction of works” to the payment of salaries or allowances to any officers or employees of the Corporation other than those who were exclusively employed for the construction of the work for which the loan was raised?
- Could the auditor ensure that the power of the Corporation to raise a loan did not exceed double of the annual value of land and buildings?
- In case of opening a credit account with a bank instead of raising loan, was the same sanctioned by the State Government?
- Was there any case where the time for repayment of any loan exceeded 50 years or the time for repayment of any loan raised for the purpose of discharging any previous loan extended beyond the unexpired portion of the period for which such previous loan was sanctioned?
- Did the Corporation establish a separate Sinking Fund in respect of each loan and was due credit to such fund provided every six months?

• Were all moneys credited to a Sinking Fund invested in Government Securities, Debentures issued or other public securities as approved by the Government? Was there any case of delay in investment? If so, the reasons there for should be analysed.

• Could the auditor ensure that all dividends and other sums received in respect of any such investment were appropriated to the appropriate Sinking Fund and invested forthwith?

• Was there any case of application of the money at the credit of the concerned Sinking Fund for any purpose other than the purpose of repayment of loan before full repayment of the loan?

• Did the Municipal Commissioner prepare an annual statement showing the necessary particulars of investment made during a year including, inter alia, the aggregate amount of application from the investment for the purpose of repayment? Was such statement laid before a meeting of the Corporation and sent to the Government?

• Were all Sinking Funds submitted to statutory audit for annual verification? If not, why? If yes, the report thereof should be analysed.

• Could the auditor ensure that amount at the credit of a Sinking Fund was calculated on the basis of the sums credited to such fund?

- Was there any case where any amount was certified by the statutory auditor as deficit for a Sinking Fund and, in such case, did the Corporation pay the same into the respective Sinking Fund?
- Was there any case where the cash and the value of the securities at the credit of a Sinking Fund were in excess of the amount due? If yes, was it certified by the statutory auditor as excess and was the same transferred to the Municipal Fund in the General Account?
- Was the case of deficit or excess, if any, after due adjustment, referred to the State Government for their decision?
- Was interest on borrowings directly attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets capitalized?
- Was a provision made for the interest accrued between the date of last payment of interest and the date of financial statements and was the same charged to the current period's Income and Expenditure Account?
- Were the expenses incurred while issuing debentures or bonds (Issue Expenses) deferred and amortised in equal instalments over a period of five years or the tenure of the loan whichever was earlier?
- In case of premature redemption of debentures and bonds, was the amount of issue expenses outstanding during the year written off and charged to the Income and

Expenditure Statement as expense of the year?

- Was the amount borrowed as per the terms of the sanction entered in the Register of Loans maintained by the Accounts Department of the municipality/corporation?
- In case of debentures, were the particulars of the debenture holder recorded in the Register of Debentures?
- Was the amount received as loan deposited in the Designated Loan Bank Account?
- Were investments made in respect of Sinking Fund entered in a Sinking Fund Investment Register?
- Was the amount of interest earned on Investments, profit/loss on disposal of Investments updated in the register of Sinking Fund?
- Is there a robust system of internal controls in place and is the same functioning properly?

Exercise for Session 2, 3 and 4

Time: 10 min.
Discussion: 10 min.

Fill in the blanks:

1. In Madhya Pradesh the Mayor-in-Council shall consist of the _____ and not less than _____ and not more than _____ members in every Corporation:
2. As per Orissa Municipal Corporation Act, the _____ is the principal executive officer.
3. Fees realised on account of parking of vehicle will be credited to the _____. *(Name the account)*
4. Money received from the State Government for undertaking new commercial projects shall be credited to the _____. *(Name the account)*
5. In Madhya Pradesh Municipal Corporation the time for repayment of any loan shall in no case exceed _____.
6. The purpose of establishment of _____ is to accumulate money, including interest, adequate to repay the loan as per the repayment schedule.
7. If the cash and the value of the securities at the credit of any _____ are in excess of the amount which should be at its credit the auditor shall certify the amount of such excess sum and the Corporation may thereupon transfer the excess sum to the _____. *(Name the fund)*

Tick (✓) True / False

1. The Councillors, elected in election of a municipality and the members, nominated by the State Government, shall constitute the Board of Councillors. **True / False**
2. The Municipality may with the approval of, the Central Government or the State Government, as the case may be, undertake any function belonging to the functional domain of the Central Government or the State Government **True/ False**
3. In case of emergency, funds held by the Municipality as Provident Fund deposits and Endowments, may be, on prior approval of State Government, used by the Municipality. **True / False**

4. Special funds are created for objects for which it is considered essential to allocate separate funds from the Municipal Funds or by earmarking certain percentage of specific receipts of the municipalities and municipal corporations. **True / False**
5. Grants like Motor Vehicles Tax grant, Stamp Duty grant and District Court grant are treated as Specific Grants. **True / False**
6. If at any time the sum standing at the credit of a Sinking Fund is of such amount that if allowed to accumulate at the rate of interest, it will be sufficient to pay off the loan within the period approved by the State Government, further payment towards such fund may be discontinued. **True / False**
7. The Corporation may, with the approval of the State Government, apply the money at the credit of the concerned Sinking Fund for any purpose other than the purpose of repayment of such loan. **True / False**
8. Loan raised for the construction of works shall be, with the approval of Chairman/Mayor, applied to the payment of salaries or allowances to any officers or employees of the Corporation other than those who are exclusively employed for the construction of the work for which loan was raised. **True / False**

Answer

Fill in the blanks:

1. Mayor, five, ten
2. Municipal Commissioner
3. Road Development and Maintenance Account
4. Commercial Project Account
5. fifty years.
6. Sinking Fund
7. Sinking fund, Municipal Fund

True / False:

1. True
2. True
3. False
4. True
5. False
6. True
7. False
8. False



Session: 5

Session Title:

Audit of ULB Budget and Audit Points



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 5**Session at a glance****Session Title: Audit of ULB Budget and Audit Points.****Learning Objectives:**

Given the inputs on the significant features of municipalities and municipal corporations budget and audit points thereon through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of budget procedure, budget calendar, approval of budget and budgetary control which will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: *In this session we will discuss of municipalities and municipal corporations budget, its time schedule, format and approval alongwith departmental budgetary control.	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 Municipality and municipal corporation budget.	40 min	Lecture, Group Discussion and PowerPoint slide show
Key Teaching Point 2 Audit points on municipalities and municipal corporations budget.	25 min	Lecture, Group Discussion and PowerPoint slide show
Summary:	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

* This is to be adopted as per State specific scenario

Session: 5

Instructor's Guide

Session Title: Audit of ULB Budget and Audit Points.

Instructor's Guide	Ref.
Session Overview: Welcome participants to the session and remind them that their active participation is critical for the success of each session. Tell the participants that in this session we will discuss municipality and municipal corporation budget, its time schedule, format and approval as per Model Municipal Law and National Municipal Accounts Manual recommended by Ministry of Urban Development, Govt. of India as well as the position of different in this subject. Session will be ended with discussion of Audit points on this issue.	
Learning Objective: Given the inputs on the key features of municipalities and municipal corporations budget, budget calendar, budget format and approval through lecture, group discussion as well as PowerPoint slide show, the participants will, at the end of the session, acquire basic concepts of budget procedure, budget calendar, approval of budget and budgetary control as well as probable audit points thereon which will help them to focus on audit issues at the practical job scenario.	
Basic Concept: Form * five groups amongst participants. Ask about their understanding of the 'municipality and municipal corporation budget process, calendar, approval, revision and controls' as per †West Bengal scenario. Encourage each group to discuss amongst its members and each participant to actively participate in the discussion. Obtain responses from each group and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss the recommendations of National Municipal Accounts Manual along with position of ‡West Bengal. Ask about their understanding of the 'audit points on municipality and municipal corporation budget'. Encourage each group to discuss amongst its members and each participant to actively contribute few points on this matter. Request each participant to jot down the probable audit points on the municipality and municipal corporation budget. Obtain responses from each group and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss .	PowerPoint Slide: Session 5 Audit of ULB Budget & Audit Points
Distribute Participants' Note	
Request any participant to summarise the session Thank the participants for their active participations and bring the session to a close.	

*Number of groups may vary according to the number of participants and sitting arrangement.

†This is to be adopted as per State specific scenario

‡This is to be adopted as per State specific scenario

Session Title:

Audit of ULB Budget and Audit Points

Session Overview:

In the previous sessions we discussed evolution, constitution, organisation, powers, functions municipal fund, grants. In this session we will discuss of municipalities and municipal corporations budget its time schedule, format, approval and audit points thereon.

Learning Objectives:

Given the inputs on the significant features of municipalities and municipal corporations budget and audit points thereon through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of budget procedure, budget calendar, approval of budget and budgetary control which will help them to focus on audit issues at the practical job scenario.



Introduction

- Budget is a financial plan describing proposed expenditure and means of financing the same. It embodies the estimated receipts and expenditure (both capital and revenue) for a financial year. It is a proposal of how much money is to be spent on what and how much of it will be

contributed by whom or how it would be raised during a financial year. It plays an important role in planning and controlling operations of the municipalities and municipal corporations.

Objective of the Budgeting System of Municipality and Municipal Corporation

- The objective of the budgeting system of municipalities and municipal corporations Budget is to arrive at a scientific basis for building linkage between the nature of receipt or payment with the functions / services or other Budget control centres. Budget shall reflect the principles and programmes of the municipalities and municipal corporations. Budget must also enable it in measuring and promoting accountability in respect of service delivery. Public expenditure must be spent in the most productive way.
- State Governments should develop detailed manual for Budget preparation on the basis of the guidelines recommended by the C&AG of India as prescribed by NMAM.

Budgeting Process (Model Municipal Law)

- The Chief Municipal Officer shall prepare in each year a budget estimate along with an establishment schedule of the Municipality for the ensuing year, and such budget estimate shall be an estimate of the income and expenditure of the Municipality.

- The budget estimate shall separately state the income and the expenditure of the Municipality to be received and incurred in terms of the various heads of accounts.
- The budget estimate shall state the rates at which various taxes, surcharges, cesses and fees shall be levied by the Municipality in the year next following.
- The budget estimate shall state the amount of money to be raised as loan during the year next following.
- The budget estimate shall be prepared, presented and adopted in the Format prescribed in NMAM
 - The annual statements on-
 - changes in the inventory of an immovable property
 - amount paid into Sinking Fund
 - date of last investment made during the year
 - amount of securities in the hand of municipality
 - amount applied for repayment of loan
 - report on environmental status
 - report on services provided at subsidized rate

shall be enclosed with the budget estimate.



Budgeting Calendar

- The Chief Councillor shall present the budget estimate to the Municipality on the 15th day of February in each year or as soon thereafter as possible.
- The Municipality shall consider the budget estimate and the recommendations, if any, of the Empowered Standing Committee thereon, and shall, by the fifteenth day of March in each year, adopt the budget estimate for the ensuing year with such changes as it may consider necessary, and submit the budget estimate so adopted to –
 - the State Government, in the case of a Municipal Corporation,
 - the Director of Local Bodies, in the case of a Class 'A' Municipal Council, and
 - the Regional Deputy Director of Local Bodies, in the case of a Class 'B' Municipal Council, a Class 'C' Municipal Council or a Nagar Panchayat.

The time schedule for preparation, placing and revision of the budget and budget approval by Standing Committee /Council would be governed by the provisions of the State laws or Acts

governing the municipalities and municipal corporations.

- The budgeting activity for any financial year shall commence by September or any other month (as may be specified in the State laws or Acts governing the municipalities and municipal corporations) of the financial year preceding it. The various stages of budget preparation and approval should be within the time limits as

stipulated in this regard by the relevant State laws/Acts governing the municipalities and municipal corporations.

Budget Format as prescribed by NMAM

Formats for (i) major account head-wise budget and function wise budget and (ii) summary of function wise budget are given at the end of this session's participants' note.

An illustrative timetable for budgeting and review is given below:

Requisition from the Accounts section for Budget activity plan	By September
Receipt of Budgets plans for all Departments	By mid of October
Compilation of Budget for review by Municipal Commissioner	By end of October
Budget finalisation by Municipal Commissioner for placing before the Standing Committee	At the beginning of November



Approval of Budget

The budget estimate received by the State Government or the Director of Local Bodies or the Regional Deputy Director of Local Bodies, as the case may be, shall be returned to the Municipality before the thirty-first day of March of that year with or without modifications of the provisions relating to subventions by the State Government. A budget may not be a valid document unless it is properly approved / authorised by an approving authority. Generally in the cases of municipalities and municipal corporations

the approving authority may be the Municipal Council.

Budget Revision

A Municipality may, from time to time, revise the budget during a year on the ground –

- increase the amount of any budget grant under any head,
- make an additional budget grant for the purpose of meeting any special or unforeseen requirement arising during the said year,
- transfer the amount of any budget grant or portion thereof under one head to the

amount of budget grant under any other head, or

- reduce the amount of the budget grant under any head.

Any budgetary revision would be with the recommendation of the Empowered Standing Committee. Once a budget has been prepared subsequent revisions to the amount budgeted may arise.

Budgetary Controls

- In keeping with the objectives, the following control should be present in the budgeting system:

- No expenditure can be incurred unless backed by a budget;
- Any expenditure prior to being incurred must be identified to its budget head for allocation of money;
- Any expenditure prior to being incurred should be backed by appropriate sanctions (administrative / technical sanctions as the case may be) in accordance with the procedures laid down by the State/Act in this regard.

***Position in Kerala**

(The Kerala Municipality Act)

Preparation of budget estimate

- The Secretary shall, on or before the fifteenth day of January each year prepare and submit to the Standing Committee concerned a budget containing a detailed

estimate of receipts and expenditure for the ensuing year, and, if in his opinion, it is necessary or expedient to vary taxation or to raise loans, shall submit his proposals.

- Standing Committee concerned shall considering the estimate and proposals of the Secretary and the officials dealing with the respective subjects concerned submit their proposals to the Standing Committee for finance and after considering those proposals and all the requirements the Standing Committee for finance shall prepare budget estimate of the receipts and expenditure of the Municipality for the next year.

- The budget estimate shall-

- provide for the payment, as they fall due, of all instalments of principal and interest for which the Municipality may be liable on account of loans; and
- allow for a cash balance at the end of the year of not less than five per cent of the revenue of the Municipality.

- The estimated receipts should be detailed and real and apparent differences, if any, from the actual receipts of the last year should be accompanied by detailed notes and explanations.

- It shall include necessary provision for all fixed charges and discharge of debts.

- The budget estimate prepared by the Standing Committee for finance shall be laid by its Chairman before the Council for its

* This is to be adopted as per State specific scenario

approval before the end of the first-week of March at a special meeting of the Council after an introductory address of the Chairperson regarding the developmental and welfare activities intended to be undertaken and implemented by the Municipality.

- The Council may refer the budget estimate back to the Standing Committee for further consideration and resubmission within a specified time, or adopt the budget estimate or any revised budget estimate either as it stands or with alterations as it deems expedient

Sanction of budget estimate

- The Council shall finally pass the budget estimate before the beginning of the year to which it relates and forthwith submit copies thereof to the Government, and the officer authorised by the Government in this behalf and to the auditors.
- Unless the council has passed the budget before 1st April, from that date onwards, no amount shall be expended from the Municipal Fund.
- While incurring expenditure, no amount other than those included in the current budget estimates shall be expended except under unavoidable emergent circumstances.
- No expenditure, out of the amount granted by the Government for the implementation of any Scheme, project or plan entrusted and delegated to the

Municipality under this Act shall be incurred for any other purpose including the implementation of any other scheme, project or plan.

Failure of Standing Committee to prepare budget

- Where the standing committee for finance fails or omits or delays the preparation of the budget estimates of the Municipality within the prescribed period, Chairperson shall cause the proposals prepared by the Secretary to be laid before the Council and the Council shall, before the beginning of the ensuing year, pass the budget estimates as proposed by the Secretary with or without modification.

Preparation and sanction of revised budget estimate

- The Standing Committee shall prepare a supplementary or revised Budget, if it is found necessary during the course of a year that the estimates relating to its receipts or the expenditure in respect of the various services undertaken by it as shown in the Budget require modifications and lay it before the Council for approval.

Budget format (Position in West Bengal Municipality)

- Form 1(a) is a budget estimate sheet format meant for original budget estimate and revised budget estimate with the following heads:-

(a) field heads (b) Head of Account – Description of Item (c) Actual for the

previous year (d) budget estimate for the current year (e) Revised budget estimate for the current year and (f) Budget estimate for the next year under columns (1), (2), (3), (4), (5) and (6) respectively for each and every ward in the Municipality. Form i(b) is a Budget estimate consolidated format for original budget estimate as well as the revised budget estimate with the following heads :- (a) Function (b) Functionary, (c) Field, (d) Head of account – description of item (e) Actual for the previous year (f) Budget estimates for the current year (g) Revised estimates for the current year (h) Budget estimates for the next year, under columns (1), (2), (3), (4), (5), (6), (7) and (8) respectively for each item of revenue receipts, revenue expenditure, capital receipt and capital expenditure.

- Budget heads are divided into four categories of accounts e.g. (A) Revenue Receipts, (B) Revenue Expenditure, (C) Capital Income and (D) Capital Expenditure. Budget shall be prepared for each of the Function, Functionary and Field.

- The receipts/expenditure of items of revenue nature would be booked under (A) Revenue Receipts, (B) Revenue Expenditure. Receipts/expenditure of items of capital nature would be booked under (C) Capital Income and (D) Capital Expenditure.

- All collections and levies as permissible under statute in force such as property tax,

surcharge, tax on advertisement, application fees for trade and profession, license fees, plan sanction fees, mutation fees, rent, tolls, water charges, tax on carriage, assigned revenues and compensations, sale and hire charges, revenue grant contributions and subsidies, interest income, income from entering into any joint venture, income from public-private partnership and other fees and charges shall constitute the revenue receipts.

- Deposits received from contractors, suppliers, Grants and Contributions received for specific purpose, Sale proceeds from fixed assets, Development Loans available from LIC, HUDCO Banks and other development agencies, deposits works, royalties for granting house connections and salamis on accounts of markets, sale of investments, recoveries of loans and advances from staff, employees liabilities, income tax/sales tax deducted from contractors and suppliers but not deposited, sale proceeds from stores shall constitute capital receipts and liabilities. .

- All establishment and other expenses incurred in the conduct and administration of the functions which a Municipality is required to carry on for keeping its office running shall constitute the revenue expenditure. So expenses towards salaries, wages, rent, telephone charges, Insurance, advertising, printing, stationeries, conservancy implements, electricity charges,

law suits, repayment of loan, interest of loan are few such cases. Further all expenses incurred by way of repairs, replacements and renewals of existing assets, which do not in any way add to their value but simply serve to maintain them in proper order are chargeable to revenue head. Thus, the cost of repairs of buildings, road, drain, culvert, market, park, playground, burning ghat, water works, sewers etc, shall also be treated as revenue expenditure.

- The repayment of loans, investments of long-term nature out of reserve fund and general fund, loans and advances to staff, refund of deposits to contractors/suppliers, expenditure incurred in the acquisition/purchase/construction of fixed assets such as land, building, infrastructure assets like roads and pavements, bridges, culverts and flyovers, subways and causeways, sewerage and drainage, waterways, water supply and reservoirs, vehicles, plant and machinery, equipments, furniture, fixtures, fittings, and electric appliances, livestock, intangible assets, advance payments, shall constitute capital expenditure. The cost of construction, repair and renewals of fixed assets, which increases the useful life of the assets or improve its performance, shall also constitute capital expenditure and assets.
- Minor heads of receipts and expenditure under different major heads as provided in

Form 1(a) and 1(b) are not exhaustive. If necessary, new head under appropriate heading may be opened after making corresponding changes in the Chart of Accounts wherever required and following the procedure with regard to change in Chart of Accounts.

- If any capital expenditure in a year is met out of own revenue income of that year, in that case an equivalent would have to be transferred to Capital Expenditure from Revenue Receipts for which appropriate budget heads have been provided in the format.
- Ordinarily the average of five years' receipts and expenditure may be taken to be the required estimate under each head. A statement explaining, where necessary, the variations in the estimated receipts or expenditure compared with the actual of the previous year and the revised estimate of the current year shall be appended to the budget.
- The details of the outstanding liabilities, if any, detailed account of which is available with the Municipal Authority, at the time of the presentation of the Budget Estimate shall also be shown in the Budget.

Budget Estimates for Kolkata Corporation (Chapter IX of the Kolkata Municipal Corporation Act, 1980)

Annual Budget of the Corporation

- The Corporation shall on or before the 22nd day of March in each year, adopt for the

ensuing year a budget estimate which shall be the estimate of the receipts and the expenditure of the Corporation to be received and incurred on account of the municipal corporation of Kolkata.

- The budget estimate shall separately state the income and the expenditure of the Corporation to be received and incurred in terms of the following accounts-

- the Water-supply, Sewerage and Drainage Account,
- the Road Development and Maintenance Account,
- the Bustee Service Account,
- the Commercial Projects Account, and
- the General Account.

- The budget estimate shall state the rates at which various taxes, surcharges, cesses and fees shall be levied by the Corporation in the year next following.

- The budget estimate shall state the amount of money to be raised as loan during the year next following.

- The Mayor shall present the budget estimate to the Corporation on the 15th day of February in each year or as soon thereafter as possible.

- The budget estimate shall be prepared, presented and adopted in such form and in such manner and shall provide for such matters, as may be prescribed.

Power of the Corporation to alter Budget grants

- The Corporation may, on the recommendation of the Mayor-in-Council from time to time during the year,--

- increase the amount of any budget grant under any head,
- make an additional budget grant to meet any special or unforeseen requirement arising during the same year,
- transfer the amount or portion of the amount of the budget grant under any head to the account of the budget grant under any other head, or
- reduce the amount of the budget grant under any head:

Provided that due regard shall

be given to all the requirements of the Act in increasing the amount of any budget grant or in making additional budget grant.

- Every increase in a budget grant and every additional budget grant made under sub-para (1) above shall be deemed to be included in the budget estimate finally adopted for that year.

- If at any time during the year it appears to the Corporation that the money at the credit of the Municipal Fund during the same year will not suffice to meet the expenditure sanctioned in the budget estimate of that year, it shall be incumbent on the Corporation forthwith to take any measure which it may consider necessary for adjusting the expenditure to the income during the year.

- For the purpose of sub-para (1) above, the Corporation may either diminish the sanctioned expenditure of that year, so far as it may be possible so to do with due

requirements of this Act or have recourse to supplementary taxation or to an increase in the taxes, surcharges, cesses and fees leviable under the Act or adopt all or any of those methods.

Audit Points

- Were the prescribed dates for preparation of the (a) estimated receipts and expenditure (b) draft annual budget estimate (c) placement of the same to the Standing Committee/Mayor and (d) sanction of budget estimate by the authority adhered to? If not the reasons thereof should be analysed.
- Could the auditor ensure that the different departmental heads prepare their estimated receipts and expenditure of the following year in consultation with the respective Borough Committees/Ward Committees? If not, the reasons thereof should be analysed.
- Could the auditor ensure that the Accounts Department prepared the Draft Annual Budget Estimate in the prescribed form in consideration of the departmental requirements? Were the necessary Schedules and Abstract in the prescribed forms forthcoming? If not, the same would be irregular and the auditor should record his observations accordingly.
- Was the Annual Budget Estimate sanctioned before the beginning of the year to which it relates? If not the reasons therefor should be analysed.
- Was any deficit provided in the sanctioned budget? If so, the same would be irregular and the auditor should record his observations accordingly.
- Were the prescribed dates for (a) review of the budget estimate for the current year (b) preparation of the revised budget estimate and (c) its approval by the council adhered to? If not the reasons therefore should be analysed.
- Could the auditor ensure that the revised budget estimate was prepared and adopted in the same way as the original budget? Was any case of departure detected? If so, the same was irregular and the auditor should record his observation accordingly.
- Were copies of the sanctioned budget sent to the prescribed authorities?
- Was there any case of extension of time for adoption of budget and revised budget? Was such extension approved by the State Government? If not, the same was irregular.
- Was there any case of alteration of budget and revised budget? Was such alteration made in the prescribed form and approved by the Board of Councillors and the same intimated to the prescribed authorities?
- Did the budget format for original and revised budget estimate contain the prescribed heads viz. (a) field head (b) head of account – description of item etc. etc.?

- Were necessary explanations in the prescribed columns forthcoming?
- Were the budget heads divided into four categories of accounts, viz. (a) Revenue Receipts (b) Revenue Expenditure (c) Capital Income and (d) Capital Expenditure?
- Did the aggregate of the opening and closing balances of the respective Account heads tally with the opening and closing balances of the Municipality?
- Did the Ledger balance for Advance, Deposit and Material Accounts at the close of a particular year represent the opening balance of Extra-ordinary and Debt Account of the following year?
- Could the auditor ensure on a test check of a particular period that the items of receipts/expenditure of revenue, capital nature were booked under Revenue, Capital Accounts respectively?
- Could the auditor ensure that the receipts on account of Development Grants and Loans available from the State Government as well as Development Authorities and Development Loans from LIC, HUDCO and Banks constitute capital receipt and liabilities?
- Did the Municipality/Corporation have its own sources of receipt like sale proceeds of land and property, realization on account of investment, collection of royalties for granting house connections and salamis realised on account of markets etc? If so, were such receipts shown as Capital receipts? If not, the same would be irregular and the auditor should take action accordingly.
- Could the auditor ensure that in case any capital expenditure was met out of own revenue income of that year, an equivalent amount was actually transferred to Capital Account from the Revenue Account and the same duly reflected under the appropriate budget head in the prescribed format?
- Could the auditor ensure that ordinarily an average of five years' receipts and expenditure was taken as the required estimate under each head? In case of any variations, were the same duly explained in the budget estimate?
- Could the auditor ensure that the details of outstanding liabilities, if any, were duly shown in the budget?
- In case of Kolkata Corporation, could the auditor ensure that the budget estimate separately stated the income and expenditure of the Corporation under the distinctive account heads viz. the Water-supply, Sewerage and Drainage Account, the Road Development and Maintenance Account, the Bustee Service Account, the Commercial Projects Account and the General Account?
- Did the budget estimate state the rates at which various taxes, surcharges, cesses and fees would be levied during the proposed year?

- Did the budget estimate state the amount of money to be raised as loan during the proposed year?
- Could the auditor ensure that the budget estimate was prepared, presented and adopted in the prescribed form as embodied in Sub-rule (6) of Section 131 of the Kolkata Municipal Act, 1980? Who prescribed the format? Was it approved by the State Government?
- In case of alteration of budget grants, was the same done on the recommendation of the mayor-in-Council?
- Are the Municipalities and Municipal Corporations actually using the budget to monitor performance?

Format as recommended in National Municipal Accounts Manual

_____ *Name of the ULB*

MAJOR ACCOUNT HEAD WISE BUDGET FOR THE PERIOD

Sr. No. _____

S No	Major Account Head	Code	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
	1		2	3	4	5
	<u>REVENUE RECEIPTS</u>					
	Tax Revenue	110				
	Assigned Revenues and Compensation	120				
	Rental Income - Municipal Properties	130				
	Fees and User Charges	140				
	Sale and Hire Charges	150				
	Revenue Grants, Contributions and Subsidies	160				
	Income from Investments	170				
	Interest Earned	171				
	Other Income	180				
	Total					
	<u>REVENUE EXPENDITURE</u>					
	Establishment Expenses	210				
	Administrative Expenses	220				
	Operations and Maintenance	230				
	Interest and Finance Charges	240				
	Program Expenses	250				
	Revenue Grants, Contributions and Subsidies	260				
	Miscellaneous Expenses	271				
	Prior Period Item	280				
	Total					
	<u>CAPITAL RECEIPTS</u>					
	Grants, Contributions for Specific purposes	320				
	Secured Loans	330				
	Unsecured Loans	331				
	Deposits Received	340				
	Deposit Works	341				
	Other Liabilities	350				
	Total					
	<u>CAPITAL EXPENDITURE</u>					
	Fixed Assets	410				
	Capital Work in Progress	412				
	Investments – General Fund	420				
	Investments – Other Funds	421				
	Stock in hand	430				
	Prepaid Expenses	440				
	Loans, advances and deposits	460				
	Other Assets	470				
	Total					

_____ *Name of the ULB*
SUMMARY OF FUNCTION WISE BUDGET FOR
THE PERIOD _____

S No	Function	Code	Revenue Receipt Rs.	Revenue Expenses Rs.	Capital Receipts Rs.	Capital Expenditure Rs.	Net Inflow/ (Outflow) Rs.
1	2	3	4	5	6	7	8
	General & Administration	00					
	Planning & Regulations	10					
	Public Works	20					
	Health	30					
	Sanitation & Solid Waste Management	40					
	Civic Amenities	50					
	Urban Forestry	60					
	Urban Poverty Alleviation & Social Welfare	70					
	Other Services	80					
	Revenues	90					
	Total*						

Session: 6

Session Title:

Audit of Tax, and Cess Receipt and Audit Points



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)

Participants' Note
Audit Exercise for Session 5 & 6

Session: 6**Session at a glance****Session Title:** Audit of Tax, and Cess Receipt and Audit Points**Learning Objectives:**

Given the inputs on the significant features of 'tax, and Cess received by municipality and municipal Corporation' through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of power to impose tax, procedure for collection of taxes, maintenance of assessment and collection of tax records, accounting system of property and other taxes along with and Cess which will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: *In this session we will discuss tax, and Cess received/collected by municipalities and municipal corporations, their accounting system and audit points thereon.	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 Tax assessed and collected by municipalities and municipal corporations, and its accounting system, annual valuation, periodic assessment and its internal controls.	20 min	Lecture, Group Discussion and PowerPoint slide show
Key Teaching Point 2 Cess collected by municipalities and municipal corporations, its accounting system, write off and its internal control.	15 min	Lecture, Group Discussion and PowerPoint slide show
Key Teaching Point 3 Audit points on taxation and Cess collected by municipalities and municipal corporations.	15 min	Lecture, Group Discussion and PowerPoint slide show
Application Audit exercises on budget of ULBs and taxation, octroi and cess.	15 min	Exercises
Summary:	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

* This is to be adopted as per State specific scenario

Session: 6

Instructor's Guide

Session Title: Audit of Tax, and Cess Receipt and Audit Points

Instructor's Guide	Ref.
<p>Session Overview:</p> <p>Welcome participants to the session and remind them that their active participation is critical for the success of each session.</p> <p>Tell the participants that in this session we will discuss tax, and Cess received/collected by municipality and municipal corporation, their accounting system and audit points thereon.</p>	
<p>Learning Objective:</p> <p>Given the inputs on the salient features of 'tax and Cess received/collected by municipality and municipal Corporation' through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of power to impose tax, procedure for collection of taxes, maintenance of assessment and collection of tax records, accounting system of property and other taxes along with and Cess which will help them to focus on audit issues at the practical job scenario.</p>	
<p>Basic Concept:</p> <p>Form *five groups amongst participants.</p> <p>Ask about their understanding of the 'tax collected by municipality and municipal corporation', 'determination of annual valuation', 'periodic assessment', 'miscellaneous revenue', 'accounting system of different taxes'.</p> <p>Encourage each group to discuss amongst its members and each participant to actively participate in the discussion.</p> <p>Obtain responses from each group and recognise them point-wise by noting on the white board.</p> <p>Show PowerPoint slide and discuss the recommendations of National Municipal Accounts Manual.</p> <p>Ask about their understanding of the 'cess collected by municipality and municipal corporation', 'its accounting system' 'write off procedure' as well as 'internal control mechanism.'</p> <p>Encourage each group to discuss amongst its members and each participant to actively participate in the discussion.</p> <p>Obtain responses from each group and recognise them point-wise by noting on the white board.</p> <p>Show PowerPoint slide and discuss the recommendations of National Municipal Accounts Manual. Ask each group to jot down the probable audit points on municipal taxation and cess.</p> <p>Request them to apply their practical audit experience and the discussion made during this session.</p> <p>Encourage each group to discuss amongst its members and each participant to actively contribute few points on this issue.</p> <p>Obtain responses from each group and recognise them point-wise by noting on the white board.</p> <p>Show PowerPoint slide and discuss the probable audit points.</p>	PowerPoint Slide: Session 6 Audit of ULB Taxes, etc
<p>Distribute Exercise for Session 5 and 6 and mention the scheduled time for exercise and discussion thereon.</p> <p>Discuss the answers to the exercise.</p> <p>Distribute Participants' Note</p>	
<p>Request any participant to summarise the session</p> <p>Thank the participants for their active participations and bring the session to a close.</p>	

* Number of groups may vary according to the number of participants and sitting arrangement.

Session Title:

Audit of Tax, and Cess Receipt and Audit Points

Session Overview:

In the previous sessions, we discussed the evolution, constitution, organisation, powers, functions, municipal fund, grants and budget. In this session we will discuss tax and cess collection procedure and audit points thereon.

Learning Objective:

Given the inputs on the salient features of 'tax and Cess received / collected by municipality and municipal Corporation' through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of power to impose tax, procedure for collection of taxes, maintenance of assessment and collection of tax records, accounting system of property and other taxes along with Cess which will help them to focus on audit issues at the practical job scenario.



***Taxation:**
(Model Municipal Law)

* This is to be adopted as per State specific scenario

Power to impose Municipal Taxation:

The Municipality shall have the power to levy the following taxes :-

- property tax on lands and buildings,
- surcharge on transfer of lands and buildings,
- tax on deficit in parking spaces in any non-residential building
- water tax,
- fire tax,
- tax on advertisements, other than advertisements published in newspapers
- surcharge on entertainment tax
- surcharge on electricity consumption within the municipal area,
- tax on congregations,
- tax on pilgrims and tourists,
- toll –
 - ❖ on roads, bridges and ferries, and
 - ❖ on heavy trucks which shall be heavy goods vehicles, and buses, which shall be heavy passenger motor vehicles, within the meaning of the Motor Vehicles Act, 1988, plying on a public street.
- On prior approval of the State Government, the Municipality may levy any other tax which the State Legislature has the

power to levy under the Constitution of India.

- The levy, assessment and collection of taxes under the Act shall be in accordance with the provisions of this Act and the rules and the regulations made thereunder.

User charges

The Municipality shall levy user charges for –

- provision of water-supply, drainage and sewerage,
- solid waste management,
- parking of different types of vehicles in different areas and for different periods
- stacking of materials or rubbish on public streets for construction, alteration, repair or demolition work of any type
- other specific services rendered in pursuance of the provisions of this Act

at such rates as may be determined from time to time by regulations :

- Municipality may, having regard to the conditions obtaining in the municipal area, decide not to levy, or postpone the levying of, any of the user charges:
- State Government may direct the Municipality to levy any of the user charges as aforesaid, not levied, or postponed, by the Municipality.

Fees and Fines

The Municipality shall have the power to levy fees and fines in exercise of the regulatory powers vested in it by or under

this Act or the rules or the regulations made thereunder for –

- sanction of building plans and issue of completion certificates,
- issue of municipal licenses for various non-residential uses of lands and buildings,
- licensing of –
 - i. various categories of professionals such as plumbers and surveyors
 - ii. various activities such as sinking of tube-wells, sale of meat, fish or poultry, or hawking of articles,
 - iii. sites used for advertisements or premises used for private markets, slaughterhouses, hospitals, nursing homes, clinics, factories, warehouses, godowns, goods transport depots, eating-houses, lodging houses, hotels, theatres, cinema-houses and places of public amusement and for other non-residential uses
 - iv. animals,
 - v. carts or carriages
 - vi. such other activities as require a licence or permission under the provisions of this Act
 - vii. issue of birth and death certificates.
- The Municipality if authorized by any other law for the time being in force, realise any tax, development charge, cess, or fee, imposed under that law, or any dues

payable under that law, in accordance with the provisions thereof.

In respect of West Bengal Municipalities-

- The Board of Councillors may levy a fee per head or per vehicle for providing municipal services in connection with any congregation of whatever nature, including pilgrimage, fair, festival, circus or yatra, within a municipal area for persons or vehicles assembling within the municipal area for the purpose.
- The Board of Councillors may frame regulations specifying the occasions on which such levy may be imposed, the rate of levy and the mode of collection.
- The Board of Councillors may, from time to time, levy fee for licenses issued or permissions granted under the provisions of this Act and may also impose charges for any specific services rendered in pursuance of the provisions of this Act.
- The State Government may prescribe the scale at which such fees may be levied or charges imposed.

Property tax on lands and buildings:

- Property Tax is the main source of income of most ULBs. It is levied on residential and commercial properties and is collected from the citizens and organisations, which own the properties. In respect of property tax on State or Central

Government departments or undertakings, the property tax is received from the State or Central Government, as the case may be and in respect of Government undertakings, property tax is received directly from such undertakings or from the State or Central Government.

- Property Tax may comprise of the following:

- o General Tax
- o Water Tax
- o Water Benefit Tax
- o Conservancy Tax or Sewerage Tax
- o Sewerage Benefit Tax
- o Education Cess
- o Development Cess
- o Street Tax
- o Fire Brigade Tax
- o Tax on Vehicles, Boats and Animals
- o Light Tax
- o Health Tax
- o Dog Tax
- o Tree Cess
- o Fire Cess
- o Any other taxes

In addition to the taxes referred above, following may be collected by the Property Tax Department:

- o Property Transfer Charges
- o Notice Fee, Warrant Fee, Other Fees and interest and penalties charged for delays and defaults made by the taxpayers

- A property tax, on the annual value of lands and buildings shall be imposed by the Municipality.

Provisions of imposing property tax in three states are as follows:

In the **Municipal Corporation of Delhi** the property tax is dependent on factors such as the Unit Area Values, Rate of Tax, Age Factors, Structure Factors, Flat factor, Occupancy factor and on the factor whether the user is existing or new. Following is the formula for the calculation of property tax in Delhi:

Property tax = Annual Value × Rate of Tax

Annual Value = Unit Area Value × Age Factor × Use Factor × Structure Factor × Flat factor × Occupancy Factor

- In **West Bengal Municipalities** property tax shall be calculated as follows:

- Where the annual value of land and buildings does not exceed Rs.999/-, the property tax shall be determined in accordance with the following formula:

$\frac{\text{Annual value}}{100} + 10$	[% of the annual value]
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- Where the annual value of lands and buildings exceeds Rs.999/-, tax shall be

determined in accordance with the following formula:

$\frac{\text{Annual value}}{1,000} + 22$	[% of the annual value]
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- Provided that the property tax shall not exceed 30% of the annual value of lands and buildings.
- Provided further that while calculating the percentage of property tax, the decimal figure below 0.5 shall be ignored and 0.50 or above shall be rounded off to 1.00.
- State Government may revise this formula. However, no such revision shall be made more than once in five years.
- In **Gujrat Municipalities** a tax on buildings or lands to be based on the capital value or a percentage of capital value of the buildings or lands or both.

Levy of Surcharge (MML)

The Municipality may levy a surcharge on a tax, or user charge, or fee on a premises used for non-residential purposes at such rate, being not less than twenty five per cent and not more than seventy five per cent, of such tax, user charge or, fee, as the case may be, as may be determined by regulations

The Municipality may realise any tax, cess, or fee, imposed under law, or any dues payable under that law, in accordance with the provisions thereof

Exemption from Property Tax (Karnataka Municipalities Act):

The following buildings and vacant lands shall be exempted from the property tax,

- places set apart for public worship.
- choultries for occupation of which no rent is charged and choultries the rent charged for the occupation of which is used exclusively for charitable purpose
- places used for the charitable purpose of sheltering the destitute or animals and orphanages ancient monuments and Historical Monuments protected under the Act as are not used as residential quarters or public offices;
- charitable hospitals and dispensaries but not including residential quarters attached thereto
- such hospitals and dispensaries maintained by railway administration
- burial and cremation grounds
- Government lands set apart for free recreational purposes or from which in the opinion of the State Government no income could be derived
- buildings or vacant lands exclusively used for,- (i) student hostels and (ii) educational purposes
- buildings or vacant lands belonging to the Central Government or any State Government

- buildings or vacant lands belonging to the Bangalore Development Authority, the Karnataka Housing Board

- land which is registered as land used for agricultural purpose

- fifty percent of the property tax on any one of the land or building belonging to an ex-serviceman or family of a deceased ex-serviceman,

Power to reduce rates:

- A municipal council may at any time for any sufficient reason suspend, modify or abolish any existing tax.

- Suspension, modification or abolition of a tax made by the Municipal Council shall not take effect unless approved by the Government.

Determination of Annual Valuation:

- The taxable capital value of the building shall be assessed together with the land occupied by it. The taxable capital value of such land shall be assessed having regard to the market value guidelines of properties published of the land notified by the Government. The taxable capital value of the building shall be equivalent of fifty percent of the market value guidelines of properties minus depreciation at the time of assessment as may be notified by the Government from time to time

Periodic Assessment:

- Property tax assessed and levied under provision shall not be assessed each year thereafter but shall stand enhanced by 15 percent

once in every three years commencing from the financial year 2005-2006: Provided that the Municipal Council may enhance such property tax once in three years and different rates of enhancement may be made to different areas and different classes of buildings and lands:

- The non assessment of property tax during the block period of three years shall not be applicable to a building in respect of which there is any addition, alteration or variation to it.
- The State Government has power to direct an earlier revision of property tax.

Property tax register

- A Property tax register in respect of buildings or vacant land or both in the municipal area containing such particulars shall be prepared and revised in such manner as may be prescribed.
- The authorised officer may on an application made by any person on payment of such fees as may be specified by the Municipal Council from time to time, permit such person to inspect the Property tax register at reasonable hours or grant certified extract of the entries in the register or certified copies thereof.
- The Municipal Commissioner or the Chief Officer subject to the general or special orders of the Government, direct a survey of buildings or vacant land or both within the Municipal area with a view to the assessment of property tax and may obtain the services of any qualified person or

agency for conducting such survey and preparation of property register.

- For the purpose of preparation of property register or assessment of property tax the Municipal Commissioner or the Chief Officer or any person authorised by him in this behalf may enter, inspect, survey or measure any vacant land or building after giving notice to the owner or occupier before such inspection and the owner or occupier shall be bound to furnish necessary information required for the purpose.
- Whenever the title of any person primarily liable for the payment of a tax imposed on any premises in the form of a rate on buildings, or lands or both, is transferred, the person whose title is transferred and the person to whom the same is transferred shall, within three months after the execution of the instrument of transfer or after registration or after transfer is effected, give notice of such transfer in writing to the Municipal Commissioner or the Chief Officer.
- Whenever such transfer comes to the knowledge of the Municipal Commissioner or Chief Officer through notice the name of the transferee shall be entered in the property tax register.



Collection of Taxes (Municipalities in West Bengal)

- Under the written order of the Chairman, the duty for collection of taxes shall be performed by the Executive Officer or the Finance Officer or the Secretary or the Tax Collector.
- Chairman-in-Council may divide the municipality into collecting circles as decided.
- Each circle shall be numbered and a Collecting Sarkar shall be appointed for each circle.
- Whenever property tax, surcharge, rents or other dues are not received in the municipal office the Chairman-in-Council shall arrange for the verification of the receipts granted to the tax payers with the duplicate copies filed in the office and for the enquiry in all the cases in which taxes have been outstanding. This verification shall be entrusted to the Collection or Assessment Department.

Assessment Register and Demand & Collection Register:

- Separate Assessment Register and Demand & Collection Register for each circle shall be maintained.

- The Assessment Register shall be maintained in the prescribed form. A separate volume shall be assigned to each collecting circle.
- All changes in the demands shall be entered in an Assessment Register from which the Demand & Collection Register shall be rectified accordingly.
- The bills shall be prepared from the Demand & Collection Register in which realisation of bills shall also be noted after collection.
- The details of the totals on completion shall be compared with the entries in Assessment Register for the quarter.

Maintenance of Assessment and collection of records:

- The Assessor of the Assessment Department shall keep the Assessment Register while the Collection Department shall deal with collections, remission etc. and post the settlement of demands in the Demand & Collection Register.
- The Collecting Sarkar shall not be allowed to have access to the Assessment Register and Demand & Collection Register.
- The Finance Officer or in his absence an officer authorized by the Chairman shall in every case check the remission.

Verification as to correctness of quarterly demand:

- The columns showing the annual value and quarterly demands in the Assessment

Register and abstract of demand and collection shall be totalled at least a month before the beginning of the first quarter of the year from which the revised assessment will take effect.

- The totalling may be made by Sub-Divisions but these subsidiary totals must be carried forward or summed up on a separate page of the Assessment Register and the Abstract of Demand & Collection so as to arrive at the total of the circle.
- When the total has been struck, the executive officer or any other officer authorized by the Chairman shall carefully check the entries and shall sign the register in token of having made the check.
- The Assessment Register is the principal record of the Assessment Department and the Assessor shall be responsible for seeing that it is correctly prepared and that all alterations made therein are attested by the proper authority.
- The Executive Officer or any such officer authorized by Chairman shall see that the Assessment Register and Demand & Collection Register are free from erasing; no alterations shall be made in then except under the initials of the Executive Officer or any officer authorized in this behalf.

Issue of Receipt

For all sums paid on account of any tax under this Act, a receipt stating the amount, and the tax on account of which it has been

paid shall be tendered by the person receiving the same

Register of Daily Collection of Taxes:

- The Collecting Sarkar shall maintain a register of daily collection in prescribed form with counterfoils in both ends.
- Each Collecting Sarkar shall maintain a separate Challan Book in which the details of all collections made by cash and cheques shall be posted in separate Challan by him. The particulars in the counter foils shall also be furnished by him.
- The Tax Collector shall maintain a Hand Book showing therein the circle-wise collection position of each month as should be available from the cumulative totals worked out in the Challan for the last working day of the month.
- From the above records the Tax Collector shall also prepare annual statement of month-wise collection position of all the circles.

Collection of Taxes:

- A receipt bill shall be presented for payment of taxes in the prescribed manner.
- As soon as the Tax is paid the collector shall fill in the printed receipt and make over the original receipt to the tax-payer. He shall at the same time note the fact and date of payment against the demand in the duplicate of the bill.

- The Collecting Sarkar (either everyday or as permitted by the Chairman) shall deliver to the cashier all the moneys he has collected together with the Daily Collection Register and the Receipt Book in his possession after all the entries are verified by the Tax Collector.
- The Tax Collector shall check the account by comparing the credits with the duplicate of receipts.
- The Cashier shall then total the register and see that it corresponds with the money given to him by the Collecting Sarkar and furnish a receipt on the left hand side counterfoil of the Challan stating in both figures and words the amount actually received by him with the dated signature and retain the right-hand side counterfoil of the Challan for making necessary entries in the Cash Book.
- The Collecting Sarkar then handover the Challan to the tax collector for necessary posting in the Demand and Collection Register.
- The Accountant shall verify total collections of any month as per his Cash Book with the cumulative total of collections as worked out by the Collecting Sarkar by the Challans for the last working day of the month and put his signature accordingly. Any discrepancy shall be reconciled immediately.

- Every item of collection, remission or rebate shall be posted daily in the demand and collection register from the Collecting Sarkar's daily collection, Challans or from the other relevant documents. The Collecting Sarkar is not allowed to have access to the Demand and Collection Register.

Miscellaneous Revenue:

- When the collection of revenue is leased for fixed amount the recovery shall be watched by means of Demand and Collection Register. Given below are the few such sources of revenue which are generally leased out:
 - Market Rent,
 - Rent of Buildings and Lands,
 - Ferry Rent,
 - Fishery Rent,
 - Holiday-home Rent,
 - Town-hall Rent etc.
- A separate page or sets of pages of the register shall be set apart for each of the above kinds of revenue for which there is fixed monthly, quarterly, half-yearly or annual demand.
- The Accountant shall fill up the current year's register in respect of the arrear demands from the previous register and lay before the executive officer for his initials.
- Payments made in satisfaction of the demand shall be posted by the Accountant from the daily collection, Challan or the

Cashier's Cash Book in the column for the month in which the money is credited in the Accountant's Cash Book.

- The security deposit which usually amounts to one fourth of the annual rental will ordinarily be taken in satisfaction of the demand for the last three months of the year in which the lease expires and shall be transferred by adjustment from 'deposit' to 'rent' and entered in the register in the column for March.
- When collection of revenue is managed departmentally instead of being leased out to lessees, it shall be collected by means of bilingual tickets in prescribed form.
- The tickets shall be obtained by the Board of Councillors from some press outside the municipality and shall be of different colours for different values. Before issue to the collecting staff, the tickets shall be stamped with the seal of the Board of Councillors. The stock account of their receipts, issues and balance shall be kept by the Head Clerk in prescribed form and the tax collector shall give his receipt in the proper column for tickets made over to him periodically.
- The number of tickets issued to the Sarkar by the Tax Collector shall be counted and entered by him in the Sarkar's Debit and Credit Account of tickets which shall be posted whenever tickets are issued or collection deposited.

- The Accountant shall check this account when verifying this Cash Book and the Executive Officer shall check it fortnightly like other subsidiary registers.

- At the end of the day or at such other time as may be fixed by the Chairman, the Sarkar shall bring his collection money and the balance of tickets in hand to the Municipal Office and make them over to the Cashier, who shall check the cash and the balance of tickets in hand with the Sarkar's Debit and Credit Account of Tickets.

Miscellaneous Demands:

- A miscellaneous demands register shall be maintained in prescribed form. The entries in the respective columns of the register should be posted when the bills are signed and payments are made. The money shall then be credited into the Cashier's Cash Book.
- A receipt in prescribed form shall be granted by the Executive Officer for any money received by the Chairman-in-council for which no receipt form has been prescribed.

Accounting system for property & other taxes

- Now we will discuss the recommended accounting system for Property and Other Taxes related transactions as prescribed by Ministry of Urban Development, Government of India in National Municipal Accounts Manual.

Procedure of accounting of records

Tax Bill

- A Summary Statement of Bills Raised shall be prepared ward-wise and tax-head-wise in prescribed form on monthly basis

within 7 days from the end of the previous month. Taxes are thus recognised for entry on raising of demands. This forms the base for accounting and the following entry shall be passed.

Recording of demand raised on existing assessments:

Code of Account	Accounting Entry (Illustrative Heads)	Dr./ Cr.	Debit Amt (Rs.)	Credit Amt (Rs.)	Books to be entered into
431-10-(a)	Receivable for Property Taxes (Year...)	Dr.	7,70,000		Journal Book, Ledger
110-01-(a)	To Property Tax – Residential	Cr.		2,00,000	
110-01-(a)	To Property Tax – Commercial	Cr.		3,00,000	
110-02-(a)	To Water Tax	Cr.		1,00,000	
110-03-(a)	To Sewerage Tax	Cr.		50,000	
110-(b)	To Others*	Cr.		50,000	
431-91-(a)	To State Govt. Cesses/ levies in Property Taxes – Control account **	Cr.		70,000	

*Figures are illustrative; *Specific heads of each income for which demand is raised; **Specific names of the cess*

- The postings in the Ledger Account of “Receivables for Property Tax” Account and Revenue accounts shall be carried out as per ‘General Accounting Procedures’. The postings in the Ledger Accounts shall be similarly carried out in respect of all other accounting entries. Whenever, the cash or the bank account is involved, there will be no entry in the Journal Book.
- It is a normal practice for the ULB to include the arrears of the tax dues while issuing the fresh demand. Entries in respect of the arrears would have already been recorded in the earlier years.
- Cesses/Levies collected on behalf of State Government together with property tax demand shall be reckoned and credited to control account, “State Govt. Cesses / levies

in Property Taxes - Control account”. However the liability to the State Government arises only upon collection. The treatment of this is discussed subsequently.

In case of new assessments, demand may be raised for a period earlier to the financial year in which the assessment is made. In such case the demand should be split according to the period to which it relates and income related to earlier period be accounted as Prior period Income.

- Any demand raised earlier may undergo changes by court order / by the order of Commissioner / by any other competent authority. This may either lead to increase or decrease in demand amount. A summary statement of all changes in Demand Raised shall be prepared, in prescribed Form on

monthly basis within 7 days from the end of the previous month. This forms the base for accounting and the following entry shall be entered.

- In case the revised demand is more than what was recorded earlier, then, the entry to be passed is same as accounting of existing demand, for the difference amount.
- In case the revised demand is less than what was recorded earlier, the entry passed earlier has to be reversed for the difference. The reversal shall be reflected in the current year revenue incase the revision in demand relates to the current year and in any other case the reversal shall be accounted as prior period expenses. The remission / refund amount shall be adjusted against Receivables if the demand is outstanding.
- If the demand is already paid, it will either be taken as credit and adjusted against future payments or will be paid to the tax payee as refund depending on the governing principle of the ULB. The amount of refunds/remissions shall be credited to the account 'Advance Collection of Revenues' with proper account code when it is to be adjusted against future payments. If it is to be refunded then it shall be credited to the Refunds payable account.

Collection of Taxes

- Based on Summary of Daily Collection received from the various Collecting Offices /Centres, the Accounts Department shall pass the following entry:

- Code of Account
- Accounting Entry
- Dr./ Cr
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

- The Summary of daily collection does not provide the details in respect of the year-wise head-wise collections made in respect of Property and Other Taxes. Hence, the total amount collected should be credited to "Receivables Control Accounts - Property Taxes" Account. The collection made shall be segregated into year wise, head wise collection on a monthly basis.

- A Summary Statement of Year-wise/ Head-wise Collection of Property & Other Taxes in prescribed form on a monthly basis shall be prepared and sent to the Accounts Department to record the details of collection. Interest shall be recognised as income only on collection.

- To record the break-up of collections into year-wise recovery, tax received in advance and to record the interest income the Accounts Department shall pass the following entry:

- Code of Account
- Accounting Entry
- Dr./ Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

Transfer of amount outstanding in respect of arrears from specific

year-Wise account to general account

- The arrears of Property and Other Taxes shall be carried forward year-wise, i.e., in “Receivables for Property Taxes (Year...)” account up to five years. On completion of the fifth year, the amount outstanding in the specific year-wise receivable account shall be transferred to a general arrears account, i.e., “Receivables for Property Taxes (Others)” Account. For example, the tax receivable in respect of the demand raised during the accounting year 1998-99 shall be carried forward in “Receivables for Property Taxes (1999)” Account up to the year ending March 31, 2004. On March 31, 2004, the balance outstanding in this account shall be transferred to “Receivables for Property Taxes (Others)” Account.

Internal controls on property & other taxes

- The following internal controls shall be observed by the ULB in respect of Property and Other Taxes related transactions:
 - The Tax Department shall ensure those Bills / Demands are raised on a quarterly/half yearly basis for Property and Other Taxes.
 - The Head of the Accounts Department shall ensure that taxes are accrued in the month in which it is due and journalization of all the demands/bills raised for property & other taxes before accounting for the collection.

- The Head of the Accounts Department and the Head of the Tax Department shall reconcile the balance at the beginning of the accounting year in respect of the year-wise Property and Other Tax Receivable (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Register.

CESS

- Cess is the tax levied along with any other tax or in lieu of tax and is considered income of the ULB.
- Cess is normally collected by self-declaration made in the returns filed under the relevant provisions.
- The normal procedure in respect of levy and collection of Cess is briefly discussed below:
 - Every person (individual/entity) who is liable to pay Cess gets registered with the Cess Department.
 - The registered individual/entity voluntarily assesses their Cess liability and pays the same to the ULB at specified periodic intervals.
 - The Cess Department undertakes an assessment of the returns filed to determine the actual Cess liability.
 - Additional demand is raised for Cess, interest and penalties if the Cess paid voluntarily is less than the assessed Cess liability. In case the Cess paid is more than the assessed

Cess liability, the excess Cess collected is refunded.

- In addition to Cess, following may be collected by the Cess Department:

- Cess Registration Fee at the prescribed rates from the dealers applying for registration.
- Penalties and/or interest in the event of evasion and for delays and defaults made by the dealers.

Cess Collection on Registration and filing of returns

- Based on Summary of Daily Collection in prescribed form received from the various Collecting Offices / Centres, the Accounts Department shall pass the following entry:

- Code of Account
- Accounting Entry
- Dr./ Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

- The summary of daily collections does not provide the details in respect of the year-wise head-wise collections made in respect of Cess. Hence, the total amount collected should be credited to "Gross Cess Income" Account. The Cess department updates the Head wise & year wise collection register maintained in prescribed form for collection based on the collection statement received from collection centres along with bills if any.

- A Summary Statement of Year-wise/ Head-wise Collection of Cess in prescribed form shall be prepared on a monthly basis and sent to the Accounts Department to record the details of collection. To record the head-wise break-up of the collections made and to record cess received in advance, the Accounts Department shall pass the following entry:

- Code of Account
- Accounting Entry
- Dr./ Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

Write-offs

- If for any reason, it is decided by the municipality/municipal corporation to write-off any Cess Income dues, the details of the write off has to be entered in the 'Statement of Write off' by the respective departments in prescribed form. This form has to be prepared on a monthly basis and forwarded to the Accounts Department and based on which, the write off shall be adjusted against the provision made.

Transfer of amount outstanding in respect of arrears from specific year-wise account to general account

- The arrears of Cess shall be carried forward year-wise, i.e., in "Receivables of Cess Income (Year...)" Account up to three years. On completion of the third year, the amount outstanding in the specific year-wise receivable account shall be transferred to a

general arrears account, i.e., “Receivables of Cess Income (Others)” Account. For example, the cess receivable in respect of the demand raised during the accounting year 2000-01 shall be carried forward in “Receivables of Cess Income (2001)” Account up to the year ending March 31, 2004. On March 31, 2004, the balance outstanding in this account shall be transferred to “Receivables of Cess Income (Others)” Account.

Internal controls

- The following internal controls shall be exercised by the ULB in respect of Cess related transactions:

- The Head of the Accounts Department and the Head of the Cess Department shall reconcile the balance at the beginning of the accounting year in respect of the year-wise Cess Receivable (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded by the Cess Department.
- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Cess Department in respect of the amount collected and the year-wise amount outstanding between the balances standing in the relevant Ledger Accounts maintained at the Accounts Department and the

records/registers maintained at the Cess Department.

- The officers designated by the municipality/municipal corporation for operating the Designated Cess Bank Account shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- The Head of the Cess Department shall annually co-ordinate with the department handling the Shop and Establishment registrations and ascertain that the dealers who have been granted new registrations and are liable to Cess have registered with the Cess Department.
- The Cess Department shall ensure that the Receipt / Summary of Daily Collection prepared, provides reference to the Cess Collection Register.
- The Chief Executive Officer/Head of the municipality/municipal corporation shall specify such appropriate calendar of returns /reports for monitoring.
- All Reconciliation Statements shall be certified by the Head of the Accounts Department.

Presentation in the financial statements

- The various heads of account used for the accounting of Cess related transactions

shall be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the municipality/municipal corporation. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

- The provision against the outstanding Cess Income receivable is to be disclosed under the major head Accumulated Provisions as a separate line item in the Balance Sheet below 'Sundry Debtors'.

- The Cess Department shall ensure that the Receipt / Summary of Daily Collection prepared, provides reference to the Cess Collection Register.

- The Chief Executive Officer/Head of the municipality/municipal corporation shall specify such appropriate calendar of returns /reports for monitoring.

- All Reconciliation Statements shall be certified by the Head of the Accounts Department.

Audit Points

- Could the auditor ensure that the levy, assessment and collection of taxes were made as per prescribed rules and bye-laws?
- Could the auditor ensure that the authority actually framed regulations specifying the occasions for imposition of levy, rate of levy and mode of collection?

- Did the Board of Councillors impose any charges for any specific services rendered in pursuance of concerned municipal Act?
- Did the State Government prescribe the scale for levy of fees or imposition of charges?
- Could the auditor ensure the arithmetical accuracy of the computation of the Property Tax?
- Was the Property Tax imposed on the annual value of the lands and buildings?
- Was the computation of the Property Tax in accordance with the prescribed norms?
- Was there any case where the Property Tax imposed exceeded 30% of the annual value of the lands and buildings?
- Was revision of the Property Tax made according to prescribed norms?
- Was there any case of non-levy of surcharge on Property Tax in case such holding was used wholly or in part for commercial, industrial or such other non-residential purposes?
- Was there any case where the amount of surcharge was less than 25% or more than 70% of the total amount of the Property Tax?
- Was the rebate allowed on holdings used exclusively for residential purposes according to prescribed norms?

- Was there any case where reduction or remission of Property Tax was allowed irregularly?
- Could the auditor ensure that the valuation of all municipal holdings was reviewed at the termination of prescribed period?
- Was the duty for collection of taxes performed by the authorized personnel under the written order of the Chairman?
- Were separate Assessment Register and Demand and Collection Register maintained for each circle in the prescribed form?
- Were all the changes in the demands entered in the Assessment Register and postings were made in the Demand and Collection Register from it?
- Were bills prepared from the Demand and Collection Register?
- Were the details of the totals on completion compared with the entries in the Assessment Register for a quarter?
- Was the Collecting Sarkar ever allowed access to the Assessment Register and Demand and Collection Register?
- Were the columns showing the annual value and quarterly demands in the Assessment Register and abstract of demand and collection totalled at least once in a month?
- Did the Executive Officer or any other officer authorized by the Chairman/Mayor carefully check the entries after the total had been struck and sign the register in token of having made the check?
- Could the auditor ensure that all the unused tax receipt forms/books were kept under the personal custody of the Chairman/mayor or a member of the Council nominated by the Chairman/Mayor?
- Was the Register of the Tax Receipt forms/books maintained by the Chairman/Mayor-in-Council?
- Did the Tax Collector maintain a Hand Book showing therein the circle-wise collection position of each month? Could the auditor reconcile the position shown in the annual statement of month-wise collection with the position shown in the Hand Book?
- Could the auditor ensure (on a detailed check of the position for a fixed period) that the Collecting Sarkar delivered everyday(or as permitted by the Chairman/Mayor) to the Cashier all the moneys collected together with the Daily Collection Register and the Receipt Book and the same was properly verified?
- Could the auditor trace the postings of the Daily Collection register from those of the Cash Book and the counterfoil of the Challan?
- Did the Tax Collector make necessary postings in the Demand and Collection Register from the Challan handed over to him by the Collecting Sarkar? Was the Collecting Sarkar given access to the

Demand and Collection Register? If so, the same should be pointed out.

- Did the Accountant verify total collections of every month as per his Cash Book with the cumulative total of collections as worked out by the Collecting Sarkar and put his signature accordingly?
- Did the municipality/corporation take steps to follow the National Accounting System as recommended by the Ministry of Urban Development, Government of India? If not, the reasons therefor should be analysed and audit observations furnished.
- Could the auditor ensure that in case of a demand (new assessment) raised for a period earlier to the financial year in which assessment is made, the demand was split in the Accounts Office according to the period to which it related to earlier period and the same was accounted as "Prior Period Income"?
- Were write offs authorised by the competent authority and as per approved accounting policies?

Exercise for Session 5 and 6

Time: 10 min.**Discussion: 5 min.****Fill in the blanks:**

1. In a budget the receipts and payments shall be classified under four broad heads viz. _____, _____, _____, _____ .
2. In case of Kerala Municipality the Secretary shall, on or before the fifteenth day of January each year prepare and submit to the _____ concerned a budget containing a detailed estimate of receipts and expenditure.
3. In case of Kerala Municipality the _____ shall finally pass the budget estimate before the _____ of the year to which it relates
4. _____ is levied on _____ and _____ properties and is collected from the _____ and _____, which own the properties.
5. In respect of West Bengal, while calculating the percentage of property tax, the decimal figure 0.50 or above shall be _____ .
6. The _____ of the Assessment Department shall keep the Assessment Register while the Collection Department shall deal with collections, remission etc. and post the settlement of demands in the _____ .

Tick (✓) True / False

7. According to Model Municipal Law the Chairman shall prepare in each year a budget estimate along with an establishment schedule of the Municipality for the ensuing year,

True / False

8. In case of Kerala Municipalities the Council shall finally pass the budget estimate before the beginning of the year to which it relates and forthwith submit copies

thereof to the Government.

True / False

The following buildings and vacant lands shall be exempted from the property tax,

9. Places set apart for public worship are assessed for property tax under Karnataka Municipality Act.

True / False

10. A property tax on the annual value of lands and buildings shall be imposed by the Municipality.,

True / False

11. Property tax assessed and levied under provision of Karnataka Municipal Act shall not be assessed each year thereafter but shall stand enhanced by 15 percent once in every three years.

True / False

12. All the unused tax receipts forms/books shall be kept under personal custody of the Chairman or a member of the Council nominated by Chairman in this behalf.

True / False

Answer to the Exercise for Session 5 and 6

Fill in the blanks:

1. Revenue Receipts, Revenue Expenditure, Capital Receipts, Capital Expenditure
2. Standing Committee
3. Council, beginning
4. Property Tax, Residential, Commercial, Citizens, Organisations
5. rounded off to 1.00.
6. Assessor, Demand & Collection Register

True / False

7. False
8. True
9. False
10. True
11. True
12. True



Session: 7 (Pt.-I)

Session Title:

Audit of ULB Accounts

(Misc. Registers, NMAM-its background, applicability, accrual system of accounting, codification structure, accounting procedure of water supply and sewerage charges, rentals, fees and other income, public works)

and Audit Points



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 7 (Pt.-I)**Session at a glance****Session Title:** Audit of ULB Accounts and Audit Points (Pt.-I).**Learning Objectives:**

Given the inputs on the salient features of municipalities and municipal corporations accounting system as prescribed in National Municipal Accounts Manual and audit points thereon through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of Municipal accounting system, and accounting of public works. These will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: In this session we will discuss few basic records and registers related to municipal accounts, municipal accounting system as prescribed in National Municipal Accounts Manual and audit points thereon. It, inter alia, includes understanding of accrual based system of accounting, accounting principles, codification structure, accounting of Public Works and audit points thereon.	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 Basic registers and records maintained for the municipal accounts.	20 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 2 Background and applicability of National Municipal Accounts Manual and understanding of accrual based accounting system, benefits of accrual system of accounting, rules of accounting.	20 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 3 Accounting principle as prescribed in National Municipal Accounts Manual, accounting principle to be followed in preparation of accounts, accounting principle for property and other taxes, cess, water supply, public works and stores.	20 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 4 Codification structure as prescribed in National Municipal Accounts Manual.	20 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 5 Accounting of few basic records.	20 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 6 Accounting of grants	20 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 7 Accounting of public works.	20 min	Interactive Lecture and PowerPoint slide show
Summary:	5 min	Lecture
Total:	150 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

Session: 7 (Pt.-I)**Instructor's Guide****Session Title:** Audit of ULB Accounts and Audit Points (Pt.-I).

		Ref.
<p>Session Overview: Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss the basic registers and records of municipal accounts, background and applicability of 'National Municipal Accounts Manual', accounting principles, accounting procedure for public works.</p>		
<p>Learning Objective: Given the inputs on the key features of municipalities and municipal corporations accounting system as prescribed in National Municipal Accounts Manual and audit points thereon through lecture, discussion and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of Municipal accounting system and accounting of public works. These will help them to focus on audit issues at the practical job scenario.</p>		
<p>Basic Concept: Ask the participants to jot down the basic registers and records maintained for the municipal accounts. Obtain responses from participants and recognise them point-wise by noting on the white board. Show PowerPoint slide and Discuss. Tell about the background and applicability of National Municipal Accounting Manual. Encourage each participant repeatedly to make the session interactive. Ask them about their understanding of accrual based accounting system. Obtain responses from participants and recognise them point-wise by noting on the white board. Discuss accrual based accounting system and its benefit as prescribed in National Municipal Accounts Manual with the help of PowerPoint slide show. Conceptualise accounting principles of taxes, cess, water supply, public works, stores etc. as prescribed in National Municipal Accounts Manual. Encourage each participant repeatedly to make the session interactive. Explain the codification structure of accounting system as prescribed in National Municipal Accounts Manual. Show PowerPoint slide and Discuss the probable audit points. Tell the participants the accounting of few basic records with the help of PowerPoint slide show. Encourage each participant repeatedly to make the session interactive. Ask about their understanding of grants and its types Obtain responses from each participant and recognise them point-wise by noting on the white board. Show PowerPoint slide and Discuss the accounting procedure for transactions relating to grants as prescribed in National Municipal Accounts Manual along with features of general grants and specific grants, recognising grant income in respect of revenue expenditure incurred under</p>		PowerPoint Slide: Session 7 Accounting System (Part I)

<p>specific grant, grants received as nodal/implementation agency, specific grant under a specific project/scheme, adjustment of grant receivable from state government against municipality's and municipal corporation's dues to the state government and internal controls.</p> <p>Ask the participants about their understanding of accounting of public works followed in municipalities and municipal corporations of *West Bengal <i>(*This is to be adopted as per State specific scenario).</i></p> <p>Obtain responses from each participant and recognise them point-wise by noting on the white board.</p> <p>Show PowerPoint slide and Discuss the accounting procedure of public works, followed in *West Bengal <i>(*This is to be adopted as per State specific scenario).</i> alongwith schedule of rates, measurement book etc., tenders, payment to contractors, completion certificates and register of works.</p> <p>Also show PowerPoint slide and Discuss the accounting system of public works and deposit works as recommended by National Municipal Accounts Manual.</p> <p>Obtain responses from each participant and recognise them point-wise by noting on the white board.</p>		
Distribute Participants' Note		
<p>Request any participant to summarise the session</p> <p>Thank the participants for their active participations and bring the session to a close.</p>		

Session Title:

Audit of ULB Accounts and Audit Points.

Session Overview:

In the previous sessions we have discussed evolution of ULBs, constitution and organisation of ULBs, audit of Municipal Fund, loans, grants, budget, taxation etc. alongwith audit points. In this session we will discuss the basic registers and records of municipal accounts, background and applicability of 'National Municipal Accounts Manual', accounting principles, accounting procedure for public works, stores, grants, special fund etc. as well as reconciliation procedure and financial statements.

Learning Objective:

Given the inputs on the key features of municipalities and municipal corporations accounting system as prescribed in National Municipal Accounts Manual and audit points thereon the participants will, at the end of the session, acquire basic concepts of municipal accounting system, accounting of public works and stores and audit points thereon. Participants will also acquire the basic concept of Reconciliation Procedure and Financial Statement. These will help them to focus on audit issues at the practical job scenario.

Familiarization of some basic records of municipal accounts*Cashier's Cash Book**

- All moneys received at the municipal office shall immediately and without reservation be brought to account in the Cashier's Cash Book under the direct supervision of financial officer or in his absence the officer authorized for the purpose. Receipts shall be classified in the column provided according to the budget heads.
- All receipts shall be entered daily in the cash book. As regards receipt on account of collection for which separate registers are prescribed the totals only shall be entered against the appropriate account head, 'total arrear property tax, total arrear surcharge,' if any, 'total current property tax and total current surcharge,' being shown separately in the case of tax collections made by collectors. Other receipts shall be entered with full details of names and particulars. As far as possible all receipts under the same head shall be grouped together for facility of accounting.

Pass Book

- The pass book will be supplied free of cost by the Treasury. It is a municipal accounts book containing the accounts kept

* This is to be adopted as per State specific scenario

in the local fund account of the municipality or the money paid and taken out by the Municipality.

- It should always be written up by the Treasury Establishment by whom the original account is kept.
- No entries or marks shall under any circumstances be made in the pass book by any one connected with or working in the municipal office.
- Upon receipt of the money by the treasury both side of the pass book will be written upto date by the Treasury Accountant, the entries initialled by the Treasury Officer and the book returned at once to the municipal office.
- At the close of each month the balance of the pass book will be struck by the Treasury Accountant with the amount written in words and shall be signed by the Treasury Officer.
- The total of the balance and the amount of outstanding cheques shall be checked against the corresponding balance shown in the cash book. The Finance Officer or the authorized officer shall not sign the cash book until the procedure stated above has been effected.

Cheques

- The drawing officer shall notify to the Treasury upon which he draws a number of cheques which he from time to time brings into use.

- The Cheque Book containing 100 cheques each will be provided by the Officer-in-charge of the Treasury. Each book will bear a number which shall be repeated upon each cheque contained in it together with the consecutive number of each cheque from the Chairman or the Finance Officer. The Chairman or the Finance Officer shall keep the cheque book under lock and key in his personal custody and when relieved, shall take a receipt for the correct number of cheques made over to the relieving officer, a specimen of whose signature shall at the time be forwarded to the Treasury concerned.
- The cheque book in use may be made over to the accountant or cashier whenever required, but it shall be returned before the office is closed for the day and shall on no account be left in the entire charge of any subordinate.
- No cheques shall ordinarily be signed unless required for immediate delivery to the person to whom the money is to be paid. The practice of retaining signed cheques in the office shall not be permitted.
- All payments above Rs.2,500/- shall be made by Account Payee cheque or draft in favour of the persons who are not employees of the municipality. Every cheque shall be drawn in English in favour of the person to whom the money is actually to be paid.
- All cheques shall be signed by the

Chairman or by the Vice-Chairman and by the Finance Officer or in his absence, by the Executive Officer or any other person authorized by the Councillors at a meeting to sign the cheques.

- When a signed cheque is cancelled it shall be stamped or enfaced 'Cancelled' by the drawer of the cheque. The fact of cancellation shall be noted in red ink under the initials of the drawer of the cheque upon the counter foil and also across the endorsement which has been enfaced upon the voucher.

Appropriation Register

- To watch appropriation of funds raised by loans or special grants by government or contributions intended for special purposes by individuals or local bodies an Appropriation Register shall be kept in prescribed form.
- The expenditure shall be posted monthly from the Register of Works or other appropriate register.
- Without the prior sanction of the Government no portion of such funds shall be appropriated even temporarily to any object other than that for which it was intended.
- Separate pages or sets of pages shall be set apart for endowment or fund.
- Any unspent balance of a Government grant sanctioned for a particular year shall be available for expenditure in the

subsequent year also subject to the sanction of the granting authority.

System of accounting as embodied in the National Municipal Accounts Manual

Background:

- Consequent on the XIth Finance Commission recommendations and the guidelines issued by the Ministry of Finance, Government of India, Comptroller and Auditor General of India constituted a task Force to recommend budget and accounting formats for municipalities and municipal corporations in India. The following recommendations were made by the task Force:
 - The municipalities and municipal corporations should uniformly follow the suggested formats for presentation of annual financial statements.
 - Budget formats with codification need to be adopted uniformly by all municipalities and municipal corporations.
 - Suggested formats for determining the cost of important utilities and services like Water Supply, Primary Schools & Hospitals, etc be adopted by all the municipalities and municipal corporations and presented as supplementary information.
- Significant accounting principles to be followed by the ULBs shall be given as a

separate schedule forming part of the accounts.

- Government of India had accepted the Task Force Report and forwarded the same to the State Governments for implementation in April 2003. Based on this, states will be expected to develop state municipal accounting manual according to their specific requirements. In order to oversee the development of the National Accounting Manual, a committee was formed.

- Maharashtra Accounting Manual (MAM), where accrual based accounting system had already been introduced, was taken as a starting point for preparation of National Municipal Accounting Manual.

- The various definitions of the terms used in National Municipal Accounts Manual were generally taken from (1) A Dictionary For Accountants by Eric L. Kohler, (2) Guidance Note On Terms Used In Financial Statements issued by The Institute Of Chartered Accountant Of India (ICAI) and (3) The Description/Definition Used by A.F. Farguson & Company (AFF)

Applicability

- The manual is applicable to all urban local bodies in India. On the State Government accepting and notifying its application, the principles laid down in this manual should be complied with. Similarly, the manual provides for integrating the

budgeting and accounting systems to enable better financial control. States can develop state level manuals based on this to suit their requirements.

- For the States not accepting NMAM the procedure of accounting discussed in this session may be treated as academic example.

Understanding Accrual System of Accounting:

- Accrual system of accounting means a method of recording financial transactions based on accrual concept, i.e., on occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities based on happening of any event, passage of time, rendering of services, fulfillment (partially or fully) of contracts, diminution in values, etc., even though actual receipts or payments of money may not have taken place.

- In this system, there is a change in accounting for transactions and reporting the financial results so as to provide the municipalities and municipal corporations and the Government with the Financial Reports, in the form of two important financial statements for the purposes noted against each:

Statement	Purpose
Income & Expenditure Statement	To determine the financial performance of the ULBs
Balance Sheet	To assess the financial status of the ULBs

Benefits of accrual system of accounting

- The accrual basis of accounting helps in determination of correct income and expenditure of the municipal bodies. The main benefits of accrual based accounting system are enumerated below:

- Revenue is recognised as it is earned and thus “Income” constitutes both revenue received and receivable. The accrual basis not only records the actual income but also highlights the level and efficacy of revenue collection, thereby assisting decision makers in taking financial decisions.
- Expenditure is recognised as and when the liability for payment arises and thus it constitutes both amount paid and payable. In accrual basis of accounting, expenditure incurred on repairs and maintenance shall be recognised as expense of the period in which they are incurred and, if not paid for during the year, shall be treated as a liability (payable) and be disclosed as such in the Balance Sheet.
- Expenses are matched with the income earned in that year. Thus, it provides a very effective basis to understand the true performance of the organisation for the operations that is conducted in that year.
- A distinct difference is maintained between items of revenue nature and

capital nature. This helps in correct presentation of financial statements, viz., the Income and Expenditure Statement and the Balance Sheet.

- Costs which are not charged to Income & Expenditure Account are carried forward and kept under continuous review. Any cost that appears to have lost its utility or its power to generate future revenue is written-off.
- The surplus or deficit as shown at the year-end represents the correct financial position of the organisation arising out of the various transactions during that year.
- It facilitates proper financial analysis and reporting.
- It captures “full” cost of servicing and helps in identifying financial viability of rendering services.
- It helps in providing timely, right quality and nature of information for planning, decision-making and control at each level of management.
- It assists in effective follow-up of receivables by the municipal body and proper ascertainment of payables by the municipal body.
- One of the distinct advantages of adopting accrual accounting system is ease in financial appraisals by the financial institutions. It also facilitates credit rating through approved Credit

Rating Agencies, which is a pre-requisite for mobilising funds in the financial markets through debt instruments.

- It presents a true picture of the financial position of an organisation and helps in better financial management.
- Thus, accrual basis of accounting results in recording of transactions and events on the basis of their substance, rather than merely when cash is received or disbursed, and thus, enhances their relevance, neutrality, timeliness, completeness and comparability.

Rules of accounting

- The basic rules of accounting flow from the accounting equation:

Assets = Own Funds + Liabilities

- An increase in the asset, e.g., Vehicle can be brought about by:
 - Decrease in another asset, e.g., Bank Account, or
 - Increase in liability, e.g., Loans or Payables.
- A decrease in the asset, e.g., Cash may result in:
 - Increase in another asset, e.g., Medical Equipment

- Decrease in liability, e.g., Payment of Loans or payment of suppliers outstanding
- Decrease in own funds through expenditure.
- It is customary to use the term “*Debit*” and “*Credit*” to communicate the above phenomenon. The rules of debits and credits are as follows:

Type of Account	Debit Signifies	Credit Signifies
Asset Accounts	Increases	Decreases
Liability Accounts	Decreases	Increases
Own Funds	Decreases	Increases

- An Accounting Entry would be a combination of a single debit and a single credit or a set of debits and a set of credits, as may be appropriate. Following the accounting equation of Assets = Claims, the debits will always equal credits.
- If we were to expand on the above, the following will be the rules applicable to incomes, expenditures, grants, etc.

Type of Account	Debit Signifies	Credit Signifies
Income (which will increase Own Funds)	Decreases	Increases
Expenditure (which will decrease Own Funds)	Increases	Decreases
Grants Received	Decreases	Increases

Accounting Principles to be followed in preparation of the accounts of the Municipalities and Municipal Corporations

- The Financial Statements of the municipalities and municipal corporations shall contain a Statement of Significant Accounting Principles as notes to accounts in respect of important Accounting Principles adopted in preparing and presenting such information.
- Where any of the Accounting Principles adopted by the municipality or municipal corporation while preparing its Financial Statements is not in conformity with the prescribed principles and the effect of deviation from the Accounting Principles is material, the particulars of the deviation shall be disclosed, together with the reasons and the financial effect thereof, except where such effect is not ascertainable. In case of non-ascertainable financial effect the fact shall be indicated.
- A few such Accounting Principles are given below:

Accounting principle for Property and Other Taxes

- Revenue in respect of Property and Other Taxes shall be recognised in the period in which they become due and demands are ascertainable.
- In case of new or changes in assessments, it can be accrued in the month in which the demand is served.

- Interest element and Penalties, if any, in demand shall be reckoned only on receipt.
- Revenue in respect of Notice Fee, Warrant Fee and Other Fees charged shall be recognised when the bills for the same are raised.
- Revenue in respect of Property Transfer Charges shall be recognised on actual receipt.
- Collections to be made on behalf of state Government i.e., State Education Cess, Employment Guarantee Cess and Library Cess and included in the Property tax demand shall be reckoned together with Property tax demand and credited to a control account called "State Government Levies in Taxes- Control Account."
- The liability towards dues to the State Government for collections on its behalf shall be recognised as and when they are collected.
- Revenue in respect of Rebate from State Government for collection made on their behalf shall be recognised at the rates prescribed by the State Government at the time of creating the liability to the State Government.
- While making provision for receivables as stated above, the relevant proportion 'State Govt. Cesses/ levies in Property Taxes - Control account' shall also be provided by debiting to a separate account.
- Any additional provision for demand

outstanding required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.

- Refunds, remissions of taxes for the current year shall be adjusted against the income and if pertain to previous years then it shall be treated as prior period item
- Any subsequent collection or recovery of 'Receivables for Property & Other Taxes,' which were already written off shall be recognised as a 'Prior Period Income'.
- Demands raised with retrospective effect will be treated as prior period income to the extent it pertains to earlier years.
- Wherever self-assessment of taxes are prevalent, income can be accrued based on records available with the municipality or municipal corporation when it becomes due as per the provisions of the respective municipal Acts. Further, changes arising out of self-assessment will be treated as 'Change in Demand' and will be accounted accordingly
- Accounting principle for Octroi
- Revenue in respect of octroi payable on spot assessment for non-current account importers and in respect of penalties, transit fees, etc., shall be recognised on actual receipt.
- In cases where a provisional assessment is made, revenue shall be recognised in

respect of the entire amount received provisionally or by way of deposit. At the time of final assessment, the additional amount recovered, if any shall be recognised as revenue when recovered.

- Refunds shall be recognised as expenditure as and when the amounts are determined.
- Transit Deposits and/or any other deposits collected, including Security Deposit collected from account current importers, shall be recognised as a liability when received and such liability shall be settled on its refund.
- The Transit Deposit and/or any other deposit received if forfeited shall be recognised as income in the year in which the right for claiming refund of deposit has expired.

Accounting principle for Cess

- Revenue in respect of collection of Cess Income with Returns (on filing of returns by the dealers), Cess Registration Fee, Interest and Penalties levied on assessment shall be recognised on actual receipt.
- Revenue in respect of Cess Income on Assessment shall be recognised in the period in which they become due, i.e., when the demand is raised.
- Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision

written back during the year shall be recognised as income of the ULB.

- Refunds, remissions of Cess for the current year shall be adjusted against the income and if pertain to previous years then it shall be treated as prior period item.
- Write-offs of Cess shall be adjusted against the provisions made and to that extent recoverable gets reduced
- Any subsequent collection or recovery of 'Receivables of Cess Income' which were already written off shall be recognised as a 'Prior Period Income'.

Accounting principle for Water Supply

- Revenue in respect of Water Tax, Water Benefit Tax, Water Supply Charges, Water Meter Rent, Sewerage charge, Disposal charges shall be recognised in the period in which they become due, i.e., when the bills are raised.
- Revenue in respect of Connection Charges for Water Supply shall be recognised on actual receipt.
- Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.
- Refunds, remissions of taxes for the current year shall be adjusted against the income and if pertain to previous years then

it shall be treated as prior period item.

Accounting principle for Public Works

- The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental expenses incurred up to that date.
- Any addition to or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalised and included in the cost of asset. Revenue expenditure in the nature of repairs and maintenance incurred to maintain the asset and sustain its functioning or the benefit of which is less than for a year, shall be charged off
- Assets under erection/installation on existing projects and capital expenditures on new projects (including advances for capital works and project stores) shall be shown as "Capital Work-in-Progress".
- The Earnest Money Deposit and Security Deposit received if forfeited shall be recognised as income when the right for claiming refund of deposit has expired.
- Deposit received under Deposit works shall be treated as a liability till such time the projects for which money is received is completed. Upon completion of the projects,

the cost incurred against it shall be reduced from the liability.

- Revenues (percentage charges) in respect of Deposit works shall be accrued along with expenditure of Deposit works.

Accounting principle for Stores

- Expenditure in respect of material, equipment, etc., procured shall be recognised on accrual basis, i.e., on admission of bill by the ULB in relation to materials, equipment, etc., delivered.
- Accounting of 'goods received & accepted but no bills received' as at the cut off date shall be accounted based on purchase orders.
- The stock lying at the period-end shall be valued at cost in accordance with the First in – First out Method.
- Revenue in respect of disposal of material shall be recognised on actual receipt.
- Finished goods and work- in progress related to production produced for sale will be valued at cost. Cost of finished and work-in-progress includes all direct costs and applicable production overheads to bring the goods to the present location and condition.

Note: For details, all accounting principles depicted in *National Municipal Accounts Manual published by Ministry of Urban Development, Government of India, need to be consulted.*

Understanding structure in Codification municipal accounting system

- Chart of Accounts (COA) defines the heads under which the income and expenditure of local bodies are classified and facilitates maintenance of accounts and preparation of financial statements.
- The codification structure captures all type of financial information within an ULB, which are essential in a government set-up.
- Each type of classification is considered as a group. Considering the capacity and size of local bodies at an all India level, certain mandatory information is prescribed. The mandatory groups for all local bodies are
 - Functions
 - Account Heads
- Functions shall represent the various functions or services carried out by the local body. Account Heads shall represent the nature of the income or expenditure.
- Budgets in ULBs are also centred on its functions.
- ULBs set up various funds for meeting certain objectives. Income and expenditure under these funds are to be identified and disclosed separately. Identity is created by providing separate account heads to capture the income and expenditure for each such fund. In some states, separate books of accounts and financial statements are

maintained considering it as a separate accounting entity. In such cases, the identity of the fund (entity) is required as an additional classification.

- There shall be three other optional groups apart from the mandatory groups. In all, there can be five groups:

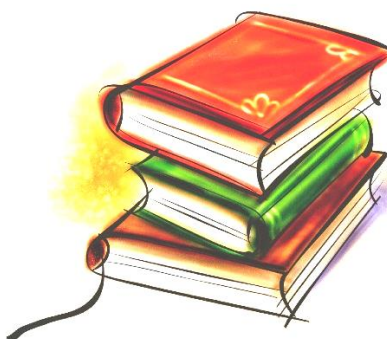
- Funds
- Function
- Functionary (Responsibility centre / department)
- Field (Geographical centre) and
- Accounts Head

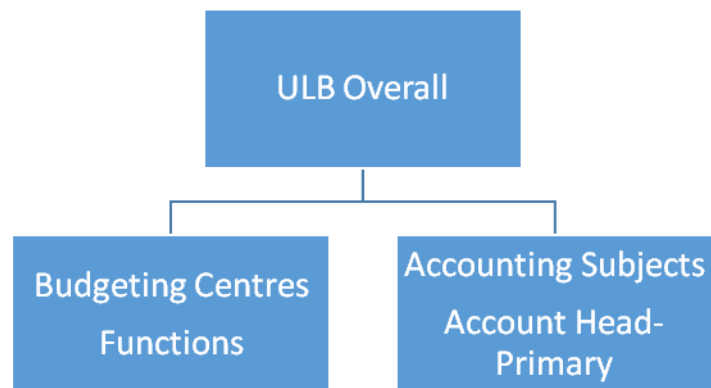
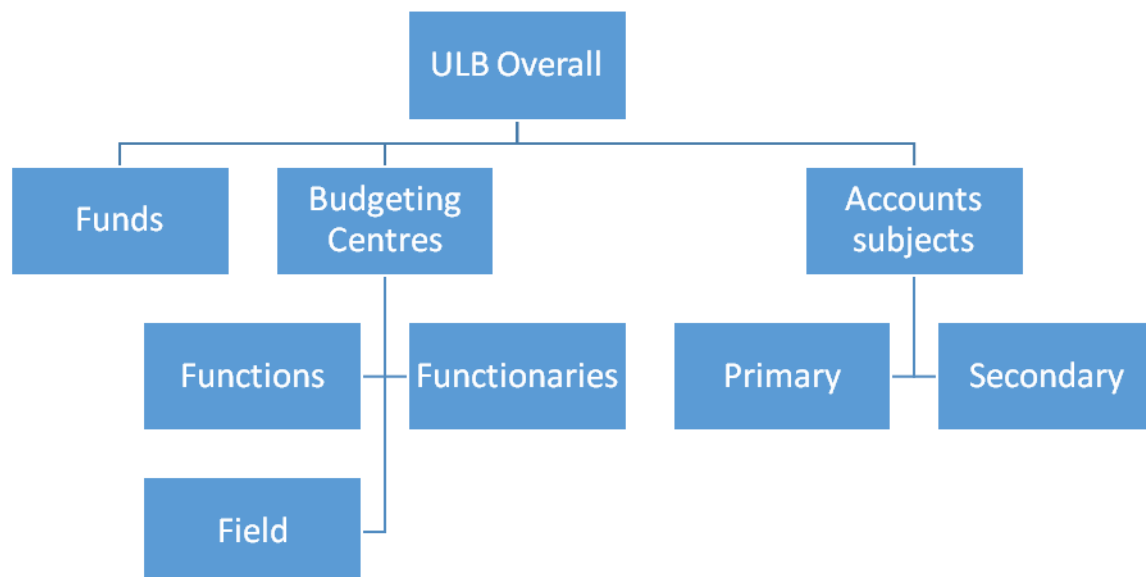
Functions, Functionary and Field are called Budgeting Centres.

- Each group can have various levels within it to drill down further information. The levels even in the mandatory groups can

be either mandatory or optional based on the requirements.

- First level in function and Account Heads are mandatory for all ULBs and other levels are left to the states to define.
- For other levels each State can define the codes though some of them may be mandatory at the State level.
- For budgeting the functionary group would be mandatory though each State can define these heads based on its internal organisation structure. States or cities, which have decentralized accounting zones/boroughs etc and prepare budgets at these levels, would have to use the field group as mandatory.



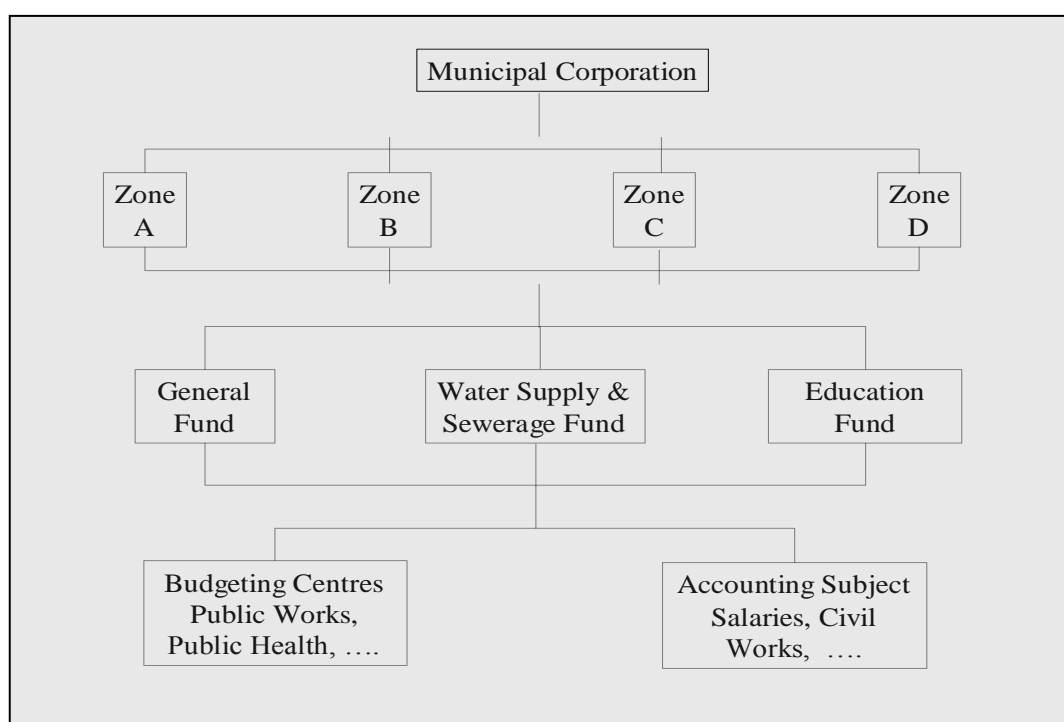
An overview of the codification structure for mandatory information.**An overview of the codification structure for overall structure.**

- In some local bodies, accounts are maintained in a decentralized set up. Each of the locations in which accounts are maintained is called Accounting Unit. For example, in some big local bodies, accounts are maintained at Zones. In such case each Zone and the Head Office are called Accounting units. Each accounting unit will maintain accounts in the same

way. All transactions are identified under the groups mentioned above at the Accounting Unit level. Then it is consolidated at Head Office level to present the information at the ULB level.

- The overall flow of Financial Information is illustrated below:

Sample Flow of Accounting Information



- In this case, the lowest Accounting unit is Zone. If the accounting unit is lower than that say circles, then accounts are prepared Circle wise and can be consolidated Zone wise as well at the ULB level. The same process can be continued at any lower level. The intention here is to facilitate decentralisation.

Coding Logic and Procedure

- The codification logic for each of these groups is explained below.

Functions

- Functions of the ULB can have three levels within it. First level under this group can represent various functions both obligatory and discretionary. Second Level in function could represent the particular type of service under a function and third level can represent a particular cost centre, which provides the service. The first level of Functions/codes is mandatory for all ULBs. All functions of the ULB are broadly classified under 10 major groups. Within this long listing of functions has been made. These functions are fitted within the group with each group having flexibility to go upto 9 sub functions. The detailed codes for each of the functions as referred above is defined and given as Appendix 1 enclosed with this manual. New codes or additions to this list of functions shall be made only at the national level. A committee is likely to be set up under Ministry of Urban Affairs to

which C& AG will also be a member who shall act as the authority to add new functions in the list. This can be triggered by a request from states. States can introduce two sub –levels of 2 digits each to suit their requirements.

Accounting subjects

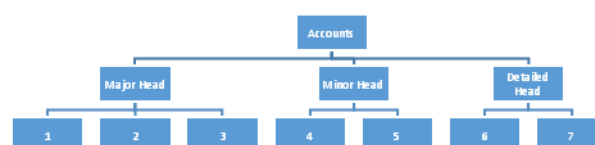
- Accounting subjects can be divided into two levels: Primary and Secondary. Primary account code represents the subject of the income and expenditure.

Primary Account Codes

- The Code of an Account head shall be numeric and shall be 7 digits. A 7 digit code is suggested to give flexibility to add new codes and for each State to define certain of its unique requirements. The code is structured into:

- Major Head Code;
- Minor Head Code; and
- Detailed Head Code.

- The structure of the Code of Accounts is schematically presented below:



Major head code

• The first digit of the Major Head Code shall indicate the nature or type of the account. The first digit shall be assigned one of the following numbers depending on the nature of the account:

- '1' shall denote an account relating to 'Revenue Income'
- '2' shall denote an account relating to 'Revenue Expenditures'
- '3' shall denote an account relating to 'Capital Receipts & Liabilities'
- '4' shall denote an account relating to 'Capital Expenditures & Assets'

• The next 2 digits of the Major Head Code shall denote the group codes for the various head of accounts. For example,

- Code 1-10 shall denote 'Tax Revenue' related accounts
- Code 2-10 shall denote 'Establishment Expenses' related accounts
- Code 3-50 shall denote 'Other Liabilities' related accounts
- Code 4-10 shall denote 'Fixed Assets' related accounts

• It is to be noted that the financial statements of an ULB are drawn at Major Head codes of account and hence this is a mandatory level of information.

Minor head code

• The Minor Head Code shall be of 2 digits. An item covered by a Minor Head

Code is a subset of the Major Head Code. Thus, it shall be necessary to refer the Minor Head Code in conjunction with the associated Major Head Code.

• The Minor Head Codes provide further details of transactions in respect of the Major Head Code it is associated with. For example,

• Under the Major Head Code 110 relating to 'Tax Revenue', the Minor Head Code 01 shall denote 'Property Tax'

• Under the Major Head Code 210 relating to 'Establishment Expenses', the Minor Head Code 10 shall denote Salaries & Allowances

• Under the Major Head Code 350 relating to 'Other Liabilities', the Minor Head Code 10 shall denote 'Creditors'

• Under the Major Head Code 410 relating to 'Fixed Assets', the Minor Head Code 20 shall denote 'Buildings'.

• It is to be noted that the schedules to financial statements of an ULB are drawn at minor head codes of account. Any addition to minor codes can be made by the state governments.

Detailed head code

• The Detailed Head Code shall be of 2 digits. An item covered by a Detailed Head Code is a subset of the Minor Head Code. Thus it shall be necessary to refer the Detailed Head Code in conjunction with the associated Minor Head Code.

- The Detailed Head Codes provide further details of transactions in respect of the Minor Head Code it is associated with.

For example,

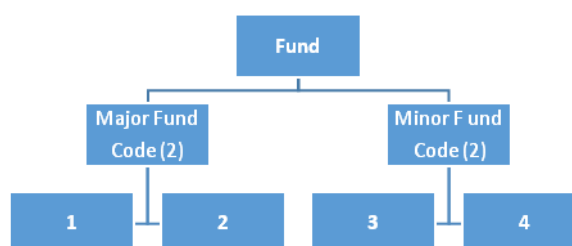
- Under the Minor Head Code of Account 110-01 covering Property Tax, the Detailed Head Code 01 shall denote 'Property Tax from Residential Properties'. Thus, under the Minor Head Code of Account 110-01 in respect of 'Tax Revenues from Property Tax', the Detailed Head Code 01 shall represent 'Property Tax from Residential Properties'. The Account Code for this will be 110-01-01.
- Under the Minor Head Code of Account 210-10 covering 'Establishment Expenses under Salaries, Wages and Bonus, the Detailed Head Code 10 shall denote 'Salaries & Allowances – Officers'
- Under the Minor Head Code of Account 350-10 covering Creditors, the Detailed Head Code 01 shall denote 'Suppliers'
- Under the Minor Head Code of Account 410-20 covering Buildings, the Detailed Head Code 01 shall denote 'Art Gallery Building'
- It is to be noted that the detailed heads are to be identified by the States. States can also give flexibility to the ULB to add new heads.

Secondary Account codes:

- This is optional and would depend on requirements of a local body. These would typically represent the subsidiary ledgers and other analysis ledgers. For example, contractors control account can be maintained contractor wise at this level. This level is needed only for the internal control of the ULB and has no relevance at the state or national level. It is therefore not proposed to prescribe any codification structure for the same.

Funds

- Depending on requirements, levels can be introduced. Funds can have sub- level within it. The codification structure for the funds may consist of the following:
 - Major Fund and
 - Minor Fund
- Major Fund code would represent the broad categorisation of Funds and minor Fund within it represents a particular Fund.
- The Code of a Fund shall be numeric and of 4 digits. The structure of the Code for Fund is schematically presented below:



-For example, Employee Funds can be a major fund and Pension fund can be Minor Fund within that.

Functionary

- Demands for expenditure are drawn by the department discharging the functions and become the responsibility centre for the assigned functions. Functionary group represents this. Each sub-level within this group typically can represent the Organisational structure within the ULB. This level is used only for the internal control of the ULB.

Field

- Field represents the way the ULBs are aligned geographically. Sub-levels in this group will be based on the Territorial hierarchy. Number of digits at each level can range from 1-3 depending on the size of the local body.
- Field represents the area to which the expenditure or payment relates. Location or Accounting unit represents the unit at which it is accounted. This level is needed only for the internal control of the ULB.

ULB Codes

- In addition to this to facilitate state level or national level aggregation, each ULB can be assigned a code. This could represent the state to which it is attached and the unique code assigned by the State. While state code can be assigned at the national level, the

state governments shall prescribe a code for each Municipal body. This can be in the following format.

STATE › **DISTRICT** › **CATEGORY** › **CODE**

Recognition of liability and payment of Specific State Government dues

- The specific head-wise liability in respect of the amount collected on behalf of the State Government shall be recognised on collection based on the Summary Statement of Year-wise Head-wise Collection of Property & Other Taxes in prescribed form. To record the liability and income the Accounts Department shall pass the following entry:

- Code of Account
- Accounting Entry
- Dr./ Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

Recording of payment made to State Government:

- A Payment Order in prescribed form is made for remittance of payment of collections made on behalf of the State Government. Based on Payment Order the following entry shall be made to record the payment order.

- Code of Account
- Accounting Entry
- Dr./ Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

Accounting procedure for Water Supply and Sewerage charges:

- Municipalities and Municipal Corporations have a social obligation to make reasonable and adequate provision for the management and maintenance of all municipal water works and the construction or acquisition of new works necessary for a sufficient supply of water for public and private purposes.
- Municipalities and Municipal Corporations are entitled to charge the users for the provision of these services. The charges for the water supply are either recovered as a Tax along with the Property Tax, based on the Assessment Value of the property or as a charge based on measurement or at a fixed amount or both.
- The following are the revenue sources in relation to water supply:
 - Water Tax
 - Sewerage Tax
 - Water supply Charges
 - Sewerage Charges
 - Meter Rent for Water Supply
 - Connection Charges for Water Supply and
 - Water Tanker Charges
 - Road Damage Recovery Charges

Principles to be followed while maintaining accounting of Water supply and sewerage charges

The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Water Supply and Sewerage:

- Revenue in respect of Water Tax, Water Benefit Tax, Water Supply Charges, Water Meter Rent, Sewerage Charges, shall be recognised in the period in which they become due. It is to be noted that the water tax and the related taxes may also be included in the bill raised for property tax.
- Revenue in respect of Connection Charges for Water Supply, Water Tanker Charges, Road Damage Recovery Charges and Penalties shall be recognised on actual receipt.
- In respect of the demand outstanding beyond two (2) years, provision shall be made to the extent of income of the ULB as follows:
 - a) If water tax is collected as a component in Property Tax, provisioning shall be made in the same way as unrealised Property Tax, which is as follows:
 - Outstanding for more than 2 year but not exceeding 3 years: 25%
 - Outstanding for more than 3 years but not exceeding 4 years: 50% (additional 25%)
 - Outstanding for more than 4 years but not exceeding 5 years: 75% (additional 25%)
 - Outstanding for more than 5 years: 100% (additional 25%)

b) If water tax demand is raised separately, the taxes and charges shall be provided as follows:

- Outstanding for more than 2 year but not exceeding 3 years: 50%
- Outstanding for more than 3 years: 100% (additional 50%)
- Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the concerned municipality or municipal Corporation.
- Refunds, remissions of taxes for the current year shall be adjusted against the income and if pertain to previous years then it shall be treated as prior period item.
- Write-offs in respect of water supply income shall be adjusted against the provisions made and to that extent recoverable gets reduced.
- Any subsequent collection or recovery of 'Receivables of Water Supply Income' which were already written off it shall be recognised as a 'Prior Period Income'.

Accounting records and procedures

The accounting records and procedures for accounting of Water Tax and Water Benefit Tax are usually collected along with Property Tax and thus are same as it is for Property Tax.

Raising of Demand

A Summary Statement of Bills Raised shall be prepared ward-wise and income -head-wise, in prescribed form on a monthly basis within 7 days from the end of the previous month. These forms the base for accounting and the following entry shall be passed:

- Code of Account
- Accounting Entry
- Dr./ Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into
- It is a normal practice for the municipality or municipal Corporation to enter the arrears of the Water Supply Income due while issuing the fresh demand. Entries in respect of the arrears would have already been recorded earlier. The above entry shall therefore be passed only in respect of the current demand.

Collection of water Supply Income Recording of Water Supply collections.

Based on the Summary of Daily Collection received from various Collecting Offices/Centres, the Accounts Department shall pass the following entry:

- Code of Account
- Accounting Entry
- Dr./ Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

- The Summary of Daily collection (in prescribed form) does not provide the details in respect of the year-wise head-wise collections made in respect of Water Supply. Hence, the total amount collected should be credited to “Consolidated Receivables of Water Supply Income” Account. The collection made shall be segregated into year wise, head wise collection on a monthly basis and maintained as ‘Summary statement of year-wise head-wise collection of water and related taxes’ prescribed form.

Recording of break-up of collections.

A Summary statement of year-wise/head-wise collection of water and related taxes in prescribed form shall be prepared on a monthly basis and sent to the Accounts Department to record the details of collections.

Provision for unrealised Revenue Receivables

Recording of provision for unrealised Water Tax Income.

- The demand for water tax which were raised separately and outstanding beyond two (2) years shall be provided for as per provisioning norms given below:
 - Outstanding for more than 2 year but not exceeding 3 years: 50%
 - Outstanding for more than 3 years: 100% (additional 50%)
- This process has to be carried over at every Period-end. The amount required to be

provided as per norms shall be compared with the balance lying in the Provision for Outstanding Fees & User Charges -Water Supply Account. If the amount to be provided is more than the balance, then additional provision shall be made for the difference amount. If the amount to be provided is less than the balance, it reflects the amounts provided for, has been collected and the provision made towards that can be written back.

Transfer of amount outstanding in respect of arrears from specific year-Wise account to general account

- The arrears of water supply income shall be carried forward year-wise, i.e., in “Receivables of Water Supply Income (Year...)” account up to three years. On completion of the third year, the amount outstanding in the specific year-wise receivable account shall be transferred to a general arrears account, i.e., “Receivables of Water Supply Income (Others)” Account. For example, the water supply income receivable in respect of the demand raised during the accounting year 2000-01 shall be carried forward in “Receivables of Water Supply Income (2001)” Account up to the year ending March 31, 2004. On March 31, 2004, the balance outstanding in this account shall be transferred to “Receivables of Water Supply Income (Others)” Account.

Income to be accounted on actual receipt basis

• The following incomes in respect of Water Supply shall be accounted on actual receipt basis:

- Connection Charges for Water Supply;
- Water Tanker Charges;
- Road Damage Recovery Charges; and
- Penalties levied in respect of Water Supply related matters.

• The Collection Offices and Collection Centres authorised to collect the above incomes shall prepare a Summary of Daily Collection in prescribed form and send it to the Water Supply Department and the Accounts Department.

Recording of collection:

• On the basis of the Summary of Daily Collection received from the various Collection Offices and Collection Centres, the Accounts Department shall pass the following entry:

- Code of Account
- Accounting Entry
- Dr./ Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

Water Deposits

• The Water Supply Department may receive deposits towards Water Connection, Water Meter, Water Tankers, etc. The Collection Offices and Collection Centres authorised to collect Water Deposits shall prepare a Summary of Daily collection in prescribed form and send it to the Water

Supply Department and the Accounts Department.

Recording of adjustment of deposits.

• The Water Supply Department shall send details of deposits adjusted in the Summary Statement of Deposits Adjusted in the prescribed form to the Accounts Department on a monthly basis.

Expenditure on water works

• The accounting for expenditures pertaining to Water Supply Department will be described under topics 'Public Works', 'Stores', 'Other Revenue Expenditures' and 'Fixed Assets'.

Internal controls

The following internal controls shall be observed by the municipality or municipal corporation in respect of Water Supply related transaction:

- The Head of the Accounts Department and the Head of the Water Supply Department shall reconcile the balance at the beginning of the accounting year in respect of the year-wise Water Supply Income receivable (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Register.
- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Water Supply Department in respect of the amount collected and the year-wise amount

outstanding between the balances in the Ledger Accounts maintained at the Accounts Department and the Demand Register maintained at the Water Supply Department.

- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Water Supply Department in respect of the deposits outstanding, between the balances in the Ledger Accounts maintained at the Accounts Department and the Deposit Register maintained at the Water Supply Department.
- The officers designated by the municipality or municipal corporation for operating the Designated Water Supply Bank Account shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- The Water Supply Department shall ensure that the Receipt / Summary of Daily Collection prepared, provides reference to the Water Supply Income Collection Register.
- The Chief Executive Officer/Head of the municipality or municipal corporation shall specify such appropriate calendar of returns /reports for monitoring.
- All Reconciliation Statements shall be certified by the Head of the Accounts Department.

Presentation in the financial statements

- The various heads of account used for the accounting of Water Supply related transactions shall be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.
- The provision against the outstanding water taxes receivable is to be disclosed under the major head Accumulated Provisions as a separate line item in the Balance Sheet below the 'Sundry Debtors'.

Accounting procedure for Rentals, Fees & Other Incomes

- ULBs derive substantial portions of their revenue from Property & other taxes, Water Tax/Water Charges and Grants. In addition, they also have certain additional sources of revenue like Rentals from Municipal Properties, Advertisement Taxes, License Fees, etc. Some of the Incomes under these categories that may arise to ULBs are listed below:
 - Crematorium Charges;
 - Burial Ground Charges;
 - Cattle Pounding Fees;
 - Parking Fees;
 - Fees for Pay & Use Toilets;
 - Slaughtering Fees;
 - Library Fees;
 - Fire Extinguishing Service Charges;

- Sale & Hire Charges, for example e.g. Sale of Scrap;
- Sale of Forms & Documents e.g. Sale of Tender Forms, Hire Charges of Road Rollers, Hire Charges of Tools & Equipment, Sale of garbage/Manure etc.
- The aspects relating to Incomes to be accounted on actual receipt basis include:
 - Collections
 - Refunds.

Incomes to be accounted on Accrual Basis

Incomes for which demand is raised shall be accounted on accrual basis. These include the following (indicative):

- Rental Income from Municipal Properties, for example
 - Rent from Markets/Shopping Complexes;
 - Rent from Office Buildings;
 - Rent from Guest Houses;
 - Rent from Auditorium, Art Galleries;
 - Rent/Lease from Parking Zones; etc.
- Trade License Fees
- Advertisement Charges/Rights
- Profession Tax.

The various aspects relating to Incomes to be accounted on accrual basis include:

- Entry in the Demand Register
- Raising of Bills
- Collection of dues
- Refunds, Remissions and write-offs.

Accounting Principles

The following Accounting Principles shall govern the recording, accounting and

treatment of transactions relating to Other Incomes:

- Revenue in respect of Advertisement rights shall be accrued either based on Demand or based on the contract.
- Revenue in respect of Trade License Fees shall be accrued in the year to which it pertains and where the Demand is raised based on applicable Acts of the state.
- Revenues in respect of Profession Tax on Organisations / entities shall be accrued in the year to which it pertains where the demand is raised based on applicable Acts of the state.
- Revenues in respect of rents from properties shall be accrued based on terms of agreement.
- The Other Income, in respect of which demand is ascertainable and can be raised in regular course of operations of the ULB, shall be recognised in the period in which they become due, i.e., when the bills are raised.
- The Other Incomes, which are of an uncertain nature or for which the amount is not ascertainable or where demand is not raised in regular course of operations of the municipalities and municipal corporations, shall be recognised on actual receipt.
- Revenue in respect Notice Fee, Warrant Fee, Other Fees shall be recognised when the bills for the same are raised.

- Interest element and Penalties, if any, in demand shall be reckoned only on collection.
- In respect of the demand outstanding beyond two (2) years, provision shall be made to the extent of income of municipalities and municipal corporations, based on the following provisioning norms:
 - Outstanding for more than 2 year but not exceeding 3 years: 50%
 - Outstanding for more than 3 years: 100% (additional 50%)
- Any additional provision for demand outstanding required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the municipalities and municipal corporations.
- Refunds, remissions of Rents, Fees & Other Incomes for the current year shall be adjusted against the income if pertain to previous years then it shall be treated as prior period item.
- Write-offs of Other Incomes shall be adjusted against the provisions made and to that extent recoverable gets reduced.
- Any subsequent collection or recovery of 'Receivables of Rental, Fees and Other Incomes' which were already written off shall be recognised as a 'Prior Period Income'.

Accounting for incomes to be accounted on Actual receipt basis Collection

Recording of income:

To record the income in respect of these Incomes accounted on actual receipt basis, based on the Summary of Daily Collection in prescribed form received from the various Collection Offices and Collection Centres, the Accounts Department shall pass the following entry:

- Code of Account
- Accounting Entry
- Dr. / Cr.
- Debit Amount (Rs.)
- Credit Amount (Rs.)
- Books to be entered into

In cases where the Incomes that are accounted on actual receipt basis are received in advance, i.e., before providing the services/goods, they shall be recorded as income on collection. In case the amount collected is to be refunded, the refund shall be recorded as expenditure. An example(A) is cited in the next page.

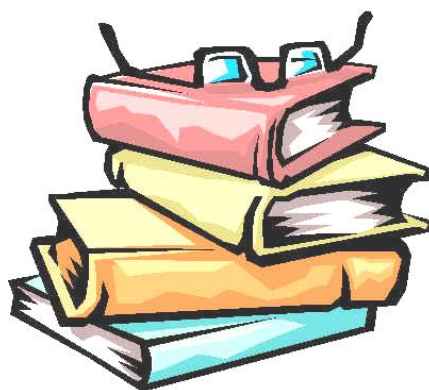
- In respect of certain Incomes (including incomes accounted for on accrual basis), a deposit is taken at the time of receiving the application for providing the services/goods, e.g., Rent Deposit, etc. The accounting for the different transactions in respect of deposits received in respect of Incomes, have been discussed below, using the example of Rent Deposit.
- On receipt of deposit, the same shall be treated as a liability the Accounts

Department shall pass the entry as shown in example (B)

The ULB may adjust the deposits received against the cost of the services rendered by it to the customer. On adjustment of deposits, the respective departments shall send the details of deposits adjusted in the Summary Statement of Deposits Adjusted in prescribed form to the Accounts Department

on monthly basis. Then Accounts Department shall pass the required entry as shown in example (C).

- Similar entries as above shall be passed for recording the various transactions in receipt of other deposits for example deposits relating to License Fees and Advertisement Taxes.



Example (A) of Accounting of Incomes Received in Advance

For example, say, a sum of Rs. 1,000/- has been received in advance for Service Charges. On receipt, the amount shall be recorded as Fees & User Charges. To record the income, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-21-(a) 140-(b)	Bank Account To _____ (Fees & User) Charges	Dr. Cr.	1,000	1,000	Cash Book, Ledger

In case the service is not provided and the customer demands a refund of the amount paid by him in advance. To record the refund, the Accounts Department shall pass the following entry on payment of the refund:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
140-(b) 450-21-(a)	Refund - _____ (Fees & User) Charges To Bank Account	Dr. Cr.	1,000	1,000	Cash Book, Ledger

Example (B) of Accounting of Deposit Received

To record the receipt of Rent Deposit, say of Rs. 10,000/-:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-21-(a) 340-20-(a)	Bank Account To Deposits Revenues – Rent	Dr. Cr.	10,000	10,000	Cash Book, Ledger

Example (C) of Recording of adjustment of deposits:

If Rent Deposit of Rs. 5,000/- has been adjusted against Rent Income, to record the adjustment of deposits, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
340-20-(a) 130-(b)	Deposit Revenues – Rent To Rental Income from Municipal Properties	Dr. Cr.	5,000	5,000	Journal Book, Ledger

All figures are illustrative.

Internal controls

The following internal controls shall be observed by the municipalities and municipal corporations in respect of transaction related to Other Incomes:

- The Head of the Accounts Department and the head of the respective departments shall reconcile the balance at the beginning of the accounting year in respect of the Sundry Income Receivables Arrears (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded in the Demand Registers.
- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the head of the respective departments in respect of the amount collected and the arrears outstanding between the balances standing in the Ledger maintained at the Accounts Department and the Demand Registers maintained at the respective departments.
- A monthly reconciliation shall be carried out by the Head of the Accounts Department and the head of the respective departments in respect of the various deposits collected, between the balances standing in the Ledger maintained at the Accounts Department and the Deposits Registers maintained at the respective departments.
- The head of the respective departments shall ensure that the Receipt / Chalan for Remittance of Money prepared, provides

reference to the Consolidated Collection Register.

- The Chief Executive Officer/Head of the municipalities and municipal corporations shall specify such appropriate calendar of returns /reports for monitoring.
- All Reconciliation Statements shall be certified by the Head of the Accounts Department:

Accounting procedure for transactions relating to grants:

Accounting principles

- General Grants, which is of a revenue nature, shall be recognised as income on actual receipt.
- Grants towards revenue expenditure, received prior to the incurrence of the expenditure, shall be treated as a liability till such time that the expenditure is incurred.
- Grants received or receivable in respect of specific revenue expenditure shall be recognised as income in the accounting period in which the corresponding revenue expenditure is charged to the Income and Expenditure Account.
- Grants received towards capital expenditure shall be treated as a liability till such time that the fixed asset is constructed or acquired. On construction/acquisition of a fixed asset out of the grants so received, the extent of liability corresponding to the value of the asset so constructed/acquired shall stand reduced and the amount shall be

treated as a capital receipt and shall be transferred from the respective Specific Grant Account to the Capital Contribution.

- Grants received as a nodal agency or as implementing agency for an intended purpose, which do not, result in the creation of assets with ownership rights for the municipalities and municipal corporations shall be treated as a liability till such time it is used for the intended purpose. Upon utilisation for the intended purpose, the extent of liability shall stand reduced by the value of such utilisation and no further treatment shall be required.
- Grants in the form of non-monetary assets (such as fixed assets given at a concessional rate) shall be accounted for on the basis of the acquisition cost. In case a non-monetary asset is received free of cost, it shall be recorded at a nominal value (e.g. Rupee One).
- Income on investments made from 'Specific Grants received in advance' shall be recognised and credited to the Specific Grant, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the 'Specific Grant received in

advance' shall also be recognised and credited/debited to the Specific Grant.

Accounting records & procedures

- The Accounts Department shall maintain a Grant Register in prescribed form with separate registers for capital and revenue grants and separate pages for each grant for recording details of receipt of grant and expenditures incurred from it.

General grants

- The amount of grant sanctioned by the State Government may be after deduction of certain charges/dues payable to the State Government by the municipalities and municipal corporations. For example loan liabilities/interest on the loans from the State Government/electricity charges payable etc.
- Details of General grants received shall be entered in the Receipt Register in prescribed form maintained at the Accounts Department and deposited into the Main Bank Account. A Receipt shall be issued in prescribed form to the sponsoring agency. To record the receipt of grant, the Accounts Department shall pass the entry as shown in the table given in the next page:

Say, State Government has granted Rs.85,000 to a municipality out of which Rs. 10,000 is deductible as 'Electricity charges payable' and Rs.5,000 is deductible as interest on short term loan from the State Government. The entry will be:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450--(a) 160-10-(b)	Bank Account To Revenue Grant	Dr. Cr.	85,000	85,000	Cash Book, Ledger, Grant Register

Figures are illustrative

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
240-20-(a)	Interest on Loans from State Government	Dr.	5,000		Journal Book, Ledger, Loans Register and Grants Register
220-11-(a)	Office Maintenance -Electricity Charges	Dr.	10,000		
160-10-(a)	To Revenue Grant	Cr.		15,000	

Figures are illustrative

Specific grants

- Specific Grants could either be received in advance or as a reimbursement of the expenditure already incurred. These could be Revenue or Capital in nature, or a combination of both. The accounting entries for Specific Grant will, depend on the nature of the receipt (in advance or as reimbursement) and the nature of the expenditure, which are expected to be incurred out of such grants (capital or revenue).
- Grants received in advance shall be deposited in their respective Designated Grant Bank Accounts and they shall be accounted for in the following manner.
- The details of the Grant Sanction Order shall be recorded in the Grant Register.

- Separate Cash Book in prescribed form shall be maintained in respect of all grants.
- The details of the receipt of the grant shall be updated in the Grant Register.
- The accounting procedure to be followed in respect of revenue expenditure incurred against Specific Grants received in advance shall be same as Public Works for repairs and maintenance expenses and stores.
- Any advance made to a supplier/contractor in respect of a project/scheme to be carried out against a Specific Grant received in advance, shall be payable from the Designated Grant Bank Account only and not from the Main Bank Account.
- The details of the expenditure shall be recorded in the Grant Register under the respective Specific Grant.

- The payment to the contractor/supplier shall be made only from the respective Designated Grant Bank Account. On

payment, the Accounts Department shall pass the entry as shown in the table below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-10-(a)	Creditors – Payables against Specific Grants	Dr.	12,000		Grant Cash Book, Ledger, Grant Register
450- 61-(a)	To Designated Bank Account	Cr.		12,000	

Figures are illustrative

- The amount equivalent to the cost of common stores utilised for the purpose of the Specific Grant shall be transferred from the respective Designated Grant Bank Account to Main Bank Account.

Recognising grant income in respect of revenue expenditure incurred under Specific Grants.

- At the end of each quarter, the Accounts Department shall identify the revenue expenditure incurred under the Specific Grants received in advance (from the Grant Register).

Advance paid to contractors / suppliers

- On payment of advance to contractors for work executed under a Specific Grant, the Accounts Department shall keep the necessary entry in the following manner:

To record the advance sanctioned.

Say, an advance of Rs. 20,000 is sanctioned to a contractor from which Rs. 1,000 is deducted on account of income tax. On deduction, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
460-40-(a)	Advance to Suppliers & Contractors – Specific Grant	Dr.	20,000		Journal Book, Ledger, Grant Register
350-20-(a)	To Recoveries Payable TDS From Specific Grant	Cr.		1,000	
350-10-(a)	To Creditors –Contractors Advance Control Account Specific Grants	Cr.		19,000	

Figures are illustrative

To record payment of advance.

On payment of balance advance, i.e., Rs. 19,000 from the respective Designated Grant

Bank Account, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-10-(a)	Creditors –Contractors Advance Control Account Specific Grants	Dr.	19,000		Grant Cash Book, Ledger, Grant Register
450-61-(a)	To Designated Bank Account*	Cr.		19,000	

Figures are illustrative

Earnest Money Deposit

- Any amount received or paid on account of Earnest Money Deposit in respect of any contract executed under Specific Grant received in advance shall be deposited in or refunded from the respective Designated Grant Bank Account.
- On receipt of intimation from the concerned department, Earnest Money Deposit of the successful bidder may be converted to Security Deposit payable by him

Security Deposit

- Any amount received or paid on account of Security Deposit in respect of any contract executed under any Specific Grant shall be deposited in or refunded from the respective Designated Grant Bank Account.
- The refund of the Security Deposit collected/deducted in respect of any Specific Grant received in advance shall be made

from the respective Designated Grant Bank Account.

Grants received as nodal / implementation agency

- Municipality and municipal corporation may receive grants as a nodal agency under certain schemes, wherein the expenditure of the schemes are for a set of beneficiaries. In some cases, the scheme expenditure is met by the municipality and municipal corporation directly. In some other cases they are paid to the beneficiaries group who upon spending will produce the relevant expenditure / utilisation statement.

On completion of the scheme or at the period ends, the total amount of grant received for specific purpose as a nodal agency shall be adjusted to the extent of amounts utilised under the project. The accounting entry for such adjustment is as in the table given below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
320-(a) 460-80-(b)	Grants for Specific Purposes To Other Current Assets – Scheme Expenses	Dr. Cr.	3,00,000	3,00,000	Journal Book, Ledger, Grant Register

Figures are illustrative

payment within 15 days from the end of the accounting period.

Period End Procedures

- At the period-end it shall be ensured that the bills received in respect of revenue expenditure incurred as well as works executed or acquisition / purchase of fixed assets before the last date of the accounting period, are processed and forwarded to the Accounts Department for accounting and

- For grants received as a nodal agency, it shall be ensured that the transfer entry is made for expenses incurred against it and the balance in the 'Scheme Expenses – Nodal Agency' account has become nil.

Specific Grant for revenue expenditure incurred during the ordinary course of activities of the municipality and municipal Corporation

- The grants receivable as reimbursement of revenue expenditure incurred during the ordinary course of activities of the municipality and municipal corporation shall be accounted in the following manner:

- The details on receiving the Grant Sanction Order in respect of the specific grant where application/details of expenditure submitted earlier shall be recorded in the Grant Register. To recognise the income, the Accounts Department shall pass the entry as shown in the table given below:

:Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
431-50-(a)	Receivable from Government -Grants	Dr.	50,000		Journal Book, Ledger, Grant Register
160-20-(a)	To Re-imbursement of Expenses	Cr.		50,000	

Figures are illustrative

Recording of receipt of grant. On receipt of the grant, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-21-(a)	Bank Account	Dr.	45,000		Cash Book, Ledger, Grant Register
431-50-(a)	To Receivable from Government -Grants	Cr.		45,000	

Figures are illustrative

Specific Grant for expenditure incurred under a specific project/scheme

- The project/scheme is usually sponsored / sanctioned by a sponsoring agency. The details of the Grant Sanction Order shall be recorded in the Grant Register.
- The accounting entries/procedure to be followed for receipt of deposits, incurrence of expenditure, payment of contractor bills, payment of deductions made from the contractor bills etc. have been described in 'Public Works'.

- The department incurring the expenditure shall specify the name of the grant in respect of which the expenditure has been incurred in the Payment Order. As and when any expenditure is recorded in the books of original entry, i.e., Cash Book or Journal Book as well as utilisation of common stores, the Grant Register shall also be updated correspondingly.
- The concerned department shall submit a "Statement of Expenditure" at periodic intervals (as specified in the programme/scheme details) to the

sponsoring agency for claiming the amount of grant due. On receipt of the grant, the

Accounts Department shall pass the entry as shown in the table given below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-21-(a) 431-50-(a)	Bank Account To Receivable from Government -Grants	Dr. Cr.	9,500	9,500	Cash Book, Ledger, Grant Register

Figures are illustrative

Period-end Procedure

- At the period-end, it shall be ensured that revenue expenditure incurred under the grant scheme but remaining outstanding for re-imbursement before the last date of the accounting period shall be recorded with matching the income corresponding to the expenditure being recorded.

Write-off of Grant Receivable

- The Accounts Department shall, at the end of each year, review the recoverable position of Grants Receivables. The municipality and municipal corporation may consider writing-off the grants that have remained outstanding for a period exceeding three (3) years.

Adjustment of grant receivable from the State Government against municipality's and municipal Corporation's dues to the State Government

- The State Government may deduct any amount, which is due from municipality and municipal corporation to any Government Corporation, Government Company or any other statutory authority constituted by it, from the grants payable to that municipality and municipal corporation.
- On receiving the intimation from the State Government regarding such adjustment, the Accounts Department shall pass the entry as shown in the table given below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-30-(a) 431-50-(a)	Government Dues Payable To Receivables from Government –Grants	Dr. Cr.	500	500	Journal Book, Ledger, Grant Register

Figures are illustrative

Internal controls

- The Head of the Accounts Department shall ensure that the grant received for a

specific purpose shall not be utilised for any other purpose.

- The Head of the Accounts Department and the Head of the Department

implementing the project/scheme sponsored by the grant shall quarterly reconcile the expenditure incurred during the period in respect of each of the grant from the Ledger and the Grant Register maintained at the Accounts Department and the relevant records maintained at the respective departments.

- The Head of the Accounts Department shall quarterly reconcile the amount of grant received and receivable in the Ledger and the Grant Register maintained at the Accounts Department.
- The Head of the Accounts Department shall, after entry in Cash Book in respect of grants received, ensure that the grant received is recorded in the Grant Register. Further, it shall be ensured that the Receipt of Summary of Daily collections prepared, provides reference of Grant Register.
- The Chief Executive Officer/Head of the municipality and municipal corporation shall specify such appropriate calendar of returns /reports for monitoring.
- All Reconciliation Statements shall be certified by the Head of the Accounts Department.

Accounting of Public Works

24 A) Procedure followed in accounting of public works in municipality and municipal corporation of West Bengal (The West Bengal Municipal Finance & Accounting Rules, Chapter XIII).

Schedule of Rates

- The current schedule of rates of each kind of work as applicable to Public Works Department of the State Government in the respective areas shall be followed by the municipalities.

Framing of Estimates and the sanctioning authority thereon

- Except in cases of emergency or to prevent damage/loss, no works shall be put in hand until a properly detailed estimate in prescribed form is prepared and sanctioned.
- All estimates for new works and repairs and all expenditures for any work or for purchase of any materials the amount of which is not more than Rs.5,00/- may be sanctioned by the Chairman or the Vice-Chairman and those which amount to more than Rs.5,000/- but not exceeding Rs.5lakhs shall be sanctioned by the Board of Councillors at a meeting and signed by the presiding officer subject to the condition that the estimated amount is covered by a current budget grant and sufficient balance of such budget grant is available for the purpose.

²⁴ This is to be adopted as per State specific scenario

- The sanction of the Councillors to an estimate for an original work which forms part of the contemplated scheme although such estimate may in itself be within the limit upto which the Councillors can sanction, shall subject to the approval of the same authority as the estimate for the whole scheme would be, and no such estimate for a part of a scheme shall be sanctioned unless the nature and the approximate cost of the entire scheme is fully set forth in the report of the estimate.

Framing of Revised Estimates

- A revised estimate shall be prepared when an estimate is likely to be exceeded by more than 10% of its total amount or when considerable alteration of the original estimate are desired; and it shall be submitted for the approval of the authority whose sanction would be necessary if it were an original estimate.

Measurement Book(MB)

- The MB prepared in prescribed form shall be kept under disposal of overseer or other officer deputed for the duty of periodically measuring the works.
- The pages of the books shall be machine numbered, and no page shall on any account be torn out, nor shall any entry be erased or effaced so as to be illegible. If mistake be made, it shall be corrected by crossing out the incorrect words or figures under initials of the competent authority.

- The entries of the measurement should be made in ink, but when this is not possible and the entries have to be made in pencil, the pencil entries shall not be inked over but left untouched. The contents or area shall, however, be invariably inked in.

Preparation of bill from the MB and the scrutiny thereof

- The MB shall be the basis of all accounts of quantities whether of work done by daily labour or piece or by contract or of materials received which have to be counted or measure.
- Before the bill of a contractor is prepared the entries in the MB relating to the description and quantities of work or supplies shall be scrutinized by the municipal engineer or any of the competent authority.
- The calculation of the 'contents or area' shall be checked arithmetically under the supervision.
- The bill shall be prepared from the measurement and the rates shall be taken from the Item Rate Tender and contract of works agreement for which tender is accepted.
- The pages of the MB in which the detailed measurement are recorded, shall invariably be quoted on the bill.
- The bill shall be signed by the officer in charge of the work and by the contractor in token of its correctness.

- Before signing the bill the competent authority shall compare the quantities in the bill with those recorded in the MB.
- When the bill is on a running account it should be compared with the previous bill. Every page containing the detailed measurements shall then be scored out by a diagonal red ink line.
- The Accountant shall then check the bill with the MB, estimate, agreement, previous payments (in case of running bills), balance of allotment available and the arithmetical calculations, and shall submit the same through the finance officer before the chairman.
- The no. and date of the payment voucher shall be noted on the abstract of measurement in the MB and also on the pages containing the detailed measurements.

Works executed by Contractor

- Contracts may be made of schedule contracts, that is Item Rate Contract by the municipalities. Under this system the contractor undertakes to execute the work at fixed rates, the sum he is to receive depending on the quantities and kinds of work done or material supplied.

List of approved contractors

- It shall be maintained in the municipalities for three categories of works viz. 1) general works other than sanitary, plumbing or electrical works, 2) sanitary and plumbing works and 3) electrical works.

- List of approved contractors for each category shall be divided into three or four classes depending upon the financial and/or technical limit upto which each class may be entrusted with the execution of works as may be fixed by the Board of Councillors at a meeting

Invitation of Tenders

- Original works upto Rs.5,000/- and repair works upto Rs.2,500/- may, at the discretion of the Chairman and for reasons to be recorded in writing be distributed to contractors in the approved list of appropriate category without calling for tenders, provided that in case of plumbing works the financial limits stated above for the original works and repair works shall be reduced to Rs.2,500/- and Rs. 1,000/- respectively and in case of electrical works to Rs.500 and Rs.200 respectively. But tenders should always be invited whenever there is sufficient time for such procedure.
- In all other cases of general works up to a limit of Rs.5,00,000, plumbing Rs.1,00,000 and electrical Rs.50,000 competitive tenders shall be called for from amongst the approved contractors and the lowest tenders shall be accepted. When lowest tenders are not, however, accepted the reasons for the same shall be clearly stated.
- Open competitive tenders shall be called for from the public whenever the estimated

cost of the works exceeds the prescribed financial limit.

Tender

- Whenever a work either original or repair other than petty works to be executed, sealed tender shall be invited in Form 'K'. Such tender should be in the most open and public manner, whether by advertisement in the local newspaper, or by notice in English and Vernacular pasted in public places. In the case when open tender has got to be called for from the public under the rules, the tender must be invited by advertisements in the important and leading newspaper.
- No tender for the execution of works of any description should be received unless accompanied by the deposit of earnest money to the extent which has been notified in the tender notice.
- Tenders for works valued upto Rs.10,000/- shall be accepted by the Chairman and those exceeding Rs.10,000/- by the Chairman-in-Council.

Security Deposit

- As a safeguard against possible loss the Chairman shall take security for the due fulfillment of a contract and this shall be either in the shape of a lump sum or a deduction of 10 percent made from the payments due from time to time on account of work done.

Payments to Contractors

- Payments to contractors and supplier

shall be made by means of cheques drawn in their favour. Such cheques shall be delivered to them direct and not through the overseer.

Works executed through departmental agency

- When work is done by daily labour through departmental agency the basis of the account shall be the Muster roll.
- An extract from the MB shall ordinarily be endorsed on the Muster Roll and the quantity of work turned out shall be compared with the cost of the labour employed so as to afford satisfactory evidence that the out-turn of work gives a sufficient return for the money spent. Any deficiency in this respect shall be noticed by the paying officer.
- The Muster Roll shall be closed immediately after the close of the week or other period for which it is kept and the labourers paid as soon as possible.
- The payment shall be made in the presence of the competent authority, who shall initial with the date against the group of labourers paid on that date. The amount paid on each date shall be noted in words as well as figures at the foot of the Muster Roll. The disbursement certificate at the foot of the Muster Roll shall then be signed by the Officer witnessing the disbursement.
- Wages not claimed within three months of their falling due shall not be paid without the written orders of the Chairman or the Executive Officer. Claims preferred six

months after their becoming due shall, however, be supported by a certificate from the head of the office that the amount was not paid before.

Completion Certificate

- Before final payment for a work is made, a completion certificate shall be submitted by the competent authority to the effect that he has examined the work, and that it has been properly carried out in accordance with the sanctioned plans and estimates. If it has not been so carried out, an explanation of the difference shall be given. The bill shall also be countersigned by the Chairman/Executive Officer/Finance Officer.

Register of Works

- A register of works shall contain a record of every original work or repair estimated to cost more than Rs.1,000/- showing the expenditure incurred in comparison with the estimate and the arrears due on accounts for which part payments have been made.

B) Accounting system of Public Works and Deposit Works as recommended by NMAM

- Public Works generally include construction/expansion/major modification of buildings, development of land, construction of roads, construction of water works, construction of drainage systems or other public utilities. Repairs and maintenance of these would also constitute

Public Works.

- Deposit works are the works executed by the municipalities and municipal corporation on behalf of the Government or Government Departments and recognition on revenue from these Deposit works.

‘Original Works’:

- It includes all new constructions or additions and alterations to existing works. Repairs to newly purchased or previously abandoned buildings, which are required for bringing them into use, should be classified as Original Works. Where a portion of an existing structure is dismantled and replaced and if the cost of such replacement represents a genuine increase in the permanent value of the property as an asset, the work should be classified as ‘Original Works’.

Repairs and Maintenance:

- It includes works, other than those specified under Original Works, required to maintain buildings, roads, water work assets, drainage system and other works in proper condition for ordinary use.

‘Fees & User Charges’:

- Where the Public Works Department issues any permission for road digging or any other activity for private purpose; it recovers the charges incurred for repair of the damaged road or any other structure from the person seeking permission.
- The Public Works may be carried out in

a municipal area either from Municipal Funds or from Grants or Special Funds, the accounting procedure for dealing with the various transactions of Public Works would be similar irrespective of the source of funds.

Deposit works:

- The Governmental departments or the State Governments may use the services of municipality and municipal corporation for execution of certain works / schemes / approved infrastructure schemes. Money received from the Governments for the above shall be treated as 'Deposit works' and are accounted as a liability of municipalities and municipal corporations. Municipality and municipal corporations are provided certain percentage of the value of the works / scheme / project / plans completed as their service charges.

Accounting Principles:

- The cost of fixed assets shall include cost incurred/money spent in acquiring or installing or constructing fixed assets, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets and other incidental expenses incurred up to that date.
- Any addition to or improvement to the fixed asset that results in increasing the utility or capacity or useful life of the asset shall be capitalised and included in the cost

of asset. Revenue expenditure in the nature of repairs and maintenance incurred to maintain the asset and sustain its functioning or the benefit of which is less than for a year, shall be charged off.

- Assets under erection/installation on existing projects and capital expenditure on new projects (including advances for capital works and project stores) shall be shown as "Capital Work-in-Progress".
- The Earnest Money Deposit and Security Deposit received if forfeited shall be recognised as income when the right for claiming refund of deposit has expired.
- Deposit received under Deposit works shall be treated as a liability till such time the projects for which money is received is completed. Upon completion of the projects, the cost incurred against it shall be reduced from the liability.
- Revenues (percentage charges) in respect of Deposit works shall be accrued along with expenditure of Deposit works.

Accounting records and procedures:

The procedure for accounting of works expenditure is as follows:

- Earnest Money Deposit (EMD) may be received from the bidders bidding for the tender. On tender being awarded, EMD shall be refunded to the unsuccessful bidders.
- An agreement may be entered into with the successful bidder as per the terms of the Tender and agreement. Security Deposit

may be taken in advance.

- Advance may be provided to the contractor as per the terms and procedures of the municipalities and municipal Corporation.
- Payment shall be made against bill raised after deducting Security Deposit, income tax, works contract tax and other deductions/ recovery including advance provided, if any.
- Security Deposit shall be refunded after successful completion of the work as per terms of agreement.
- In case of Original Works, the

expenditure incurred shall be capitalised and disclosed as an asset in the Balance Sheet.

Accounting of Advances:

- As per the terms of agreement, advance may be paid to the contractor. Advance may be provided either in cash or in kind, i.e., by way of supply of materials. On receipt of approval for payment, and on payment, entries will be made for money advanced in Cheque Issue Register and in Register of Advance in prescribed forms for the cheques issued to the contractor. The accounting entries to be passed are shown in the following tables

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
460-40-(a)	Advance to Suppliers & Contractors	Dr.	1,000		Journal Book, Ledger
350-10-(a)	To Creditors – Contractors Advance Control Account	Cr.		950	
350-20-(a)	To Recoveries Payable – TDS from Contractors	Cr.		50	

- In cash/cheque:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-10-(a)	Creditors – Contractors Advance Control Account	Dr.	950		Cash Book, Ledger
450-21-(a)	To Bank Account	Cr.		950	

- Materials supplied to the Contractor

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
460-40-(a)	Advances to Contractors- Material Issued to contractors	Dr.	950		Cash Book, Ledger
430-(b)	To Stock in Hand – Purchase of Materials	Cr.		950	

All figures are illustrative.

Expenditure

- On the basis of work completed as per governing rules, a bill shall be prepared and sent for payment. The amount of security deposit, income tax deducted at source, works contract tax and any other recovery or deduction, including recovery for supply of material by the Stores and money advanced to the contractor, should be specified in the Bill. Running bills are submitted during the progress of work and

final bill is normally submitted on completion of work. The Contract Completion Certificate shall be annexed to the final bill.

- On receipt of the processed bill, the particulars be entered in a Register of Bills for Payment in prescribed form. To record the liability in respect of contractor's bill for Original Works undertaken, the following entry shall be passed:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
412-(a)	Capital Work-in-Progress	Dr.	50,000		Journal Book, Ledger
350-10-(b)	To Creditors – Contractors Account	Cr.		44,000	
340-10-(b)	To From Contractors / Suppliers– Security Deposits	Cr.		2,500	
460-40-(b)	To Advance to Suppliers & Contractors	Cr.		500	
350-20-(b)	To Recoveries Payable from TDS Contractors	Cr.		1,000	
350-20-(b)	To Recoveries Payable – Works Contract Tax	Cr.		1,500	
460-40-(b)	To Advance to Contractors - Material Issued to Contractors	Cr.		500	

All figures are illustrative

- The Capital Work-in-Progress Account shall be a control account wherein details of expenditure incurred on capital projects shall be recorded. Separate Capital Work-in-Progress Control Accounts shall be opened for Civil, Electrical, Water Works and Other projects.
- At period-end, the departments incurring expenditure on capital projects shall submit a Summary Statement of Status on Capital

Work-in-Progress in prescribed form detailing total expenditure incurred till date on each of the capital projects.

- The Contractors Control Account shall be a control account in which the liability for amount payable to various contractors for work executed shall be credited and the amount paid to the various contractors shall be debited.

The Accounts Department shall, on receipt

of Payment Order in prescribed form together with the Work Sheet and Contract Completion Certificate, where applicable,

after making the payment, enter the details of the payment in the Work Sheet and pass the entry as cited below:

Code of Account	Accounting Entry	Dr./Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-10-(a)	Creditors –	Dr.	44,000		Cash Book, Ledger
450-21-(a)	Contractors Account To Bank Account	Cr.		44,000	

All figures are illustrative

• The income tax and works contract tax deducted from the bills of the contractors shall be paid by the Accounts Department to the concerned authorities as and when due as per the relevant laws in force. On

payment of Income Tax and Works Contract Tax deducted, the Accounts Department shall pass the entry as cited below:

Code of Account	Accounting Entry	Dr./Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-20-(a)	Recoveries Payable- TDS from Contractors	Dr.	1,050		Cash Book, Ledger
350-20-(a)	Recoveries Payable - Works Contract Tax	Dr.	1,500		
450-21-(a)	To Bank Account	Cr.		2,550	

All figures are illustrative

Capitalisation of Capital Work-in Progress

• On completion of construction of the asset, the asset becomes ready for use. Thus, it becomes necessary to transfer the cost incurred for construction (which is temporarily accounted in capital work-in-progress account) to the relevant asset account. This process is called Capitalisation.

• On receipt of Contract Completion Certificate, the Accounts Department shall capitalise the amount lying in the Capital Work-in-Progress Account and convert the amount pertaining to the Capital Work-in-Progress and lying in the Capital Work-in-Progress Account into a Fixed Asset. The Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
410-(a)	Fixed Asset (Name of the Fixed Asset) ⁽¹⁾	Dr.	1,00,000		Journal Book, Ledger
412-(a)	To Capital Work-in- Progress (specify)	Cr.		1,00,000	Register of Movable/ Immovable Assets

All figures are illustrative

- For deductions made from contractor's bills, which is in the nature of penalty or liquidated damages levied on the contractor for delay in completion of

construction or sub-standard construction or for any other reason, the Accounts Department shall pass the entry as cited below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-10-(a) 180-80-(a)	Creditors –Contractors Account To Other Income – Miscellaneous Income	Dr. Cr.	5,000	5,000	Journal Book, Ledger

All figures are illustrative

- Where any loan has been borrowed for the construction of any qualifying fixed asset, i.e., Original Works, the cost of construction of qualifying fixed asset shall also include the interest paid on that loan till the date of capitalisation of the asset.

defects liability period, as specified in the agreement entered into with the contractor.

In case where any dues are recoverable from the contractor, after the receipt of approval, draw the cheque for net amount after deducting the recoveries to be made from the contractor. The accounting entry to be passed is cited below:

Refund of Security Deposit:

- Security Deposit shall be refunded after the expiry of the liability period, including

For recording adjustment of recoveries against Security Deposit

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
340-10-(a) 180-80-(a)	From Contractors / Suppliers– Security Deposits To Other Income – Miscellaneous Income	Dr. Cr.	5,000	5,000	Journal Book, Ledger

All figures are illustrative

For recording payment of net Security Deposit

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
340-10-(a) 450-21-(a)	From Contractors /Suppliers– Security Deposits To Bank Account*	Dr. Cr.	20,000	20,000	Cash Book, Ledger

All figures are illustrative

Deposit Works

• The procedure involved in such works includes:

- Receipt of money from Governmental Departments as Deposits towards their works.
- Execution of works as in case of any other Public works
- Settlement of Accounts on completion of works

• Municipalities and municipal corporations are normally paid at some percentage of works as service charges. These service charges are accrued along with the bills for expenditure.

- The Accounts Department shall maintain a Deposit Works Register in prescribed form with separate registers for each kind of the Deposit works. (For example, Civil, Electrical, etc). Separate pages for each 'deposit work' for recording details of receipt of grant and expenditures incurred from it.

The details of the Deposit works contract (including names of the departments who have entrusted the deposit works) shall be recorded in the Deposit Works Register. The Accounts department shall pass the entry as cited below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-21-(a)	Bank Account *	Dr.	10,00,000		Cash Book, Ledger
341-10-(a)	To Deposit Works-Civil Works	Cr.		5,00,000	
341-20-(a)	To Deposit Works – Electrical	Cr.		4,00,000	
341-30-(a)	To Deposit Works – Others	Cr.		1,00,000	

• On the basis of work completed as per governing rules, a bill shall be prepared and sent for payment. The amount of security deposit, income tax deducted at source, works contract tax and any other recovery or deduction, including recovery for supply of material by the Stores and money advanced to the contractor, should be specified in the Bill. Running bills are submitted during the

All figures are illustrative progress of work and final bill is normally submitted on completion of work. The Contract Completion Certificate shall be annexed to the final bill.

On receipt of the processed bill, the particulars be entered in a Register of Bills for Payment. To record the liability in respect of contractor's bill for Deposit Works undertaken and also a percentage (as

agreed with the Government/Department) of municipalities and municipal corporations, works completed as an income for the the following entry shall be passed:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
470-10-(a)	Deposit Works – Expenditure	Dr.	510,000		Journal Book, Ledger
350-10-(a)	To Creditors – Contractors Account	Cr.		440,000	
340-10-(a)	To from Contractors / Suppliers– Security Deposits	Cr.		25,000	
460-40-(a)	To Advance to Suppliers & Contractors	Cr.		5,000	
350-20-(a)	To Recoveries Payable From TDS Contractors	Cr.		10,000	
350-20-(a)	To Recoveries Payable – Works Contract Tax	Cr.		15,000	
460-40-(a)	To Advance to contractors	Cr.		5,000	
140-70-(a)	Material Issued to Contractors	Cr.			
	To Service/Administrative Charges – Percentage on Deposit Works	Cr.		10,000	

Figures are illustrative

- The Accounts Department shall determine the difference between the Stores Issue Rate and the Recovery Rate for material issued to Contractors. To

record the difference, the Accounts Department shall pass either the following entry (a) or entry (b) given below:

(a) In case of favorable Rate Variance, where Stores Issue Rate is less than Recovery Rate with the Contractor for materials issue:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
460-40-(a)	Advance to contractors - Material issued to Contractors	Dr.	50		Journal Book, Ledger
470-10-(a)	To Deposit Works – Expenditure	Cr.		50	

Figures are illustrative

(b) In case of adverse Rate Variance, where Stores Issue Rate is greater than Recovery Rate with the Contractor for materials issue:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
470-10-(a)	Deposit Works-Expenditure	Dr.	20		Journal Book, Ledger
460-40-(a)	To Advance to contractors - Material issued to Contractors	Cr.		20	

Figures are illustrative

- Deductions shall be made from contractor's bills, which is in the nature of

penalty or liquidated damages levied on the contractor for delay in completion of construction or sub-standard construction or for any other reason.

Recording of refund of Security Deposit after adjusting for recoveries.

- Security Deposit shall be refunded after the expiry of the liability period, including defects liability period, as specified in the agreement entered into with the contractor. In case where any dues are recoverable from the contractor, after the receipt of approval, draw the cheque for net amount after

deducting the recoveries to be made from the contractor.

- On completion of Deposit works, the assets under Deposit works become ready for use and will be handed over to the concerned government department and the balance if any shall be refunded. Thus, it becomes necessary to adjust the cost incurred for Deposit works against the money received. The Account Department shall pass the following for transfer of Deposit expenses to Deposit Works account:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
341-10-(a)	Deposit works – Civil Works	Dr.	4,50,000		Journal Book, Ledger
341-20-(a)	Deposit works – Electrical works	Dr.	3,85,000		
341-30-(a)	Deposit works – Others	Dr.	65,000		
470-10-(a)	To Deposit Works – Expenditure	Cr.		900,000	

Figures are illustrative

Internal Controls

- The Public Works Department and the Chief of Accounts or any other responsible officer as defined by the applicable Acts, shall ensure the availability of adequate budget allocation after considering all commitments made against that budget allocation before undertaking any new work, whether being an Original Work or Repairs and Maintenance Work.
- A distinction should be maintained between the works of capital nature and revenue nature.

- A quarterly reconciliation of the balance as per the Deposit Register maintained at the Public Works Department shall be carried out with the Deposit Ledger accounts.
- On the completion of an Original Work, reconciliation should be carried out in respect of the amount expended as shown in the records maintained by the Public Works Department and the capital work-in-progress control ledger account maintained by the Accounts Department.
- On receipt of Summary Statement of Status on Capital Work-in-Progress, the

Accounts Department shall ensure that total expenditure incurred as stated in the Statement tallies with the cumulative total of several Capital Work-in-Progress Ledger Accounts.

- The Accounts Department shall ensure that the tax deducted at source and works contract tax deducted from the contractor's bill, etc., is deposited with the Government in accordance with the provisions of the relevant Acts.

- At the end of each month, the Accounts Department shall reconcile the total expenditure as per the Functional Expense (Repairs and Maintenance) Subsidiary Ledger with the total expenditure recorded in the several Repairs and Maintenance Ledger Accounts.

- The Public Works Department, Accounts Department and the Internal Audit Department shall exercise the following internal controls:

- Ensure budget availability at the time of approval of the bill.
- Ensure that all the dues, including liquidated damages/penalties, are recovered from the contractor before making the final payment in respect of any contract.
- Ensure that no amount is due from suppliers/contractors, which may be otherwise adjusted before payment.

- Ensure that all the bills/invoices of contractors were journalised before release of the payments.

- At period-end, the Head of the Accounts shall review the Work Sheets maintained for ascertaining whether any of the capital work in progress qualifies for capitalisation.

- The Chief Executive Officer/Head of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

- All Reconciliation Statements shall be certified by the Head of the Accounts Department.



Session: 7(Pt.-II)

Session Title:

**Audit of ULB Accounts
(Stores, Fund etc.)
and Audit Points**



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note
Audit Exercise

Session: 7 (Pt.-II)**Session at a glance****Session Title:** Audit of ULB Accounts and Audit Points (Pt.-II).**Learning Objectives:**

Given the inputs on the salient features of municipalities and municipal corporations accounting system as prescribed in National Municipal Accounts Manual and audit points thereon through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of Municipal accounting system of Stores. Participants will also acquire the basic concept of Reconciliation Procedure and Financial Statement. These will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: In this session we will discuss accounting of Stores, Health and Sanitation, Special Fund etc. along with Reconciliation Procedure and Financial Statement and audit points thereon.	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 Accounting of stores.	20 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 2 Accounting of Health and sanitation.	30 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 3 Accounting of special fund.	25 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 4 Reconciliation procedure.	20 min	Interactive Lecture and PowerPoint slide show
Key Teaching Point 5 Financial statement.	25 min	Interactive Lecture and PowerPoint slide show
Application Audit exercises on municipal accounting system, codification structure, public works, stores, reconciliation procedure etc.	20 min	Exercises
Summary:	5 min	Lecture
Total:	150 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

Session: 7 (Pt.-II)

Instructor's Guide

Session Title: Audit of ULB Accounts and Audit Points (Pt.-II).

	Ref.
<p>Session Overview: Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss accounting of Stores, Health and Sanitation, Special Fund etc. along with Reconciliation Procedure and Financial Statement and audit points thereon.</p>	
<p>Learning Objective: Given the inputs on the salient features of municipalities and municipal corporations accounting system as prescribed in National Municipal Accounts Manual and audit points thereon through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of Municipal accounting system of Stores. Participants will also acquire the basic concept of Reconciliation Procedure and Financial Statement. These will help them to focus on audit issues at the practical job scenario.</p>	
<p>Basic Concept: Ask participants about their understanding on accounting system of Stores, its accounting principle, receipt and disposal of material, write-off of material etc. Show PowerPoint slide and Discuss the accounting system of stores as prescribed in National Municipal Accounts Manual alongwith the internal controls provided for stores. Ask participants about their understanding on accounting system for health and sanitation, recording of miscellaneous fees, expenditure pertaining to health and sanitation. Show PowerPoint slide and Discuss the accounting system for health and sanitation as prescribed in National Municipal Accounts Manual. Tell the accounting principles of special funds and accounting procedures for the same as prescribed in National Municipal Accounts Manual. Ask participants about their understanding of reconciliation procedure maintained in municipalities and municipal corporations. Obtain responses from each participant and recognise them point-wise by noting on the white board. Show PowerPoint slide and Discuss the reconciliation procedure followed in municipalities and municipal corporations as prescribed in National Municipal Accounts Manual. Ask participants about their understanding of financial statements maintained in municipalities and municipal corporations. Obtain responses from each participant and recognise them point-wise by noting on the white board. Show PowerPoint slide and Discuss the features of financial statement alongwith income and expenditure statement, balance sheet, cash-flow statement, receipt and payment account as prescribed in National Municipal Accounts Manual.</p>	PowerPoint Slide: Session 7 Accounting System (Part II)
<p>Distribute Audit exercises among participants and Instruct the time limit. Request them to solve the problem with individual effort. Discuss the exercises with suggested answers after due time.</p>	
Distribute Participants' Note	
<p>Request any participant to summarise the session Thank the participants for their active participations and bring the session to a close.</p>	

Accounting system of Stores

Introduction

- The functions of the Stores, involving procurement, storage, issue, disposal and accounting of materials, may be performed either centrally by Central Stores (referred to as Municipal Stores) or by the Department Stores empowered by the municipalities and municipal corporations to perform the aforesaid functions for specific departments of the municipalities and municipal corporations. Generally, the municipalities and municipal corporations empower the Public Works, Health-Sanitation, Health-Medical, Water Works, Workshop for Vehicles and Machinery repairs and Public Lighting Departments to maintain their own stores.
- The financial transactions carried out by Stores will arise on account of:
 - Receipt of Earnest Money Deposit (EMD) from the bidders to a contract
 - Refund of EMD to the unsuccessful bidders
 - Payment of advance to the contractor
 - Delivery of material and its documentation
 - Consumption of materials
 - Payments to Suppliers
 - Adjustments of Security Deposits
 - Write-off / disposal of obsolete, scrap and unusable materials.

Accounting Principles

- Expenditure in respect of material, equipment, etc., procured shall be recognised on accrual basis, i.e., on admission of bill by the Local Body in relation to materials, equipment, etc., delivered.
- Accounting of 'goods received & accepted but no bills received' as at the cut off date shall be accounted based on purchase orders.
- The stock lying at the period-end shall be valued at cost in accordance with the First in–First out method.
- Revenue in respect of disposal of material shall be recognised on actual receipt.
- Finished goods and work-in-progress (WIP) related to goods produced for sale will be valued at cost or market value whichever is lower. Cost of finished and work-in-progress includes all direct costs and applicable production overheads to bring the goods to the present location and condition.

Accounting records and procedures

- The Stores shall prepare a Summary of Daily Collection which shall be forwarded to the Accounts Department.
- On receipt of Summary of Daily collections, the Accounts Department shall pass the entry shown in the next page

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-21-(a) 340-10-(a)	Bank Account * To From Contractors/ Suppliers – EMD Stores	Dr. Cr.	500	500	Cash Book, Ledger

Figures are illustrative.

- The EMD shall be refunded as per the terms of tender issued to the unsuccessful bidders.
- Where the terms of agreement entered into provide for collection of a certain percentage of Security Deposit in advance, a receipt in prescribed form shall be issued to the successful bidder for the amount collected.
- As per the terms of agreement, advance may be provided to the supplier. On receipt of an application for grant of advance, the Stores shall prepare a Payment Order and forward it to the Accounts Department.

Receipt of materials

- As per the terms of the agreement with the Supplier, the materials shall be delivered to the municipalities and municipal

corporations. The Stores shall prepare a Material Receipt Note in prescribed form.

- From the Material Receipt Note, the Stores shall record the receipt of materials in the Stores Ledger.
- On receipt of bill from the supplier, the Stores shall verify the bill received with the Material Receipt Note and record it in the Register of Bills for Payment.
- On acceptance and approval of the material supplied and on receipt of the processed bill from the Stores Department, the Accounts Department shall pass the following entry as shown below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
430-10-(a)	Stock in Hand -Purchase of Materials Stores	Dr.	4,000		Journal Book, Ledger
350-10-(a)	To Creditors – Suppliers/	Cr.		3,800	
460-40-(a)	Contractors Stores To Advance to Suppliers & Contractors Stores	Cr.		200	

Figures are illustrative.

- On receipt of Payment Order in prescribed form together with the supporting documents and on making payment and

passing of requisite entries the Accounts Department shall intimate the Stores of the payment made.

Valuation of closing stock at period-end

- At the end of every accounting period, the Stores shall send a Statement of Closing Stock. Such a statement shall consist of two parts; Part A shall show the items in respect of which the invoices/bills received from the suppliers have already been sent by the Stores to the Accounts Department after processing by the Stores. Part B shall consist of the items for which the materials have been received and accepted by the Stores but for which the invoices/bills have not been processed as yet by the Stores. This Statement shall be drawn from the entries made in the Stores Ledger.
- At the end of the financial year, reconciliation shall be carried out by the

Stores-in-charge to match the physical stock with the book stock and discrepancies identified shall be incorporated in the Statement of Closing Stock.

- The balances in various accounts of the item-wise Stores Ledger shall be extracted and valued as per First-in-first Out (FIFO) Method. Under this method, the consignment of material, which shall be received first, shall be issued first.

On the basis of Statement of Closing Stock in prescribed form received from Stores, for recording closing stock, the Accounts Department shall pass the entry as shown below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
230-30-(a)	Consumption of Stores(1)	Dr.	1,400		Journal Book, Ledger
230-(b)	Repairs and Maintenance (2)	Dr.	3,200		
412-(b)	Capital work in progress(3)	Dr.	2,200		
460-40-(a)	Advance to Contractors- Material Issued to Contractors/Stores (4)	Dr.	400		
430-10-(a)	Stock in Hand –Stores Closing Stock	Dr.	1,700		
430-10-(a)	To Stock in Hand –Purchase of Materials Stores	Cr.		8,500	
430-10-(a)	To Stock in Hand - Stores Opening Stock	Cr.		400	

Figures are illustrative.

- The closing stock at the end of an accounting period shall be the opening stock of the subsequent accounting period for which the Accounts Department shall pass the necessary entry on the first day of the subsequent accounting period.

- Similar entries shall be passed for recognising closing stock of each of the other stores as opening stock of the subsequent accounting period.

Finished goods & WIP (Works-in-progress) related to goods produced for sale

- At the end of every accounting period, the finished goods and work-in-progress related to goods produced for sale shall be valued at cost.
- The cost of finished goods and WIP shall include all direct costs and applicable production overheads to bring the goods to the present location and condition. It shall include the following:
 - Costs of purchase including duties and taxes, freight inwards and other expenditure directly attributable to the purchase. Trade discounts, rebates, duty drawbacks and other similar items should be deducted from the costs of purchase;
 - Costs of direct labour for converting the materials into finished goods;
 - Variable production overheads i.e. those direct costs of production that vary directly with the volume of production, such as, Power and other consumables. The variable production overheads are allocated to per unit of production;
 - Fixed production overheads i.e. those indirect costs of production that remain constant irrespective of the volume of production, such as depreciation and maintenance costs of production facilities.

- The cost of finished goods and WIP shall, however, not include the following:
 - Abnormal amount of wasted material, labour or other production costs;
 - Storage costs, unless these are necessary in the production process prior to a further production stage;
 - Administrative overheads that do not contribute to bringing the goods to their present location and condition;
 - Selling and distribution costs;
 - Interest and other borrowing costs.

Period end procedure

- At the period-end, the Stores Department shall ensure that all the bills in respect of stores received and accepted before the last date of the accounting period, are processed and forwarded to the Accounts Department for accounting and payment within one month where the accounting period is a financial year and in other cases in 15 days from the end of the accounting period.

Disposal of material

- The unutilised/unusable material in the Stores of the municipalities and municipal corporations may be disposed of as per the principles framed by the concerned municipalities and municipal corporations.
- An entry for the material disposed shall be made in the records maintained at the Stores.

Recording of receipt of sale proceeds:

- The Stores shall prepare a Summary of Daily Collection in prescribed form for sale proceeds and forward it along with the collection to the Accounts Department. (For example an amount of Rs 600 realised

against the sale of stores with a recorded value of Rs 500). On receipt of Summary of Daily Collections, the Accounts Department shall pass the entry as shown in the following example:

Say, an amount of Rs 600 is realised against the sale of stores with a recorded value of Rs 500)

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-21-(a) 350-90-(a)	Bank Account To Sale Proceeds from Stores	Dr. Cr.	600	600	Cash Book, Ledger

Figures are illustrative

Recording of profit or loss on disposal:

- In the example given above, there is a profit amounting to Rs 100 the Accounts

Department shall record that profit as the example shown in the table below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-90-(a) 430-10-(a)	Sale Proceeds from Stores To Stock in Hand-Purchase of Materials Stores	Dr. Cr.	600	500	Journal Book, Ledger
150-12-(a)	To Sale & Hire Charges – Sale of Stores	Cr.		100	

Figures are illustrative

Write-off of material

- The pilfered/damaged material in the Stores of the municipalities and municipal corporations may be written-off as per the principle framed by the concerned municipalities and municipal corporations.

Recording of write-off of material:

- An entry for the material written-off shall be made in the records maintained at the Stores. On the basis of intimation received from the Stores, the Accounts Department shall record the entry as shown in the table below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
270-40-(a) 430-10-(a)	Assets Written off -Stores To Stock in Hand –Stores Opening Stock	Dr. Cr.	50	50	Journal Book, Ledger & Stores Register

Figures are illustrative



²⁵Procedure followed in West Bengal Municipalities

- For Stock and Stores Account, register shall be kept in prescribed form with any additional details or columns which may be found requisite. A separate set of pages shall be assigned to each description of stock. The figures entered in column 'balance' shall be certified half-yearly by the competent authority as representing articles found by actual counting or measurement, and if any excess or deficiency be found the register shall be corrected accordingly.

Internal Controls

- The Head of the Accounts Department shall ensure budget availability with respect to the expenditure incurred at the time of accruing of the expenditure i.e Budget monitoring shall be on accrual basis rather than payment basis.
- The Head of the Accounts Department shall ensure that all the purchase bills/invoices were journalised before release of the payments.
- At the end of the financial year, the Stores-in-charge, the Head of the Accounts Department and the Municipal Chief Auditor shall physically verify the stock lying in stores and compare it with the stock

as per the book records and in case of any difference, appropriate remedial steps as prescribed by the concerned municipalities and municipal corporations shall be taken.

- The Stores-in-charge shall ensure availability of adequate budget allocation before procuring any material, after considering all commitments made against the budget allocation.
- At the time of issue of any material to the Departments, the Stores-in-charge shall ensure that there is an adequate budget provision in respect of that department.
- The Head of the Accounts Department shall ensure that all the dues recoverable including advance provided to supplier has been recovered before making the final payment to the supplier. Further, it should be ensured that only net amount has been paid to the supplier, as may be applicable to the materials actually received or accepted.
- Before releasing payment to the supplier, the Head of the Accounts Department shall ensure that the material received is recorded in the Stores Ledger. Further, it shall be ensured that the Payment Order provides reference to the Stores Ledger where the entry for receipt of material is recorded.
- The Stores-in-charge shall ensure that materials in respect of which bills have been received but have not been forwarded to the Accounts Department are stated separately in the Statement of Closing Stock.

²⁵ This is to be adopted as per State specific scenario

- The Head of the Accounts Department shall ensure that the 'Purchase of Materials' account has been reconciled at the period and the balance has become nil on accounting of stock entries for the closing stock (on the basis of Statement of Closing Stock) and consumption of stores.
- Also the Head of Accounts Department shall ensure that the balance in the 'Opening Stock' account has become nil at the period end on accounting of stock entries and consumption based on the closing stocks.
- The Chief Executive Officer/Head of the concerned municipalities and municipal corporations shall specify such appropriate calendar of returns /reports for monitoring.
- All Reconciliation Statements shall be certified by the Head of the Accounts Department and verified by the concerned Municipal Chief Auditor.

Presentation in the financial statements

- The various heads of accounts used for the accounting of Stores shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the concerned municipalities and municipal corporations. All such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

Accounting System of Health and Sanitation

Introduction

- The Health Department is primarily involved in operating the hospitals, dispensaries & maternity homes and in monitoring sanitation and other public health related activities, within the limits of the municipalities and municipal corporations.
- The main sources of incomes earned by the Health Department are as follows:

Fees and User Charges:

- Fees from Medical Institutions
- Registration Fees for Patients
- Recovery of Cost of Medicines
- Examination Charges [X -Rays, Tests, Ultra-Sound, etc.]
- Ambulance Charges
- Funeral/Hearse Van Services
- License fees from Butchers and Traders of Meat
- Meat and Poultry Trade Licensing Fees, etc.
- Disposal Charges (Solid Waste) etc.
- Sale of Garbage/Manure

Sale & Hire Charges:

- Besides incurring the usual administrative expenses such as establishment expenses, printing, stationery, office expenses, etc., the Health Department incurs expenses related to its Health and Sanitation functions. The following is an

illustrative list of the expenses incurred in respect of the Health Department:

- Sanitation related expenses e.g. Solid Waste Management related expenses

Repairs and Maintenance

- Solid Waste Management related expenses e.g. Dustbin repairs and maintenance.
- Own Programmes
- Consumption of Health Stores – Solid Waste Management, etc. e.g. Purchase of cleaning material, insecticides and pesticides.

Hospitals and Dispensaries related

- Medical related expenses, repairs and maintenance – Medical/Health related assets

Public Health programme/scheme related

- family welfare expenses, pulse polio vaccination expenses, aids awareness expenses, etc.

Accounting Principles

- Revenue in respect of the following shall be recognised on actual receipt.
 - Hospital fees, maternity homes fees, diagnostic centre fees and dispensaries fees
 - Hospital training fees
 - Rent and/or hire charges in respect of ambulance, hearse, suction unit, meat van and road roller
 - Sale of fertilisers and waste, sale of animals and sale of scrap.
- Revenue in respect of Trade License Fees shall be accrued in the year to which it

pertains and where the demand is raised based on applicable Acts of the respective state.

- Revenue in respect of rent of equipment provided to the contractors, deducted from their bills, shall be recognised as and when the deductions are made.
- All revenue expenditures incurred shall be recognised on admission of the bills for payment by the concerned municipalities and municipal corporations.
- Provision shall be made at the year-end for all bills received up to a cut off date (30th April of the next financial year). However, the State Governments, depending on practicality and materiality involved can decide on this.

Accounting procedures

- The collection in respect of the medical fees shall be made at the respective units (i.e. Hospitals, Dispensaries, Maternity Homes, etc.). A Receipt in prescribed form or pre-denominated tokens shall be issued to the person making the payment at the respective units.
- The amount collected by the units shall be deposited in a Designated Bank Account or forwarded to the Ward Office or to the Accounts Department.
- The procedures for cash/cheque collection, remittance and/or deposit shall be as per general accounting procedures.

Recording of collection of medical fees.

On the basis of the Summary of Daily Collection received from the various entities, i.e., Units, Ward Offices, Health

Department, etc., the Accounts Department shall pass entry as shown in the table below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
450-21-(a) 140- (b)	Bank Account To _____ Charges	Dr. Cr.	10,000	10,000	Cash Book, Ledger

Figures are illustrative

Municipal Accounts Manual in respect of Rentals, Fees and Other Income.

- Hospital training fees are charges from medical colleges for granting internship facilities to their students in the hospitals owned by the municipalities and municipal corporations. The procedure followed for collection of hospital training fees shall be the same as for Medical Fees.

- The income in respect of trade license fees shall be recognised on accrual basis. It shall be accrued in the year to which it pertains and where the demand is raised based on applicable Acts of the concerned State. The procedure and accounting entries in respect of demand raised for trade license fees, collections made, provisioning for unrealised fees, etc. shall be similar to the Accounting procedure for Incomes to be accounted as prescribed in National Municipal Accounts Manual in respect of Rentals, Fees and Other Income.

Other Incomes

- The other incomes pertaining to the health and sanitation related activities such as ambulance rent, suction unit rent, dumping ground charges, etc., shall be accounted for as prescribed in National

Expenditures pertaining to health and sanitation

- The accounting for expenditures pertaining to hospitals, dispensaries, sanitation, scavenging, etc., shall be same as Public Works and Stores.

- At the period-end, the Health Department shall ensure that all the bills received in respect of expenses incurred before the last date of the accounting period, are processed and forwarded to the Accounts Department for accounting by 30th April of the next financial year if the accounting period is a financial year and in other cases in 15 days from the end of the accounting period.

Internal controls

- A quarterly reconciliation shall be carried out by the Head of the Accounts Department and the Head of the Health Function in respect of the amount collected under the various heads based on the balances standing in the Functional Income Subsidiary Ledger in respect of Fees & User

Charges and Sale & Hire Charges relating to Health Function maintained at the Accounts Department and the Collection Register maintained at the Health Department.

- The officers designated by the municipality or municipal corporation for operating the Designated Hospital Bank Account shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques deposited by them.
- The Head of the Accounts Department shall ensure budget availability with respect to the expenditure incurred at the time of accruing of the expenditure.
- The Head of the Accounts Department shall ensure that all the bills/invoices were journalised before release of the payments.
- The Chief Executive Officer/Head of the municipality or municipal corporation shall specify such appropriate calendar of returns /reports for monitoring.
- All Reconciliation Statements shall be certified by the Head of the Accounts Department and verified by the Municipal Chief Auditor.

Presentation in the financial statements

- The various heads of accounts used for the accounting of Health and Sanitation related transactions shall be reflected in the Financial Statements or the Schedules attached to the Financial Statements of the municipality or municipal corporation. All

such Financial Statements and schedules should be affixed with signature and seal of designated authorities.

Accounting Principles of Special Fund

- Special Funds shall be treated as a liability on their creation.
- Income on investments made from Special Fund shall be recognised and credited to Special Fund, whenever accrued. Profit/loss, if any, arising on disposal of investments made from the Special Fund shall be recognised and credited/debited to Special Fund Account.
- Any expenditure of a revenue nature, which is incurred specifically on scheme/project for which a Special Fund has been created, shall be charged to that Special Fund.
- On completion of the construction of a fixed asset and/or on acquisition of a fixed asset out of a Special Fund, the amount equivalent to the cost of such fixed asset shall be transferred from the respective Special Fund to the Special Fund (Utilised).

Accounting Records & procedures

Creation of funds

- Special Funds are created as an appropriation from the Municipal Fund. Each of the Special Funds shall be represented by a separate Bank Account. On creation of the fund, money shall be

transferred from the Main Bank Account to Special Fund Bank Account. The Accounts Department shall maintain a Special Fund Register where details of each fund created, expenditure incurred in respect of each fund, etc., is separately recorded.

Recording of contribution to Special funds from earmarked collection:

The accounts department as per the decision of the municipalities and municipal corporations shall transfer the earmarked collection accounted as revenue to the special funds. Accounting entry for transfer of these amounts to Special fund is shown in a table below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
290-(a)	Transfer to ----- Fund	Dr.	1,00,000		Journal Book
311-(a)	To ----- Special Fund	Cr.		1,00,000	Ledger, Special Fund Register

Recording of transfer of money to Designated Special Fund Bank Account.

- For transferring the funds to a separate bank account, Accounts Department shall transfer the amount from Main Bank Account to Special Fund Bank Account.
- Collection of Special Funds may be made along with other collections. For example, municipalities and municipal corporations may collect Tree Authority Cess along with Property Tax.
- At the end of every month, Accounts Department shall also identify the transactions pertaining to Tree Authority Cess collected along with the property and other taxes. Accounts Department shall transfer the amount of the cess thus collected from Municipal Fund to Tree

All figures are illustrative
Authority Fund. In addition, money will be transferred from Main Bank Account to Tree Authority Fund Bank Account.

- In respect of Development Charges, the amount collected shall be transferred to Development Fund. In addition, money equal to Development Charges so collected shall be transferred from the Main Bank Account to Development Fund Bank Account.

Utilisation of funds

- Special Funds shall be utilised for the purpose for which they are created. The expenditure incurred could be either revenue or capital expenditure.

Utilisation of Special Fund for Revenue Expenditure

- The accounting procedure to be followed in respect of revenue expenditure incurred

against Special Fund as in case of Public Works for repairs and maintenance and Stores for stores purchased.

- Any advance made to a supplier/contractor in respect of a project/scheme to be carried out against a Special Fund, shall be payable from the Designated Special Fund Bank Account only and not from the Main Bank Account.
- If Security or any tax on behalf of Government or advance provided to contractor/supplier is deducted or any other

deduction is made from the processed bill, the amount payable shall be reduced for the deduction made and the Accounts Department shall pass the entry as shown in the table given below:

Code of Account	Accounting Entry	Dr./Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
350-10-(a)	Payables against Special Funds	Dr.	4,000		Journal Book, Ledger, Special Fund Register
340-10-(a)	To Deposit From Contractors - Security Deposit Special Funds	Cr.		1,000	
350-20-(a)	To TDS- Special Funds	Cr.		500	
350-20-(a)	To Works Contract Tax – Special Funds	Cr.		1,000	
460-40-(a)	To Advance for suppliers and contractors – Special Funds	Cr.		1,500	

All figures are illustrative.

- Payment for deductions made shall also be paid from the respective Designated Special Fund Bank Account.

Advance paid to contractors /Suppliers

- Any advance payable to the contractor/supplier in respect of any work executed or services or materials received under any Special Fund shall be paid from the Designated Special Fund Bank Account.

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Procedure for recording tax deducted, if any, from the advance provided:

- Suppose an advance of Rs. 10,000 is granted to a contractor from which Rs. 500 is deducted on account of income tax. On deduction, the Accounts Department shall pass the following entry as shown in the table given in the next page:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
460-40-(a) 350-20-(a) 350-10-(a)	Advance for Suppliers and contractors – Special Funds To TDS – Special Funds To Contractors Advance Control Account – Special Funds	Dr. Cr. Cr.	10,000	500 9,500	Journal Book, Ledger Special Fund Register

All figures are illustrative.

Procedure for recording payment of advance:

- On payment of balance advance, i.e., Rs. 9,500 from the Designated Special Fund

Bank Account, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
460-40-(a) 450-41-(a)	Advances for suppliers and contractors – Special Funds To Designated Bank Account*	Dr. Cr.	9,500	9,500	Special Fund Cash Book, Ledger, Special Fund Register

All figures are illustrative

Earnest Money Deposit

- Any amount received or paid on account of Earnest Money Deposit in respect of any contract executed under Special Fund shall be deposited in or refunded from the respective Designated Special Fund Bank Account. The accounting procedure is same as it is for Public Works.

Security Deposit

- Any amount received/paid on account of Security Deposit in respect of any contract executed under Special Fund shall be deposited in or refunded from the respective Designated Special Fund Bank Account. The accounting procedure is same as it is for Public Works.

Investment of special funds

- Investments made in respect of Special Fund shall be entered in a Special Fund Investment Register. The accounting procedures/ entries to be followed/ passed in respect of investments of such moneys are similar to those followed in respect of other investments. They relate to investments, maturity of investment, recording of interest, profit/loss on sale/maturity of investments, etc.
- Interest earned on Investments, profit/loss on disposal of Investments, if any, shall be updated in the Special Fund Register by the Accounts Department.

On Closure of Funds

- Once the purpose for which the Special Fund created is achieved, the unutilised

balance in the fund, if any, shall be transferred from Special Fund to Municipal Fund by transferring the money from the Special Fund Bank Account to the Main Bank Account. The approval of the

municipalities and municipal corporations shall be obtained wherever required. Entries to be passed by the Accounting Department are shown in the table given below:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.)	Credit Amount (Rs.)	Books to be entered into
311-(a) 310-10- (b)	Special Fund To Additions to Municipal Fund	Dr. Cr.	10,000	10,000	Journal Book, Ledger Special Fund Register
460-21-(b) 460-41-(b)	Main Bank Account To Designated Special Fund Bank Account	Dr. Cr.	10,000	10,000	Cash Book Special Fund Cash Book

All figures are illustrative

Internal controls

- The Head of the Accounts Department shall, before transferring the money from Main Bank Account to the respective designated special fund bank account, ensure that the fund created is recorded in the Special Fund Register. Further, it shall be ensured that the Journal Voucher prepared to record the transaction, shall provide reference to the Special Fund Register.
- The Head of the Accounts Department and other officer designated in this behalf shall ensure timely transfer of mandatory contribution to Special Fund Bank Accounts.
- The Head of the Accounts Department and the other officer designated in this behalf, shall ensure that the amount of Special Fund shall not be utilised for the purpose other than for which the fund it is created.

- Bank reconciliation of Special Fund Bank Accounts shall be carried out on a monthly basis by the department/office responsible for operating the bank account.
- The Head of the Accounts Department or other officer designated in this behalf shall regularly match the expenditure from a Special Fund to the reduction in the balance of the Special Fund.
- At the end of every month, the Head of the Accounts Department or other officer designated in this behalf shall reconcile the ledger balance of the Special Fund Account with the Special Fund Register and the Special Fund Bank Account balance.
- The Head of the Accounts Department shall reconcile the expenditure incurred towards Backward Classes Welfare activities and ensure that the unspent balance is transferred to the Backward Classes Welfare Fund Bank Account.

- The Chief Executive Officer/Head of the municipalities and municipal corporations shall specify such appropriate calendar of returns /reports for monitoring.
- All Reconciliation Statements shall be certified by the Head of the Accounts Department and verified.

Reconciliation Procedures

- The objective of the reconciliation procedures is to ensure that if an accounting information is recorded in more than one place, there are no discrepancies between the different sets of records. For example, property tax transactions are recorded both at the Tax Department and at the Accounts Department. The reconciliation procedures will ensure that the receivables figure is the same at both the locations and in both the sets of records. In case of differences, necessary adjustments may need to be carried out either by the Accounts Department or the Tax Department.
- The reconciliation procedures are to be carried out by the Accounts Department, Audit Department and the concerned departments.
- The procedures will include the following:
 - Bank Reconciliation,
 - Inter-unit reconciliation,
 - Reconciliation of deposits,
 - Reconciliation of receivables and

collections in respect of Water supply, Property and other taxes, Cess, Other heads of revenues.

- Reconciliation of advances to Contractors / suppliers, Departments of the ULB; and Employees of the ULB.
- Reconciliation of loans received (borrowings).
- Reconciliation of payables including contractors' payables,
- Reconciliation of balances with Government, quasi-Government agencies, Government Corporations, and
- Reconciliation of loans given to others

Bank Reconciliation

- Bank Reconciliation is a procedure which aims at reconciling the bank balance as shown in the Cash Book of the municipalities and municipal corporations with the bank balance as per the pass book / statement received from the bank. The Bank Reconciliation shall be carried out on a monthly basis or such other shorter time intervals as the municipalities and municipal corporations may decide for each of the bank accounts maintained by it.
- The bank balances as per the Cash Book and the Pass Book may not tally for the reasons listed in the table given in the next page:

Factors necessitating Bank Reconciliation

Reconciliation factors	Effect on Cash Book bank balance	Effect on bank balance as per Pass Book
Cheques issued but not presented for payment	Bank balance reduces by that amount	No effect
Cheques deposited but not cleared	Bank balance increases by that amount	No effect
Cheques received but not deposited	Bank balance increases to the extent of cheque received but not deposited	No effect
Debit of charges by bank for any services rendered	No effect	Bank balance reduces to the extent of charges levied
Direct deposit of amount in the bank account	No effect	Bank balance increases to the extent of deposit
Interest allowed and credited by the Bank	No effect	Bank balance increases to the extent of interest credited
Payment by the bank in respect of standing instructions given to the bank	No effect	Bank balance reduces to the extent of the payment made
Fixed Deposit or any other sum directly credited by bank to the account	No effect	Bank balance increases to the extent of money credited
Any other reason which may result in difference between bank balance as per Cash Book and Pass Book		

The procedure to be followed for reconciling the bank balance as per the Cash Book with the balance:

- The Bank Reconciliation shall be carried out on a monthly basis or at such shorter time intervals as the ULB may decide. In case the Bank Reconciliation is carried out monthly, it shall be completed within the first week of the next month.
- The credit entries in the Bank Pass Book shall be compared with the entries in the Receipt Register and the entries appearing in both shall be ticked. The date when the cheques have been realised shall also be recorded in the Cheque Receipt Register.
- The daily total of cheques realised in the bank shall be derived from the Cheque Receipt Register and the total shall be tallied with the entry in the Cash Book.

- The unticked items represent the cheques received and deposited in the bank but not cleared for payment by the bank. Likewise, they may also represent those cases wherein cheques have been received but may not have been deposited with the bank.
- The unticked items shall appear in the Bank Reconciliation Statement (BRS) of that period. The entries appearing in the BRS shall be examined for credit in the subsequent period's Bank Pass Book and those items, which cannot be reconciled shall be carried forward to the next period's BRS.
- The debit entries in the Bank Pass Book shall be compared with the entries in the Cheque Issue Register and the Cash Book

and the entries appearing in both shall be ticked.

- The unticked item represents the cheques issued by the municipalities and municipal corporations but not presented to the bank for payment. Likewise, it may also represent those cases wherein cheques have been drawn and entered in the Cheque Issue Register but have not been issued to the payee.
- The unticked items in the Cash Book shall appear in the Bank Reconciliation Statement of that period. The entries appearing in the statement shall be traced for payment in subsequent period's Pass Book/Bank Statement and those which are

not reconciled shall be carried forward to the next period's Bank Reconciliation Statement.

- All the cheques issued but not presented for payment within six months from their date of issue (or such shorter period as decided by the municipalities and municipal corporations) will become stale and shall be re-debited to the relevant bank account with a corresponding credit entry in the Stale Cheques Account.

Bank Reconciliation Statement

The unticked items both in the Pass Book and the Cash Book shall be extracted for reconciliation in the following format classified according to their nature:

Bank Reconciliation Statement

Particulars	Amt (Rs.)	Amt (Rs.)
Bank Balance as per Cash Book		
Add: Cheques issued but not presented into bank (a cheque-wise list to be appended)		
Add: Cheques drawn but not actually issued to parties (a list to be appended)		
Add: Cheque issued and payment stopped by ULB (a list to be appended)		
Add: Credits of investment proceeds in Bank (e.g. Fixed Deposits) accounted by the bank but not accounted for in Cash Book		
Add: Amount (Cash or Cheque) deposited by the depositor(s) into bank but not accounted for in Cash Book		
Add: Credit given by Bank either for interest or for any other account but not accounted for in Cash Book		
Sub-total		
Less: Cheques Deposited but not cleared		
Less: Payments directly made by the bank but not accounted for in Cash Book		
Less: Cheques deposited but dishonoured		
Less: Service Charges / Bank Charges or any other charge levied by the Bank but not accounted for in Cash Book		
Bank Balance as per Pass Book/Bank Statement		

- Details of the difference shall be given under each of the broad heads depicted above with a serial listings of all the cheques deposited with the bank or issued for payment, to the extent possible. Any other factor impacting the bank balance as per the

Cash Book and Pass Book should be appropriately stated.

Reconciliation of Deposits

- Reconciliation of Deposits aims at reconciling the balance of Earnest Money Deposit, Security Deposit and any other

deposits received by the municipalities and municipal corporations. The reconciliation shall be carried out between the records maintained at other departments and those maintained at the Accounts Department.

- The Deposit Reconciliation shall be carried out quarterly or at such shorter time intervals as the municipalities and municipal corporations may decide.
- The Department which had received the deposits shall prepare a Reconciliation Statement of Deposits Outstanding from the Deposit Register for all the deposits received by it and forward it to the Accounts Department. This statement shall be prepared for each type of deposit. In case there is a discrepancy between the records of the two, this statement may have to be prepared for each contractor/supplier.

Reconciliation of advances given

- The concerned Department shall maintain a record of the advances given to each of the contractors/suppliers. The Accounts Department shall also maintain a record of the advances provided in a Register of Advances.
- The Department which had initially sanctioned advance to the contractor/supplier shall prepare a Reconciliation Statement of Advance Outstanding for all the contractors/suppliers and forward it to the Accounts Department. In case there is a discrepancy between the

records of the two departments, this statement may have to be prepared for each contractor/supplier.

- The Reconciliation Statement of Advance Outstanding received by the Accounts Department shall be reconciled with the respective ledger accounts and the Register of Advances maintained by the Accounts Department. The reasons for differences, if any, shall be identified and rectification entries passed wherever required by the department, which has recorded the entry incorrectly.

Financial Statement

Introduction

- The provisions and rules of the act governing the municipalities and municipal corporations stipulate for preparation of the Annual Administration Report and a Statement of Accounts by the municipalities and municipal corporations. The report shall be in such form and shall contain such information as the Standing Committee may from time to time direct.
- Preparation of Financial Statements comprising of various reports as stated below are the responsibility of the Head of the Accounts Department. However, other reports such as Auditor's report and Municipal Commissioner's report on the financial statements shall be prepared by the Municipal Auditor and Municipal Commissioner respectively.

• The Annual Report of the municipalities and municipal corporations shall include the following:

- Financial Statements consisting of:
 - Balance Sheet;
 - Income and Expenditure Statement;
 - Statement of Cash flows (a summary of an enterprise's cash flow over a given period of time);
 - Receipts and Payments Account (detailed as per the account heads);
 - Notes to Accounts; and
 - Financial Performance Indicators.
- Report of the Municipal Chief Auditor;
- Municipal commissioner's Report on the Annual Financial Statements and the qualifications and comments made in the Report of the Municipal Chief Auditor; and
- Standing Committee's Action Taken Report on the qualifications and comments made in the Report of the Municipal Chief Auditor and the Report of the Municipal commissioner

• In determining the accounting treatment and manner of disclosure of an item in the Income and Expenditure Statement and/or the Balance Sheet, due consideration shall be given to the materiality of the item.

• The municipalities and municipal corporations shall also prepare the financial

statements like the Balance Sheet, Income and Expenditure Statement, Statement of Cash flows and Receipts and Payments Account, at the end of each quarter. Balance Sheet shall disclose figures as on a date for the current year and the previous year. Income and Expenditure Statement, Statement of Cash flows and the Receipts and Payments Account shall disclose quarterly figures, progressive year-to-date totals and the figures of the corresponding quarter of the previous year and the quarterly movements in various accounts. In addition, the Income and Expenditure Statement shall also disclose the annual budget figures.

• The Annual Financial Statements shall be subject to audit by a Municipal Chief Auditor as prescribed in the provisions and rules governing the municipalities and municipal corporations. The Municipal Commissioner of the Corporation shall prepare a report on the qualifications and comments made by the Municipal Chief Auditor. The Annual Financial Statements shall be approved by the Municipal commissioner and shall be placed along with the report of the Municipal Chief Auditor before the Standing Committee on or before such dates as may be prescribed in the applicable Acts.

• The Standing Committee shall prepare an Action Taken Report on the Annual

Financial Statements submitted taking into consideration the qualification and comments made in the report of the Municipal Chief Auditor. The Standing Committee shall approve the Annual Financial Statements and Report and place them before the General Body on or such date as may be specified in the applicable Acts.

Income and Expenditure Statement

- The municipalities and municipal corporations shall prepare an Income and Expenditure Statement for every accounting period. The Income and Expenditure Statement discloses the results of the working of the municipalities and municipal corporations during the period covered by the statement. It shows incomes and expenditures of the municipalities and municipal corporations for an accounting period and the excess of income over expenditure or vice-versa for that period.
- Since the Financial Statements are prepared under accrual basis, the Income and Expenditure Statement shall include all the income earned during the year whether actually received or not and all the expenditure incurred whether actually paid or not.
- The Income and Expenditure Statement is drawn from the Trial Balance. The various heads of incomes and expenditures shall be

posted from the Trial Balance to the Income and Expenditure Statement.

- Any income or expenditure under a particular individual head, which is more than 1% of the total gross income of the municipalities and municipal corporations or Rs. 1,00,000 whichever is higher, shall be shown separately in the Schedules annexed to the Income and Expenditure Statement.
- The Income and Expenditure Statement shall be prepared in the prescribed format.

Balance Sheet

- The municipalities and municipal corporations shall prepare a Balance Sheet at the end of each accounting period. The Balance Sheet is a statement, which reflects the financial position of the municipalities and municipal corporations as on a particular date. It presents the assets, liabilities and reserves of the municipalities and municipal corporations as on a specified date.
- The Balance Sheet is drawn from the Trial Balance. Assets, liabilities and reserve heads shall be posted from the Trial Balance to the Balance Sheet.
- The Balance Sheet shall be prepared in the prescribed format.
- The details of various Balance Sheet items would be given in separate schedules attached to the Balance Sheet.

Fund accounts of the ULBs

- Municipality and Municipal Corporation may maintain separate accounts for every fund. States may define what are the funds for which municipalities and municipal corporations shall maintain separate books for Funds. For all those funds, municipalities and municipal corporations shall maintain separate set of books of accounts. The accounting principles and procedures to be adopted shall be same across all funds. Trial balance shall be generated for each of the Fund and the financial statements as explained above shall be prepared for each of the Fund separately and then consolidated to present the municipalities and municipal corporations level position.

Cash Flow Statement

- Cash Flow statement is prepared in order to have information about the cash flows of an enterprise useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.
- A Cash Flow Statement, when used in conjunction with the other Financial Statements, provides information that enables users to evaluate the changes in assets and liabilities of a municipality or corporation, its financial status, and the actual performance in terms of cash inflows and outflows.

- Municipality and municipal corporation shall prepare a Statement of Cash flows apart from Income & Expenditure, Balance sheet and Receipts and Payments statements.
- The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.
- An ULB presents its cash flows from operating, investing and financing activities in a manner, which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.
- The cash flow statement shall be prepared in prescribed form.
- Cash flow statement of municipalities and municipal corporations shall be prepared by ascertaining the cash flow from each of the operating, investing and financing activities. In this module we will discuss only 'Cash flow from operating activities' and 'Cash flow from financing activities'.

Cash flows from operating activities

- Operating activities are the principal activities contributing to or utilising the cash resources of the municipalities and municipal corporations and other activities

that are not investing or financing activities. Identification of transactions into operating or other activities primarily depends on whether the result of the activity is captured in Income and Expenditure statement and is not related to Investing or Financing activities.

- The amount of excess of income over expenditure (or vice versa) as per 'the Income and Expenditure Account' shall be entered in the Cash flow statement under 'Operating activities': (which shall be the gross cash flow from operating activities)
- The amount of excess of income over expenditure includes certain non-cash and non-operating incomes and expenditure. These shall be adjusted to the Gross cash flow to determine the net cash flow from operating activities. Adjustments required for expenditure will be added and adjustments in respect of income will be deducted from the Gross Cash Flow. A generalised list of such adjustments under incomes and expenses are given below:

- **Expenditure:**

- Depreciations
- Write off
- Provisions
- Decline in the value of investment

- **Income**

- Interest on deposits/loan received

- Investment incomes
- Profit or sale arising out of Assets
- Appreciation in the value of Investments

- The net cash flows shall be adjusted for changes in working capital: (movement in current assets and current liabilities excepting those current assets relating to 'Investing' or 'Financing' activity, for example loans and advances to employees are considered under financing activity).
- The total amount of cash flows from operating activities as determined in the previous step shall be shown as 'net cash generated from or (used in) operating activities'.

Cash flows from financing activities

- Financing activities are activities that result in changes in the size and composition of Loans received by the municipalities and municipal corporations.
- The steps involved in calculation of cash flow from Financing Activities are the movement in loans availed by the municipalities and municipal corporations and loans & other advances given to employees/ others shall be shown on a net basis instead of showing the amount of loans received / repaid during the year, such as:
 - **Movement** in loans from Central Government

- **Movement** in Loans from State Government
- **Movement** in Loans and advances to employees
- Interest and finance expenses paid.
- Funds/grants received during the period under reporting shall be shown separately as amounts received under any fund/grant are in the nature of financing activities. Examples of such funds/grants are:
 - Earmarked funds
 - Special grants
 - Specific grants
- All items of incomes and expenditures in the nature of 'financing activities', which are adjusted while calculating cash flows from, operating activities shall be considered appropriately for inclusion in the calculation of cash flows from investing activities. Examples of such items are as follows:
 - Interest and finance charge
 - Discounts

Receipts and Payments Account

- The Receipts and Payments Account shows the sources of funds and the applications of funds during the accounting reporting periods.
- It shall be prepared in prescribed form and the following shall be noted in preparation of it:
 - The receipts considered are on cash basis and does not take into account the receivables. Similarly, the

payments considered are on cash basis and does not take into account the payables.

- Non-cash items like Depreciation, Miscellaneous Expenditure write off, Profit/Loss on disposal of Fixed Assets, Profit/Loss on disposal of Investments will not be considered while preparing this statement.
- If any loan is obtained by the municipalities and municipal corporations in such a way that the disbursement of instalments is directly made to the appointed Contractor, then the loan, though not directly received in cash by the municipalities and municipal corporations, should be shown as 'Receipts'. Similarly, corresponding payments made to the Contractor, though not made in cash by the municipalities and municipal corporations, should be shown as 'Payments'.

Audit points on ULB Accounts

Cashier's Cash Book(CCB)

- Was the maintenance of the CCB done at the direct supervision of the appropriate officer
- Were the receipts in the CCB classified in the respective columns according to the budget heads?
- Were the receipts entered daily in the CCB?

- Could the auditor ensure that all receipts under the same heads were grouped together as far as possible for facility of accounting?
- In respect of receipts for which no separate registers were prescribed, could the auditor ensure that full details of names and particulars were entered in the CCB?

Treasury Pass Book

- Pass Book is an initial record which is written up by the Treasury and passed on to the municipality for facility of maintenance of accounts. Was there any instance where any entry in the Pass Book was made by the municipal office? If so, the same would be irregular.
- Could the auditor ensure that the total of the balance and the amount of outstanding cheques of the Pass Book were checked against the corresponding balance shown in the Cash Book?

Cheques

- Was the Cheque Book supplied by the Treasury kept under the personal custody of the Chairman or the Finance Officer?
- Was the practice of retaining signed cheques in the office permitted? If so, the same would be irregular.
- Were all payments above Rs. 2,500/- to persons other than the employees of the municipality made in Cheques only?
- Were all cheques signed by the Chairman/Vice-Chairman and the Finance Officer or in his absence by the Executive

Officer or by any other person authorized by the Councillors at meeting to sign the cheques?

- In case of cancellation of cheques, was the fact of cancellation noted in red ink under the initial of the drawer of the cheque upon the counterfoil and also across the endorsement which was enfaced upon the voucher?

Appropriation Register

- Was the Appropriation Register kept in the prescribed form?
- Could the auditor ensure that the expenditure was posted monthly from the Register of Works or other appropriate register?
- Was there any case of appropriation of funds, even temporarily, without prior approval of the government to any other object other than that for which it was intended? If so the same was irregular.
- Were separate pages or sets of pages set apart for endowment or fund?
- Was there any case of use of unspent balance of government grant made for expenditure in a particular year beyond the subsequent year without prior sanction of the State Government?

Audit points on Public Works

- Did the municipality/corporation have a prescribed schedule of rates for each kind of work and was it updated from time to time?

- Was there any case of execution of work, other than in case of emergency, without a proper detailed estimate? If so, the same would be irregular.
- Was every work costing above Rs.5,000/- sanctioned by the Board of Councillors in a meeting and signed by the presiding Officer? Was such work covered by the current budget grant? If not, the same would be irregular.
- Was any work costing more than Rs. 5 lakh sanctioned by the Board of Councillors? If so, the same would be irregular.
- Did the Board of Councillors sanction any estimate which was a part of a scheme sanctioned by another authority? If so, the same would be irregular.
- Could the auditor ensure that no revised estimate was sanctioned unless the cost of the original estimate exceeded by more than 10% of the total amount or there were considerable alterations in the original estimate?
- Did the municipality/corporation maintain a Measurement Book (MB) in the prescribed form? Was it under the custody of the appropriate authority?
- Were the pages of the MB machine numbered? Were there any cases of erasing or effacing of records? If so, the same would be irregular.
- Could the auditor ensure the following points?
 - the entries in the MB were made in ink as far as possible;
 - recording of entries in respect of contents or area were invariably made in ink;
 - before preparation of a contractor's bill the entries in the MB relating to the description and quantities of work or supplies were scrutinized by the Municipal Engineer or any other authorized person;
 - the bill was prepared on the basis of actual measurement and the rates were taken from Item rate Tender and contract of the works agreement;
 - the pages of the MB in which the detailed measurements were recorded, were quoted in the bill;
 - the bill was signed by the officer in charge of the work and the contractor in token of its correctness;
 - before signing the bill the appropriate authority actually compared the quantities in the bill with those recorded in the MB;
 - when the bill was on a running account, it was compared with the previous bill and every page containing the detailed measurements was then scored out by a diagonal red ink line;
 - the Accountant checked the bill with the MB, estimate, agreement, previous bill(in case of running bill), balance of allotment

available and the arithmetical calculations and submitted the same through the Finance Officer before the Chairman/Mayor;

- the number and the date of payment voucher was noted on the abstract of measurement in the MB as well as on the pages containing the detailed measurements.
- Did the municipality/corporation maintain approved list of contractors for three categories of staff viz. (a) general works other than sanitary, plumbing or electrical works (b) sanitary and plumbing works and (c) electrical works?
- Was each of the above three divided into three or four classes depending on the financial and/or technical limit as fixed by the Board of Councillors and work entrusted to contractors accordingly?
- Were there cases of awarding of works to contractors without calling for tenders? If so, the following further points should be ascertained:
 - Was the money value of the original work less than Rs 5,000 for the category of general works, Rs 2,500 for plumbing works, Rs 500 for electrical works?
 - In case of repair works was it less than Rs. 2,500 for general works, Rs 1,000 for plumbing works and Rs. 200 for electrical works?
 - Was such awarding of the contract as per discretion of the Chairman/Mayor after recording reasons therefore?

- Was it awarded for paucity of time?
- Were in all cases competitive tenders invited from the approved list when the financial limit was Rs. 5,00,000 for general works, Rs. 1,00,000 for plumbing and Rs. 50,000 for electrical works?
- Were in all cases of works exceeding the above financial limit open competitive tenders invited?
- In case of non-acceptance of the lowest tenders were the reasons therefore forthcoming?
- In cases of open tenders which need to be called for from the public under the rules, were the tenders invited by advertisements in the important and leading newspapers?
- Did such a tender include the following and the tenderers have free access to the contract documents?
 - a tender notice;
 - a complete specification of the work to be done and of materials to be used;
 - a schedule of quantities of various descriptions of work and/or a schedule of probable items with rates;
 - a set of conditions of contract to be complied with as embodied in the prescribed form in which the contract was to be finally executed.
- Were the contractors charged prescribed fees for tender papers and tender schedule?
- Could the auditor ensure that no tender for execution of work was received unless

accompanied by the deposit of earnest money at the prescribed rate?

- Could the auditor ensure that tenders for works valued up to Rs. 10,000 were accepted by the Chairman/mayor and those exceeding Rs 10,000 by the Chairman/Mayor-in-Council?
- Was Security Deposit at the prescribed rate collected from the contractor before execution of the work?
- Were all payments to the contractors made by cheques and were the same delivered to them direct?
- In case of execution of works through departmental agency, was Muster roll the basis of account?
- Was an extract from the Measurement Book endorsed on the Muster roll and the quantity of work turned out compared with the cost of the labour employed?
- Was the Muster roll closed immediately after the close of the prescribed period and the labourers paid as soon as possible?
- Was the payment in all cases made in the presence of the competent authority?
- Was there any case of payment of wages not claimed within three months without the written orders of the Chairman/Mayor or the Executive Officer?
- Could the auditor ensure that before final payment for a work was made, a completion certificate was submitted by the competent authority with the necessary certification?

- Did the municipality/corporation maintain a Register of Works containing record of every original work or repair estimated to cost more than Rs 1,000? Did the register show the expenditure incurred in comparison with the estimate and the arrears due on accounts for which part payments were made?

Audit points on the basis of Accounting system as recommended by National Accounting Manual (NAM)

- If the State Government has notified application of NAM in ULBs, did the municipality/corporation follow accounting system/manual as per the guidelines of the NAM? Did the State Government develop any accounting system manual on basis of NAM?
- Did the municipality/corporation take steps to follow accrual system of accounting?
- Did the municipality/corporation prepare Income and Expenditure Statement and Balance Sheet every year in the prescribed formats?
- Did the "Income" and "Expenditure" in accounts constitute both revenue received and receivable and amounts paid and payable respectively?
- Were there cases of incurrence of expenditure on repairs and maintenance during the period of the financial year but not actually paid during the year? If so, were

such amounts treated as liability (payable) and disclosed as such in the Balance Sheet?

If not, the same would be irregular.

- Were the collections made on behalf of the State Government credited to the control account called “State Government Levies in Taxes- Control Account”
- Was any subsequent collection or recovery of “Receivables for Property & Other Taxes” which were already written off recognized as a “Prior Period Income”?
- Were the demands raised with retrospective effect treated as prior period income to the extent it pertained to earlier years?
- Were write-offs of Cess adjusted against the provisions made and to that extent ‘recoverable’ got reduced?
- Was revenue in respect of Water Tax, Water Benefit Tax, Water Supply Charges, Water Meter Rent, Sewerage Charge, Disposal Charges recognized in the period in which they became due, ie. , when the bills were raised?
- Was revenue in respect of Connection Charges for Water Supply recognized on actual receipt?
- Did the computation of cost of fixed assets include cost incurred/money spent in acquiring or installing or constructing fixed asset, interest on borrowings attributable to acquisition or construction of fixed assets up to the date of commissioning of the assets

and other incidental charges incurred up to that date?

- Was the additional expenditure incurred for improvement of the fixed asset capitalized and included in the cost of the asset?
- In case the benefits of revenue expenditure for repairs and maintenance of the asset was less than for a year, was such expenditure charged off?
- Were assets under erection/installation on existing projects (including advances for capital works and project stores) shown as “Capital Works-in-Progress”?
- In case of forfeiture of Earnest Money Deposit and Security Deposit and the right for claiming refund of deposit having expired, was the amount involved recognized as income?
- Was deposit received under Deposit Works treated as a liability till such time the projects for which money was received? Was the cost incurred against it reduced from the liability upon completion of the projects?
- Was expenditure in respect of stores (material, equipment, etc.) procured recognized on accrual basis?
- Was the stock lying at the period- valued at cost in accordance with the FIFO (First in-First out) method?
- Was revenue in respect of disposal of material recognized on actual receipt?

- Did the municipality/corporation follow any prescribed codification structure for classification of income and expenditure under different heads?
- Could the auditor ensure that:
 - repair works to newly purchased or previously abandoned buildings, which were required for bringing them into use were classified as Original Works?
 - where a portion of an existing structure was dismantled and replaced and if the cost of such replacement represented a genuine increase in the permanent value of the property as an asset, the work was classified as Original Work?
 - where the PWD issued any permission for road digging or any other activity for private purpose, it actually recovered the charges incurred for repair of the damaged road or any other structure from the person seeking permission?
 - the money received from the Government for Deposit Works was accounted as a liability of the municipality/corporation?
 - certain percentage of the value of the Deposit Works was provided to the municipality/corporation as service charges?
 - revenues (percentage charges) in respect of Deposit Works were accrued

along with the expenditure of Deposit Works?

- Earnest Money Deposit was refunded to the unsuccessful bidders?
- advance was provided to the contractors as per the terms and procedures of the municipality/corporation?
- payment was made against bill raised after deducting the Security Deposit, income tax, works contract tax and other deductions/recovery including advance provided, if any?
- on receipt of approval for payment, entries were made for money advanced in the Cheque Issue Register and in the Register of Advance in the prescribed forms for the cheques issued to the contractors?
- the details of expenditure incurred on capital projects were recorded in the Capital Works-in-Progress Account?
- separate Capital Works-in-Progress Control Accounts were opened for Civil, Electrical, Water Works and Other projects?
- the Contract Completion Certificate was annexed to the final bill?
- on receipt of the bill the particulars were entered in the Register of Bills in the prescribed form?
- in the Contractors Control Account the particulars for liability for amount payable to various contractors were

credited and the amount paid to them debited?

- on completion of construction of the asset, the cost incurred for construction was passed on to the relevant asset account?

- the Accounts Department passed necessary accounting entries to record the difference between the Stores Issue Rate and the Recovery Rate for materials issued to contractors?

- on completion of an Original Work, reconciliation was carried out by the Accounts Department in respect of the amount expended as shown in the Works Register maintained by the Executive and the capital work-in-progress control ledger maintained by the Accounts Department?

- the Accounts Department ensured that the tax deducted at source and works contract tax deducted from the contractor's bill, etc. were deposited with the Government in accordance with the provisions of the relevant Acts?

- the Works Department, Accounts Department and the Internal Audit Department exercised the following internal controls—

- ensure budget availability at the time of approval of the bill;
- ensure that all the dues, including liquidated damages/penalties, were recovered

from the contractor before making the final payment;

- ensure that no amount was due from the suppliers/contractors, which might be otherwise adjusted before payment;

- ensure that all the bills/invoices of contractors were journalized before release of payments.

- all reconciliation statements were certified by the Head of the Accounts department?

- the Stores Department prepared a Summary of Daily Collections and forwarded the same to the Accounts Department?

- on receipt of the Summary of Daily Collections, the Accounts Department passed necessary entries?

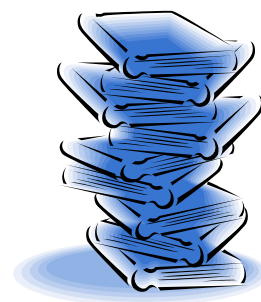
- the Stores Department prepared the Material Receipt Note in the prescribed form?

- from the Material Receipt Note, the Stores recorded the receipt of materials in the Stores Ledger?

- on receipt of bill from the supplier, the Stores verified the bill received with the Material Receipt Note and recorded it in the Register of Bills for Payment?

- on acceptance and approval of the material supplied and on receipt of the processed bill from the Stores, the Accounts passed necessary entries?

- Grants received in advance were deposited in the respective Designated Grant Bank Accounts and the same were accounted for in the following manner—
 - the details of the Grant Sanction Order were recorded in the Grant Register;
 - separate Cash Book in prescribed form was maintained in respect of all grants;
 - the details of the receipt of the grant was updated in the Grant register;
 - advance made to a contractor/supplier in respect of project/scheme against a Specific Grant was paid from the Designated Grant Bank Account and not from the Main Bank Account;
 - the details of expenditure were recorded in the Grant Register under the respective Specific Grant;
 - on payment, the Accounts Department passed necessary entries;
 - the bank reconciliation was carried out on a monthly basis or such other shorter time interval as the municipality/corporation decided.
- Assessment of the MIS System in place and its use.
- Whether budget and budget variance analysis is being used as a monitoring and financial management tool.
- Whether the opening balance sheet depicts all the assets comprehensively with valuation.
- In case of computerised systems, IT audit techniques/procedures are to be used.



Exercise for Session 7

Time: 10 min.
Discussion: 10 min.

Choose the right words from the box given bellow to fill in the blanks:

1. In accrual system of accounting:
 - a. Expenditure is recognised as and when the liability for _____ arises and thus it constitutes both amounts paid and payable. In accrual basis of accounting, expenditure incurred on repairs and maintenance shall be recognised as _____ of the period in which they are incurred and, if not paid for during the year, shall be treated as a _____ and be disclosed as such in the Balance Sheet.
 - b. Expenses are matched with the _____ earned in that year. Thus, it provides a very effective basis to understand the true performance of the organisation for the operations that is conducted in that year.
 - c. A distinct difference is maintained between items of revenue nature and capital nature. This helps in correct presentation of financial statements, viz., the _____ and the _____.
 - d. Costs which are not charged to Income & Expenditure Account are carried forward and kept under continuous review. Any cost that appears to have lost its utility or its power to generate future revenue is _____.
 - e. The surplus or deficit as shown at the year-end represents the correct financial position of the organisation arising out of the various transactions during that year.
 - f. It facilitates proper financial analysis and reporting.
 - g. It captures “full” cost of servicing and helps in identifying _____ of rendering services.
 - h. It helps in providing timely, right quality and nature of information for planning, decision-making and control at each level of management.
 - i. It assists in effective follow-up of _____ by the municipal body and proper ascertainment of _____ by the municipal body.
 - j. One of the distinct advantages of adopting accrual accounting system is ease in _____ by the financial institutions. It also facilitates _____.

credit rating through approved Credit Rating Agencies, which is a pre-requisite for mobilising funds in the financial markets through debt instruments.

- k. It presents a true picture of the financial position of an organisation and helps in better _____.

written-off, payables, payment, liability (payable), Receivables, Balance Sheet, financial viability, financial appraisals, financial management expense, income, Income and Expenditure Statement,

2. As per National Municipal Accounts Manual, all functions of the ULB are broadly classified under _____ major groups and each such group has flexibility to go upto _____ sub-functions
3. As per National Municipal Accounts Manual, the code of an account head shall be _____ and shall be of _____ digits.
4. As per National Municipal Accounts Manual, the primary account code is structured into _____ code; _____ code and _____ code.
5. As per National Municipal Accounts Manual, the first digit '1' of the Major Head code denotes an account relating to _____; '2' denotes an account relating to _____; '3' denotes an account relating to _____ and '4' denotes an account relating to _____.
6. As per National Municipal Accounts Manual, general grants, which is of a revenue nature shall be recognised as _____ on actual receipt.
7. To determine the financial performance of the ULBs _____ is prepared and to assess the financial status of the ULBs _____ is prepared.

Answer to the Exercise for Session 7

Fill in the blanks:

1.
 - a. payment, expense, liability (payable),
 - b. income
 - c. Income and Expenditure Statement, Balance Sheet.
 - d. written-off
 - e. financial viability.
 - f. Receivables, payables
 - g. financial appraisals
 - h. financial management
2. 10 9
3. Numeric, 7
4. Major Head Minor Head Detailed Head
5. '1' – Revenue Income'
'2' – Revenue Expenditure
'3' – Capital Receipts and Liabilities
'4' – Capital Expenditures and Assets
6. Income
7. 'Income & Expenditure Statement', 'Balance Sheet'



Session 8

Session Title: Familiarisation With Schemes



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 8**Session at a glance****Session Title:** Familiarisation with schemes.**Learning Objectives:**

Given the inputs on the different schemes sponsored by Central Government / State Government on macro level through group discussion, lecture and PowerPoint slide show the participants will be, at the end of the session, familiarised with some schemes which will help them to focus on audit issues at the practical job scenario. Discussion on gender sensitisation will help them to have an idea on the changing concept on gender awareness vis-à-vis empowerment of women in synergy with constitutional provisions and measures taken as part of various schemes.

	Time Required	Training Method
Session Overview: In this session we will discuss recommendation of Fourteenth Finance Commission and two schemes sponsored by Central Government and implemented through municipalities and municipal corporations.	5 min	Lecture
Key Teaching Point 1 Fourteenth Finance Commission.	8 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 2 Atal Mission for Rejuvenation and Urban Transformation (AMRUT)	22 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 3 Swachh Bharat Mission (SBM)	20 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 5 Discussion gender sensitisation.	15 min	Interactive Lecture, and PowerPoint slide show
Summary:	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

Session: 8

Instructor's Guide

Session Title: Familiarisation with schemes.

	Ref.
<p>Session Overview: Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss three schemes sponsored by Central Government and implemented through municipalities and municipal corporations.</p>	
<p>Learning Objective: Given the inputs on the different schemes sponsored by Central Government / State Government on macro level through lecture, discussion and PowerPoint slide show the participants will be, at the end of the session, familiarised with some schemes which will help them to focus on audit issues at the practical job scenario.</p>	
<p>Basic Concept: Ask the participants about their understanding of the FFC scheme. Encourage each participant to make the discussion interactive. Obtain responses from participants and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss. Ask the participants about their understanding of scheme for Atal Mission for Rejuvenation and Urban Transformation Encourage each participant to make the discussion interactive. Obtain responses from participants and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss. Ask the participants about their understanding of scheme Swachh Bharat Mission Encourage each participant to make the discussion interactive. Obtain responses from participants and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss. Discuss the basic concept of gender sensitisation and women's participation in the development process as envisaged in the various schemes and some audit points thereon.</p>	PowerPoint Slide: Session 8 Familiarisation with Schemes
<p>Request any participant to summarise the session. Thank the participants for their active participation and bring the session to a close.</p>	

Session Title: ***Familiarisation with schemes***

Session Overview

In the previous sessions we have discussed evolution of ULBs, constitution and organisation of ULBs, audit of Municipal Fund, loans, grants, budget, taxation and accounting system alongwith audit points. In this session we will discuss different schemes sponsored by Central Government / State Government at a level through group discussion, lecture and PowerPoint slide show. Due to paucity of time it is not possible to discuss all schemes in detail. Hence three major schemes will be discussed in this session.

Learning Objective:

Given the inputs on the different schemes sponsored by Central Government / State Government on macro level through group discussion, lecture and PowerPoint slide show the participants will be, at the end of the session, familiarised with some schemes which will help them to focus on audit issues at the practical job scenario.

Fourteenth Finance Commission

The Fourteenth Finance Commission (FFC) in its report, which covers the period between **2015 to 2020** has fixed the grant of Rs 87143.79 crore for Urban Local Bodies in the States.

The salient features of the FFC Grants are:

- urban local bodies should be required to spend the grants only on the basic services within the functions assigned to them under relevant legislations.
- the books of accounts prepared by the local bodies should distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the Finance Commission and grants for any agency.
- the technical guidance and support arrangements by the C&AG should be continued and the
- Distribution of grants will be in two parts - a basic grant and a performance grant for duly constituted municipalities. The division between basic and performance grant will be on a 80:20 basis.

- the basic grant for urban local bodies will be divided into tier-wise shares and distributed across each tier, namely the municipal corporations, municipalities (the tier II urban local bodies) and the nagar panchayats (the tier III local bodies) using the most recent formula given by the respective SFCs, whose recommendations have been accepted.

- In case the SFC formula is not available, the share of each of the three tiers urban local bodies will be determined on the basis of population of 2011 with a weight of 90 per cent and area with a weight of 10 per cent, and then distributed among the entities in each tier in proportion to the population of 2011 and area in the ratio of 90:10.

- Performance grants will be provided to address the following issues:

- (i) making available reliable data on local bodies' receipt and expenditure through audited accounts; and

- (ii) improvement in own revenues.

- (iii) to measure and publish service level benchmarks for basic services.

The performance grants will be disbursed from the second year period, that is, 2016-17 onwards to enable State Governments and the local bodies to put in place a scheme.

- A detailed procedure for the disbursement of the performance grant to urban local bodies would have to be designed by the State Governments concerned, subject to certain eligibility criteria. To be eligible, the urban local body will have to

- (i) submit audited annual accounts that relate to a year not earlier than two years preceding the year in which it seeks to claim the performance grant.

- (ii) show an increase in own revenues over the preceding year, as reflected in these audited accounts.

- (iii) publish the service level benchmarks relating to basic urban services each year for the period of the award and make it publicly available.

The service level benchmarks of the Ministry of Urban Development may be used for this purpose.

The improvement in revenues will be determined only on the basis of the audited accounts. For computing the

increase in own revenues in a particular year, the proceeds from octroi and entry tax must be excluded. In case some amount of the performance grant remains after disbursement to the eligible urban local bodies, the undisbursed amount should be distributed on an equitable basis among all the eligible urban local bodies that had fulfilled the conditions for getting the performance grant.

- The grants shall be released in two instalments each year in June and October. Fifty per cent of the basic grant for the year will be released to the State as the first instalment of the year and the remaining basic grant and the full performance grant for the year may be released as the second instalment. The States should release the grants to the municipalities within fifteen days of it being credited to their account by the Union Government. In case of delay, the State Governments must release the instalment with interest paid from its own funds.
- Stern action should be ensured if irregularities in the application of funds are noticed or pointed out.

- States should review and prepare a clear framework of rules for the levy of betterment tax .
- States may like to consider steps to empower local bodies to impose advertisement tax and improve own revenues from this source.
- Urban local bodies should rationalise their service charges in a way that they are able to at least recover the operation and maintenance costs from the beneficiaries.

Audit Points

- Did the ULB take action compile accounts and have them audited in time?
- Whether the books of accounts prepared by the local bodies distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the Finance Commission and grants for any agency?
- Whether basic grants were received by ULBs based on the formula laid down by the FFC?
- Did the audited accounts provide reliable data on local bodies' receipt and expenditure?

- Was there improvement in realization of own revenue?
- Did ULB publish the service level benchmarks relating to basic urban services each year and made it publicly available?
- Was the performance grant utilized for making available reliable data, improving own revenue realization and publishing service level bench mark?
- Could the auditor assess any tangible improvement in the work of building database and maintenance of accounts?
- Were the grants released by the Centre transferred to the ULB within 15 days?
- Was interest in case of delay in release of fund were paid by the State Govt?
- Was service charges realized by the ULBs from the beneficiaries for providing services?
- Was fund utilised only on the basic services within the functions assigned to ULB under relevant legislations?

***ATAL MISSION FOR
REJUVENATION AND URBAN
TRANSFORMATION (AMRUT)
Introduction***

Infrastructure creation has a direct impact on the real needs and better provision of services to people, such as providing taps and toilet connections to all households. Thus the purpose of Atal Mission for Rejuvenation and Urban Transformation (AMRUT) is to (i) ensure that every household has access to a tap with assured supply of water and a sewerage connection; (ii) increase the amenity value of cities by developing greenery and well maintained open spaces (e.g. parks); and (iii) reduce pollution by switching to public transport or constructing facilities for non-motorized transport (e.g. walking and cycling). Indicators and standards of all these outcomes have been prescribed by the Ministry of Urban Development (MoUD) in the form of Service Level Benchmarks (SLBs). A sound institutional structure is the foundation to make Missions successful. Therefore, Capacity Building and a set of Reforms have been included in the Mission. Reforms will lead to improvement in service delivery, mobilization of resources and making municipal functioning more transparent and

functionaries more accountable, while Capacity Building will empower municipal functionaries and lead to timely completion of projects.

Components of Mission

The details of the Mission components are:

- Water Supply
 - Water supply systems including augmentation of existing water supply, water treatment plants and universal metering.
 - Rehabilitation of old water supply systems, including treatment plants.
 - Rejuvenation of water bodies specifically for drinking water supply and recharging of ground water.
 - Special water supply arrangement for difficult areas, hill and coastal cities, including those having water quality problems (e.g. arsenic, fluoride)
- Sewerage
 - Decentralised, networked underground sewerage systems, including augmentation of

existing sewerage systems and sewage treatment plants.

- Rehabilitation of old sewerage system and treatment plants.
 - Recycling of water for beneficial purposes and reuse of wastewater.
- Septage
 - i. Faecal Sludge Management- cleaning, transportation and treatment in a cost-effective manner.
 - ii. Mechanical and biological cleaning of sewers and septic tanks and recovery of operational cost in full.
 - Storm Water Drainage
 - Construction and improvement of drains and storm water drains in order to reduce and eliminate flooding.
 - Urban Transport
 - Ferry vessels for inland waterways (excluding port/bay infrastructure) and buses.
 - Footpaths/walkways, sidewalks, foot over-bridges and facilities for non-motorised transport (e.g. bicycles).
 - Multi-level parking.
 - Bus Rapid Transit System (BRTS).

- Green space and parks
 - i. Development of green space and parks with special provision for child-friendly components.
- Reforms management & support
 - Support structures, activities and funding support for reform implementation.
 - Independent Reform monitoring agencies.
- Capacity Building
 - This has two components- individual and institutional capacity building
 - The capacity building will not be limited to the Mission Cities, but will be extended to other ULBs as well.
 - Continuation of the Comprehensive Capacity Building Programme (CCBP) after its realignment towards the new Missions.

Duration, Coverage and Total Outlay of the Mission

The total outlay for AMRUT is Rs. 50,000 crore for five years from FY 2015-16 to FY 2019-20. Five hundred cities will be covered under AMRUT.

Fund Allotment

The Mission funds will consist of the four parts and would be allocated based on some principals mentioned below:

- **Project fund** - 80% of the annual budgetary allocation.
 - Allocation of project fund will be informed to each States/UTs at the appropriate time.
- **Incentive for Reforms** - 10% of the annual budgetary allocation.

During the Mission period, 11 Reforms will be implemented. The following principles will govern the grant of incentives:

- Ten percent of the annual budget allocation shall be kept apart and given to the States/UTs every year as incentive for achievement of Reforms. Incentives for the previous year will be given at the start of the succeeding Financial Year.
- The incentive cannot be used as the State share in project in the AMRUT, but can be used by the ULBs for their project funding.
- **State funds for Administrative & Office Expenses (A&OE)** - 8% of the annual budgetary allocation

- The use of these funds will be recommended by the SHPSC and will form a part of the State Annual Action Plan (SAAP)
 - This fund will be utilised only for capacity building programmes
 - Hiring of professionals and support teams on contract to support the implementation of Mission at all levels will be permissible
 - Taking up activities connected to E-Municipality as a Service and displaying the logo and tagline of AMRUT prominently on all projects is permissible
 - Institutional arrangements that support Mission implementation will be eligible to be funded from this fund
- **MoUD funds for Administrative & Office Expenses (A&OE)** - 2% of the annual budgetary allocation:
- This fund will be utilized at the National Mission Directorate level (including the Urban Transport Division) for capacity building, Mission Directorate, convening National & regional workshops, giving awards and recognition of best practices, up-scaling

and replication of best practices and smart solutions, commissioning of research and applied studies through, Centres of Excellence and other institutions and international cooperation for capacity building and technology development.

Funding pattern

The following is the funding pattern of the mission:

Funding Pattern

The funding pattern of projects indicating the share of Central Government/State Government/ULBs/private sector

Components	Funding Pattern
Water Supply: <ul style="list-style-type: none"> • New, augmentation and rehabilitation of water supply system. • Rejuvenation of water bodies for water supply and recharge of ground water. • Special arrangements for difficult areas, hills and coastal cities. 	<ul style="list-style-type: none"> • One-third of the project cost as grant from GoI for cities with a population of above 10 lakh. • One-half of the project cost as grant for cities/towns with population up to 10 lakh. • Balance funding by State Governments /ULBs or through private investment. <p>The tender will include O & M for five years based on user charges. For the purpose of calculation of the project cost, the O&M cost will be excluded; however, the States/ULBs will fund the O&M through an appropriate cost recovery mechanism in order to make them self-reliant and cost-effective.</p> <p>The Service Level Improvement Plans will first provide for provision of water and sewerage connections to all households.</p>
Sewerage: <ul style="list-style-type: none"> • New, augmentation and rehabilitation of sewerage systems and treatment plants. • Recycling water for beneficial purposes and • Reuse of waste water. 	
Septage: <ul style="list-style-type: none"> • Faecal sludge management – (cleaning, transporting and treatment), particularly mechanical & biological cleaning of septic tanks and sewers. 	
Storm water drains: <ul style="list-style-type: none"> • Construction & improvement of drains and storm water drains 	
Urban transport: <ul style="list-style-type: none"> • Sidewalks, foot over bridges, non-motorized transport, buses, BRTS, multilevel parking, waterways and ferry vessels. 	
Development of green spaces and parks with special provision for child-friendly components. For parks, ULBs will have to establish a system for maintenance with local resident participation.	
Capacity Building and Reforms support A&OE (PMU/PIU/DPR cost, etc.)	Full (100%) by GoI, based on existing norms and unit costs set by the Apex Committee.

Service Level Improvement Plan (SLIP)

The primary purpose of the mission is to cover all households with water supply and sewerage. For this the Service Level Improvement Plan (SLIP), according to guidelines has to be prepared by each ULB. Following strategic steps are to be adopted for preparation of SLIP:

- **Assess the service level gap:** If zone is taken as basic unit the number of households in the zone having water tap/sewerage connections and those not having these facilities will be taken from the Census (2011) to arrive at the service level gap in water supply and sewerage in the ULB.

Bridge the gap: Once the gap is computed plans will be prepared to bridge the gap by using one or more of the components set out in under the heads of water supply and sewerage/septage.

- **Examine alternatives:** The ULBs will have to examine alternatives available to them in order to do more with less resources and do it in a way that the benefits reach the people in the form of taps and toilets.
- **Estimate the cost:** The cost (both capital and O&M) of each project will be prepared based on line (or abstract) estimates. An important output will be the **total requirement of funds for achieving universal coverage for water supply and**

sewerage (Master Plans) for each ULB and the full State. All relevant and appropriate technical and financial norms prescribed in the JnNURM will apply to the AMRUT Mission; no contingencies or cost escalation will be permissible and no incomplete or already started projects will be included.

- **Prioritize:** Universal coverage of water and sewerage is a National Priority and this is the first objective to be achieved by the States/ULBs. After universal coverage is achieved, the State/ULBs will decide on the next priority – such as to construct storm water drains or fund urban transport depending on the local priority. Depending on availability of funds, ULB will prioritize the zones to be taken up in the five year period of the Mission.

- **Out-of-box thinking:** There should be a 'decisive break with the past' during the preparation of the SLIPs by the ULBs. For example, instead of pumping water from long distances involving huge capital and electricity consumption costs, the States/ULBs should examine alternatives, such as **water recycling and reuse**. During design and preparation of technical estimate, low cost options will be given preference.

- **Conditionalities:** No projects should be included which do not have

land available and no project work order should be issued if all clearances from all the departments have not been received by that time. Moreover, the cost of land purchase will be borne by the States/ULBs. AMRUT funds should not be used to complete some components in the JnNURM.

- **Resilience:** Incorporation of resilience and securing projects against disasters will be done at the stage of preparation of the SLIP itself.
- **Financing:** Financing of projects, including the O&M costs, is a key aspect of the SLIPs. For each option, the capital cost and O&M cost has to be estimated. Different sources of finance have to be identified. At the ULB level, the contribution from internal sources (e.g. taxes, fees, others), external sources (e.g. transfers from States, project fund from Central/State Governments, others) and possibilities of debt, bonds and others has to be assessed. The challenge is to motivate citizens to share the additional cost. Dovetailing of funds through convergence with other Central and State Government

Programs/Schemes is also another source of funding.

- **Reforms:** Implementation of Reforms is an important objective of the SLIP. The ULBs have to prepare a roadmap for Reforms which will be consolidated by the State Mission Director and included as part of the SAAP.

State Annual Action Plan (SAAP)

The basic building block for the SAAP would be the SLIPs prepared by the ULBs. At the State level, the SLIPs of all Mission cities will be aggregated into the SAAP. Therefore, the SAAP is basically a State level service improvement plan indicating the year-wise improvements in water-supply and sewerage connections to households.

While preparing the SAAP State will ensure the following:

Principles of Prioritization: The States will decide on the inter-ULB allocation based on gap analysis and financial strength of ULBs and choose those ULBs in the first year that have higher gaps in provision of water supply and sewerage. Urban Local Bodies with a high proportion of urban poor could receive a higher share. The potential Smart cities will be given first preference because the Smart Cities Mission and the AMRUT are complementary.

Importance of O&M: Projects proposed to the MoUD in the SAAP will include O & M for at least five years to be funded by way of levy of user charges or other revenue streams. Project cost will not include O&M cost.

Financing of projects: AMRUT guidelines has specified the maximum share which will be given by the Central Government. States have to decide during formulation of the SAAP how the residual financing (over and above Central Government share) is shared between the State and ULBs. **However, the State contribution to the SAAP will not be less than 20 percent of the total project cost.**

At the State level the SAAP should only contain those projects where complete project cost is completely linked with revenue sources. During the process of developing the SAAP, the States/UTs should explore the possibility of using Public Private Partnerships (PPP), which should be the preferred execution model. The PPP should include appropriate Service Level Agreements (SLAs) with strong citizen feedback built into it.

Approval of SAAP: The SAAP will be approved by the MoUD once a year. The AMRUT will provide **project funds to ULBs through the States.**

Execution

Projects would be executed by ULBs. In case the ULBs do not have adequate capacity to handle projects, the State Government may recommend in SAAP, upon a Resolution passed by the ULB, for the execution of the projects by specialized parastatal agencies of the State or Central Governments. However, the maintenance and upkeep of the created assets will be the responsibility of the ULB and the State Government. The MoUD will not give project-by-project approvals or technically sanction project DPRs; the States/UTs will be solely responsible for these activities. In order to overcome slow implementation of Projects the States/ULBs should follow an approach in which end-to-end support for project design, development, implementation and management is provided to ULBs/States by external entities. Specifically, the assistance will be given for preparation of the SLIP, SAAP, DPR, etc. The external entities will be called Project Development and Management Consultants (PDMCs).

Release of funds

The funds will be released in three instalments of 20:40:40 and will be kept in separate bank account. Immediately after announcement of the AMRUT, each Mission City will be given an advance of Rs. 25 lakh for preparation of SLIP/individual capacity building.

Advance will be adjusted in its share at the time of release of the first instalment.

The first instalment will be released immediately after approval of the SAAP by the Apex Committee. The second and third instalment will be released on receipt of confirmation (i) utilisation of 75% of the amount already released by the Centre and State (ii) utilization of the State/ULB/Private Sector shares, and (iii) meeting the service level milestones as assured. States should release the CA funds along with State share to the ULBs within seven working days of release of Central share by MoUD. At the end of third quarter of every year the Apex Committee will review the utilisation of allocations by States and shall reallocate funds from non-performing to the performing States/ULBs based on their performance and potential to utilize funds.

Programme Management Structure and Monitoring

National level

An Apex Committee (AC), chaired by the Secretary, MoUD will conduct Overall monitoring and supervision of the Mission.

State level

A State level High Powered Steering Committee (SHPSC) chaired by the State Chief Secretary shall steer the Mission Programme in its entirety. The Committee approves projects after they are technically appraised and sanctioned by the State Level Technical Committee (SLTC).

SHPSC will monitor the progress of implementation of the Mission, including project implementation in ULBs, outcome and O&M arrangements of projects sanctioned and completed under the Mission and will periodically review the progress of capacity building and training activities.

City Level

At the City level the ULB will be responsible for implementation for the Mission. The Municipal Commissioner will ensure timely preparation of SLIP. The ULB will also be responsible for building coordination and collaboration among stakeholders for timely completion of projects without escalation of project cost.

Audit Points

- Could the auditor ensure that the grants under Atal Mission for Rejuvenation and Urban Transportation were actually utilized by the ULB for the specific purposes for which the grants were sanctioned?
- Was the Service Level Improvement Plan (SLIP), according to guidelines prepared by each ULB?
- Was the service level gap assessed at the stage of preparation SLIP and plan formulated to bridge the gap?
- Was the land marked for the project work have clearance from all departments?

- Whether the sources of finance for implementing the projects detailed in the SLIP?
- Did ULB ensured coordination and collaboration among stakeholders for timely completion of the project? If not, the reasons to be analysed.
- Was SAAP included contribution of State not less than 20 percent of the total project cost?
- Did Auditor ensured that the mission of every household access to a tap with assured supply of water and a sewerage connection achieved?
- Was there any plan for individual and institutional capacity building by ULB? Was there any shortfall?
- Could the auditor ensure that a State level project committee was constituted to sanction the State scheme and the State scheme was actually sanctioned by that committee?
- Did any portion of the fund provided under AMRUT remain unutilized? If so, the reasons therefor should be analysed.
- Did the ULB keep any record of the number of household to be benefited from the scheme? Was the same in tune with the projected numbers?

SWACHH BHARAT MISSION (SBM)

The Census 2011 showed that in 4,041 statutory towns, close to eight million households do not have access to

toilets and defecate in the open (7.90 million). Weak sanitation has significant health costs and untreated sewage from cities is the single biggest source of water resource pollution in India. This indicates both the scale of the challenge ahead of the Indian cities and the huge costs incurred from not addressing them. For ensuring hygiene, waste management and sanitation across the nation, “Swachh Bharat Mission” is launched.

SBM is being implemented by the Ministry of Urban Development (M/o UD) for urban areas.

Mission Objectives

The objectives of the mission are:

- Elimination of open defecation
- Eradication of Manual Scavenging
- Modern and Scientific Municipal Solid Waste Management
- To effect behavioural change regarding healthy sanitation practices
- Generate awareness about sanitation and its linkage with public health
- Capacity Augmentation for ULB's
- To create an enabling environment for private sector participation in Capex (capital expenditure) and Opex (operation and maintenance)

Duration of the mission

The Mission will be in force till 2nd October 2019

Mission components

The Mission has six (6) components. Components are:

Component I - Household toilets, including conversion of unsanitary latrines into pour-flush latrines

The aim of the component I is:

- No households engage in the practice of open defecation,
- No new insanitary toilets are constructed during the mission period and
- Pit latrines are converted to sanitary latrines.

The Target Group for construction of household units of Toilets, is:

- 80% of urban households engaging in open defecation
- All households with insanitary latrines
- All households with single-pit latrines

Household toilets constructed will have two main structures – the toilet *superstructure* (including the pan and water closet), and the *substructure* (either an on-site treatment system, or a connection to existing underground sewerage system).

For this component, **beneficiary** shall mean any household that does not have access to an individual household toilet or has an insanitary toilet.

Central government incentive for the construction of household toilets will be Rs. 4,000 per household toilet. 50% of the Central Government incentive (Rs.2,000/-) will be released to the identified beneficiary household by the ULB as 1st instalment along with share of the state government. The remaining 50% of Central Government incentive as 2nd instalment should be released along with the State Government's incentives upon verification of physical progress of construction of the household toilet.

Final Verification of the construction of the household toilet should be supported by location-based technologies, wherein self-attested geo-tagged photographs of the construction, along with the applicant are taken out. These photographs must be uploaded to the SBM (Urban) MIS and be monitored by the ULBs and the States.

All financial help for this component will be deposited directly (by electronic clearing service) into the bank accounts of the beneficiary households. No cash/cheque disbursements shall take place.

Component II - Community toilets

Community toilets are shared facility provided by and for a group of residents or an entire settlement. Community toilet blocks are used primarily in low-income and/or informal settlements / slums, where space and/or

land are constraints in providing a household toilet. These are for a more or less fixed user group.

- About 20% of the urban households in cities, who are practicing open defecation are likely to use community toilets as a solution due to land and space constraints in constructing individual household latrine.
- Community toilet blocks will consist of a given number of toilet seats, as per requirements, toilet superstructure including the pan and water closet, and a substructure (either an on-site treatment system, or a connection to underground sewerage/septage system) shared by all the toilet seats and facilities for hand wash.
- For this component, **beneficiaries** shall be groups of households (“beneficiary household group”) whose members practice open defecation and who do not have access to household toilet, and for whom the construction of individual household toilets is not feasible. Beneficiary household groups shall be identified by the procedure as designed by the ULB. This may be application based or survey based. NGO’s, Area, Ward or Mohalla Sabha’s may be used for this purpose.
- Once a beneficiary household group are identified, the ULB shall identify suitable piece of land adjoining

their houses/dwelling and design the toilet block.

- Central government incentive for the construction of community toilets will be in the form of 40% Grant/VGF, for each community toilet block constructed. The remaining funds have to be generated from the various other sources.

Component III - Public toilets

Public Toilets, are meant for the floating population / general public in places such as markets, train stations, tourist places, near office complexes, or other public areas where there are considerable number of people passing by.

Under the component States and ULBs will ensure that all prominent places attracting floating population within the city are covered with sufficient number of public toilets. Adequate provision and facilities for men, women and for the disabled in the public toilets should be ensured.

The Projects will be prepared, sanctioned and implemented by ULBs. There will be no Central Government incentive support for the construction of public toilets. States and ULBs would identify land and encourage the private sector to construct and manage public toilets through a PPP agreement.

Component IV - Solid waste management

Municipal Solid Waste Management (MSWM) refers to a systematic process that comprises of waste segregation and storage at source, primary collection, secondary storage, transportation, secondary segregation, resource recovery, processing, treatment, and final disposal of solid waste. ULB's are to prepare DPR for Solid waste management for the city in the line of The Manual on Municipal Solid Waste Management, 2000 published by MoUD, and other GOI's goals on SWM. Street Sweeping, litter control interventions and service level benchmark will be part of DPR which is essential for a clean city. DPR should have viable financial model including cost-recovery mechanisms.

Some institutes of national Repute will be authorised by the State High Powered Committee (HPC) for the technical and economic appraisal of DPRs for projects recommended by ULBs.

GOI will reimburse full cost of preparation of DPR. Incentive of GOI will be in the form of a maximum of 20% Grant / VGF for each project.

State Level high power committee will approve the DPR and direct implementation of the same.

Component V - IEC & Public Awareness

A key strategy of the mission is behaviour change communication to the

general public at large which would cover issues of open defecation, prevention of manual scavenging, hygiene practices, proper use and maintenance of toilet facilities and its related health and environmental consequences.

States will prepare an annual action plan, with details of State funding commitment and State HPC will approve it.

A total of **15%** of the total central allocation will be earmarked for this component. Of this, **12%** will be earmarked for States to undertake massive public awareness campaigns through radio, social media, documentaries, plays, workshops, etc. The remaining **3%** will be earmarked for the MoUD to draw a national media campaign through Newspaper and TV. At least 50% of the IEC fund in each annual plan, as approved by State HPC, must go to the ULB's for IEC activities at the grass root level.

Component VI - Capacity building and Administrative & Office Expenses (A&OE)

Three percent (**3%**) of the total Central Government allocation under the mission will be earmarked for capacity building, administrative and office expenses of States and ULBs.

Two per cent (**2%**) of the total Central Government allocation under the mission will be utilized at MoUD level for capacity building, convening national and

regional workshops, various awards and best practice recognition, programme research, studies, international cooperation for capacity building and technology development, A&OE and various eligible purposes. States and ULBs should draw up a calendar of training programme identifying relevant officials (both senior level officials and field-level functionaries) for training. Minimum 50% of the earmarked fund for capacity building approved by HPC shall be utilised by the ULBs at ULB level.

States will contribute a minimum of 25% funds towards all components to match 75% Central Share. This will be 10% in the case of North East and special category States.

Mission Coverage: Cities and target population

All **Statutory towns** will be covered under the Mission. Statutory towns are urban areas that have been defined by 'statute' as urban such as municipal corporations, municipalities, cantonment boards, notified town area committees, town panchayats, or nagar palikas;

Mission Strategy

The strategy of the mission is:

- Comprehensive Sanitation Planning, which includes
 - City Level Sanitation Plans
 - State Sanitation Concept

➤ State Sanitation Strategy

- Behavioural Change Strategy and IEC
- Enabling Environment for Private sector participation
- Capacity Building
- Special focus groups

Under special focus group the State Governments shall pursue the following:

- All manual scavengers are identified and toilets linked to their employment are upgraded to sanitary toilets, and that they are adequately rehabilitated.
- It will be the endeavour of ULBs that the informal sector workers in waste management (rag pickers) are given priority to upgrade their work conditions.
- All temporary accommodation have adequate provision for toilets either on the premises or linked to a public / community toilet.
- Mandating that construction labour in urban areas have access to temporary toilets at all sites in urban areas where construction / maintenance work is taking place and they are housed.
- Priority shall be accorded pro-actively to cover households with vulnerable sections such as

pensioners, girl children, pregnant and lactating mothers.

Mission Outlay

The estimated cost of implementation of SBM (Urban) is Rs. 62,009 Crore. The Government of India share amounts to Rs. 14,623 Crore. In addition, a minimum additional amount equivalent to 25% of GoI funding, amounting to Rs.4,874 Crore shall be contributed by the States as State/ULB share. The balance funds is proposed to be generated through various other sources such as Private Sector Participation, additional resources from State Government/ULB, beneficiary share, user charges, market borrowing etc.

State Sanitation Strategy,

To attain the objectives of Swachh Bharat Mission a proper **city sanitation plan** according to National Urban Sanitation Policy-2008 is required. At the initial implementation stage a **brief concept note on state sanitation strategy is required, as first step**, for claiming the first instalment by all states. However, for further release of fund preparation of City sanitation plans for city and State Sanitation Strategy as per National Urban Sanitation Policy 2008 is mandatory.

Projects prepared as per guidelines will be sanctioned by state government (HPEC) or ULBs. Only new projects will

be considered under the Mission and there should not be any duplication of projects.

Grants and Viability Gap Funding (VGF)

Under the Mission, projects under PPP mode are to be encouraged for getting private capital in urban infrastructure as well as to bring in private sector efficiency in delivery of urban services and O & M. There may be a requirement for viability gap funding for projects under PPP. For solid waste management, revenue streams such as compost from organic waste, recycled construction material from C & D waste, power from waste to energy plants can be leveraged. Government of India funds as per funding pattern will be available for claiming VGF in projects under PPP. When projects are not taken up under PPP methodology GoI share (as per funding pattern) to be released as Grant from GoI for the project to the ULB.

Allocation of funds

Mission funds of Central Government will be allocated to states/UTs as follows:

Classification	Total Fund (Rs. in crore)	Percentage of allocation
Project Fund	8773.80	60%
Performance Fund	2924.60	20%
Public Awareness & IEC Activities	2193.45	15% *

Capacity Building & A&OE	438.69	3%
Research, Capacity Building & A&OE (M/o UD	292.46	2%

* 3% to be retained by M/oUD

The distribution of the **project funds**:

- for the States other than NE States will be 80% (Rs.7019.04 crore) ,
- for NE States 10% (Rs. 877.38) and
- Flexi funds for States 10% (Rs. 877.38)

The release of the **performance grant** shall be based on the independent evaluation of the following performance:

- Elimination of open defecation
- Conversion of insanitary latrines into pour-flush latrines
- Eradication of manual scavenging
- Prevention of pollution of water sources
- Ensuring cleanliness and hygiene in public places
- Awareness creation
- Capacity building

Disbursement of fund

On acceptance of the State Government's **brief concept note on state sanitation strategy** by the MoUD, first instalment of funds shall be disbursed to States / UTs in the following manner:

i. 50% of the project fund shall be divided among states according to percentage of share as per mission guidelines

ii. 12% and 3% of Project funds released above will meant for IEC/ the Public Awareness component and for the Capacity Building / A&OE funds respectively.

iv. 20% of performance grant shall not be withhold while releasing the first instalment.

Release of subsequent installments (including Capacity Building & IEC, and the Public Awareness and A&OE) will depend on furnishing of the Utilization Certificate for 75% of the fund released as 1st instalments and projection of satisfactory physical and financial progress of the activities taken up as per NARC criteria.

State governments shall release funds to ULBs within 30 days of release of the central share along with their share. In case of delay in release beyond 30 days, interest at the rate specified by the M/o Finance from time to time shall be levied on the State governments.

Management Structure

Mission will have a three-tier management structure as follows:

National Level	1. National Advisory and Review Committee (NARC)
	2. SBM National

	Mission Directorate (NMD)
State level	1. High Powered Committee (HPC)
	2. State Mission Directorate (SMD)
ULB level	Active participation of the Ward Committees, Area Sabhas, Resident Welfare Associations, NGOs and Civil Society Groups

NARC will carry out overall monitoring and supervision of mission.

NMD will be the overall in-charge of all activities of the mission.

State Level **HPC** will be responsible for preparation and approval of the State Sanitation Strategy (SSS), City Sanitation Plan (CSP) for all cities, DPR and to monitor the overall implementation of mission in the state.

The **SMD**, to be located within the Urban Development Department of the state, will create a uniform structure across the state for the planning, designing, project preparation, appraisal, sanction and implementation of sanctioned projects under the mission at the ULB level.

Monitoring & Evaluation

States / UTs will send Monthly /Quarterly Progress Reports in prescribed formats with regard to targets and achievements to NARC.

Monitoring activities will include, third party evaluation, impact evaluation

studies. With a view to effect mid-term correction to achieve the objectives, evaluation of the mission to be undertaken during the course of its implementation. Also to ensure satisfactory monitoring of projects a **District Level Review and Monitoring Committee (DLRMC)** to be formed.

Audit Points

- Did ULB prepare a city sanitation plan according to National Urban Sanitation Policy-2008?
- Could the auditor ensure that the State's share of the scheme was released to the ULBs in time?
- Was utilisation certificate furnished for 75% of the fund released as 1st instalments at the time of releasing subsequent instalment?
- Could the auditor ensure performance grant was released after evaluation of elimination of open defecation, conversion of insanitary latrines into pour-flush latrines, eradication of manual scavenging, prevention of pollution of water sources, ensuring cleanliness and hygiene in public places, awareness creation and capacity building?
- Did ULBs prepare DPR for Solid waste management?

- Weather DPR for SWM included service level benchmark and cost-recovery mechanisms?
- Have informal sector workers in waste management (rag pickers) given priority to upgrade their work conditions?
- Did State Government release funds to ULBs within 30 days of release of the central share along with their share?
- Did interest at the rates specified paid by the State Government in the cases of delay in release of fund?
- Was implementation of project under PPP mode encouraged by ULBs?
- Could auditor ensure availability of private capital in urban infrastructure and private sector efficiency in delivery of urban services in cases of projects under PPP?
- Did ULBs draw up a calendar of training programme identifying relevant officials for capacity building?
- Could audit ensure active participation of the Ward Committees, Area Sabhas, NGOs in implementation of the mission?
- Did ULB furnished Monthly /Quarterly Progress Reports, in time, in prescribed formats with regard to targets and achievements to NARC?
- Weather self-attested geo-tagged photographs of the household toilet

construction along with the applicant was uploaded to the SBM (Urban) MIS? If not, reasons to be recorded.

- Could the auditor ensure that periodical inspections of the projects were made by the prescribed authorities?
- Did the ULB identify land and for constructing public toilets? Were such land based on actual need for beneficiaries?
- Was there any record to show construction of household toilets, community toilets and public toilets?

Gender Sensitisation

- Gender sensitization is an important issue in the context of all-round development in a participatory democracy. It enables a logical awareness and understanding of the roles and functions of men and women. It brings gender empowerment measures which tend to examine and gauge the extent of active participation by men and women in execution of work and decision making with a view to promoting social and economic development.
- The conventional attitude to gender is born out of some age-old beliefs and knowledge about the role and behaviour of men and women in a patriarchal society. Some of the characteristics and features are thought to be 'natural' for men, while some others are for women. Thus, peoples'

observed behaviour defines and determines gender roles and accordingly, labels the various functions and creeds as masculine or feminine. The same has ultimately brought about division of labour and practices in the society and given rise to the concept of discrimination and inequality between men and women.

- The growth and practice of the concept of an egalitarian and neutral attitude to gender, vis-à-vis, recognition of the role of women in the process of socio-economic development was hardly tangible till the 1970s. Women's role in agriculture and other productive sectors was not significantly thought of and women were excluded from the various processes of participatory development.
- The seventies started to witness the first significant change in interest in making the development processes gender sensitive. Efforts in this direction triggered off consequent on the declaration of U.N Decade for Women (1975-85). This ultimately led to rethinking of development policies, which began to view women as agents of productive processes, vis-à-vis, identifying women's marginalization as the primary cause of their deteriorating status. Since 1950s, the policy approaches and measures reflected recognition of women's role in development, resulting in changes in the

macro level social and economic planning for development. The focus on attitude to gender sensitization gradually shifted from 'Welfare' → 'Equity' → 'Anti poverty' and 'Efficiency' and finally to 'Empowerment'. This latest stage viz. 'Empowerment' approach got accelerated in the eighties and nineties and emphasizes on empowering women through greater self-reliance and as a means to confront oppression.

- Gender sensitization, vis-à-vis, empowerment of women has been recognised in the Constitution of India and by different Central Government Schemes. In the context of ULBs Article 243T(3) of the Constitution of India provides that not less than one-third of the total number of seats to be filled by direct election in every Municipality shall be reserved for women and such seats may be allotted by rotation to different constituencies in a Municipality.

Audit Points

- Could the auditor ensure that adequate gender empowerment measures were taken in different schemes to examine and gauge the extent of active participation by men and women?
- Did women actually take noticeable part in execution of work and decision making?

- Could the auditor ascertain that not less than 1/3rd of the total number of seats were reserved for women and such seats were allotted by rotation to different Wards in the ULB?

Session: 9

Session Title: IT Audit



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 9**Session at a glance****Session Title:** IT Audit**Learning Objectives:**

Given the inputs on the IT Audit in ULBs alongwith its objectives, control in IT system and audit methodology, through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of IT Audit in ULB environment which will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: In this session we will discuss about IT Audit in ULBs, its objective, audit methodology, control system and performance auditing in IT environment.	5 min	Lecture
Key Teaching Point IT Audit in ULBs, its objective, audit methodology, control system and performance auditing in IT environment..	65 min	Interactive Lecture, and PowerPoint slide show
Summary:	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

Session: 9**Instructor's Guide****Session Title:** IT Audit.

		Ref.
Session Overview: Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss IT Audit in ULBs, its objective, audit methodology, control system and performance auditing in IT environment.		
Learning Objective: Given the inputs on the IT Audit in ULBs along with its objectives, control in IT system and audit methodology, through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of IT Audit in ULB environment. These will help them to focus on audit issues at the practical job scenario.		
Basic Concept: Ask the participants about their understanding of IT system and e-governance in ULBs and Audit of ULBs in IT environment. Encourage each participant to make the session interactive. Obtain responses from participants and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss .		PowerPoint Slide: Session 9 IT Audit
Request any participant to summarise the session. Thank the participants for their active participation and bring the session to a close.		

Session Title:

IT Audit

Session Overview

In the previous sessions we have discussed evolution of ULBs, constitution and organisation of ULBs, audit of Municipal Fund, loans, grants, taxation and accounting system, schemes sponsored by Central Government / State Government and implemented by municipalities/corporations along with audit points.

In this session we will discuss e-governance in municipalities / corporations, recommendation of Twelfth Finance Commission in this regard, IT audit methodology in municipal environment, IT audit techniques, performance auditing in IT environment alongwith audit points. We will also discuss some important case studies on IT.

Learning Objective:

Given the inputs on the key features of IT audit methodology and IT audit techniques alongwith study of some important IT audit cases through interactive discussion, lecture and PowerPoint show, the participants will, at the end of the session acquire basic concepts of IT audit alongwith techniques which will help them to focus on audit issues at the practical job scenario.

Background

- IT environment or E-governance in the government and public sector organisations suggests a strategic and systematic use of modern information and communication technology to improve the efficiency, transparency and accountability in its functioning and interface with citizens.
- Over the last several years governments have increasingly been using technology to redesign business processes, restructure departments and programmes and change the way they plan and manage their affairs, deliver their services, and interact with various stakeholders.
- Governments are deploying the technology to become increasingly responsive to stakeholders such as citizens, vendors and numerous interest groups who want more efficient service delivery and greater access to information on the functioning of the governments.
- In August 2002, the Government of India announced that it would implement a comprehensive programme to accelerate *e-governance* at all levels of the government and public sectors to improve efficiency, transparency and accountability at the government-public sector-citizen interface.
- The Government of India subsequently approved the *National E-Governance Action Plan (NEGAP)* for implementation during 2003-2007.

- The Plan seeks to lay the foundation and provide the impetus for long-term growth of *e-governance* within the country.
- It aims to create the appropriate governance and institutional mechanisms and set up the core infrastructure and policies, and to implement a number of Mission Mode Projects at the Centre, State and integrated service levels to create citizen-centric and business-centric environments for good governance.

E-governance in Municipalities and Corporations

- The *NEGAP* mentioned above, identified the formulation of various Mission Project Modes in *e-governance*, including one for municipalities and corporations under the responsibility of the Ministry of Urban Development (MoUD).
- The MoUD and the Department of Information Technology (DIT) of the Ministry of Communication and Information Technology (MoC&IT), Government of India, in collaboration with the National Institute of Urban Affairs (NIUA) and Indo-USAID Financial Institutions Reform and Expansion (Debt) project (FIRE-D) jointly organized a seminar in August, 2004 to receive inputs from select states and cities with *e-governance* experience as well as practitioners in the field.
- The seminar was attended by about 150 delegates representing various Central and

State Government wings including Secretaries of Urban Local Bodies of different States, Mayors, Municipal Commissioners and others. The seminar had the following agenda:

- To have an appreciation of *e-governance* initiatives in different municipalities in the country;
 - To develop a generic *e-governance* model for Municipal Corporations, Municipal Councils and Town Panchayats;
 - To identify the technology solution providers in this area in the country and provide a forum for them to display their products; and,
 - To work out a framework for introducing *e-governance* in urban local bodies in a phased manner and develop a road map for implementation of the same.
- The following further points ensued from the seminar:
 1. The existing scenario in urban local bodies was one of lack of process integration across different functional areas, absence of integration of work flows and multiple data entry without any value addition. Hence there was need for addressing problems of multiple records in municipal databases and issues related to data security

2. However, a number of municipalities in the country had taken initiatives in introducing information and communication technology in select areas of their functioning. Andhra Pradesh, Maharashtra, Tamil Nadu, Kerala, Karnataka, Gujarat and Delhi have been fore-runners in *e-governance*, and they have successfully developed *e-governance* programmes particularly in the delivery of basic services including health and education, social services, registration of licenses and certificates and redressal of public grievances etc.

3. Significant steps were taken by the Andhra Pradesh State Government to develop an integrated view of municipal information across all municipalities in the state as part of the Government's *e-governance* initiative. This will facilitate and provide better supervision, monitoring and guidance through transferring data online from urban local bodies to Regional Offices, Municipal Administration Department and the Government. The system, when fully developed, will provide 'single window municipal services to citizens', user-friendly environment accessible over the browser and interface with *e-Seva*. Entire project known as *Suvidha* will benefit 27% of the state population. The scope of this project includes designing and

developing 15 application software modules viz. property tax, vacant land tax, trade licence fees, building permissions, schemes, works and projects, financial accounting etc.

4. In Tamil Nadu, software was developed in-house covering 18 major functionalities installed at 102 municipalities. A dynamic website was also under construction for all urban local bodies.

5. In Maharashtra a sizeable number of corporations and councils have been computerized. The application focuses on berth and death registration, citizen complaint and grievances, cash book, work estimation, property assessment, water tax, personnel/establishment, estate, budget, library, stores and workshop, etc.- all developed in local language. It has benefited the state in terms of accurate information, increased revenue generation, citizens benefits in terms of efficient deliveries by the municipalities and time save.

6. In West Bengal, Kolkata Metropolitan Development Authority (KMDA) outlined the need to establish a Geographical Information System (GIS)/ Management Information System (MIS) database in all 50 municipalities / corporations to facilitate decentralized planning and strengthening the

management of municipalities. Besides, Tata Consultancy Services (TCS) developed an application for Kolkata Municipal Corporation (KMC) based on a citizen centric approach, which includes various management systems like revenue management system and civic management system. The package was developed with a specific plan in mind, wherein manual data was transferred to digital data.

Recommendations of Central Finance Commission

- A portion of the Local Body Grants (LBG) under EFC (para 2.2 of the EFC Guidelines) was provided for maintenance of accounts and for development of data base on the finances of the municipalities at the district, state and central government levels and to be made easily accessible by computerization. The data should be collected and compiled in standard formats prescribed by the C & AG.
- TFC (para 2.3 of the recommendations) felt it to be imperative that high priority need to be assigned to creation of database and maintenance of accounts.
- TFC observed [para 3.1 (xv)] that most States did not have credible information on the finances of their local bodies. Hence, local bodies would continue to need funding support for building database and maintenance of accounts.

- States should assess the requirement of each local body in this regard and earmark funds accordingly out of the total allocation recommended.

- Fourteenth Finance Commission (FFC) also observed that though the last three Finance Commissions had raised the issue of reliable data and accounts and provided grants to address the issue, not much has happened. FFC has recommended grants in two parts - a basic grant and a performance grant on a 80:20 basis. Performance grants is recommended to address the issues to make available reliable data on local bodies' receipt and expenditure through audited accounts;

Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

- JNNURM is a Central Government Scheme jointly sponsored by the Ministry of Urban Employment and Poverty Alleviation and the Ministry of Urban Development for effecting potential reforms and development of the municipalities and corporations of 63 selected towns and cities in India.
- The expected goal of JNNURM, among other things, included introduction of *e-governance* applications in core functions of ULBs/Parastatal resulting in reduced cost and time of service delivery processes.

Audit of ULB Transactions

- From the foregoing it is obvious that as computer technology is advancing, the ULBs

are increasingly dependent on computerised vi. information systems to carry out their operations and to process, maintain and report essential information.

- As a consequence, the reliability of computerised data and of the systems that process this data is a major concern to audit.
- IT auditors have to evaluate the reliability of computer generated data, supporting financial statements and analyse specific programmes and their outcome. In addition, IT auditors have to examine the adequacy of controls in information systems and related operations to ensure system effectiveness.

Objective of IT Audit

- The focus areas would be the following:

Attestation and certification of financial statements

- i. Assurance that every entity using IT for accounting is subjected to IT Audit to provide assurance that data entry, processing and outputs are reliable.
- ii. Assurance that whenever data pertaining to financial results of an entity is processed by IT, it's reliability is assessed.
- iii. Identification and assessment of reliability of all such IT applications that provide data for incorporation in the Financial Statements.

Performance Audit of IT systems

- iv. System designs
- v. Procurement
- vi. Achievement of intended objectives

Management of the System.

Assessment of Systems under Development

- viii. This arises out of the need to avoid expensive redesigning of systems especially software, due to auditor's observations after the systems is operational.
- ix. Adequacy of audit trail and requirement of audit access to the application system as mandated under the CAG's DPC Act.

Audit methodology, i.e. types of audit testing

- Auditors carry out two types of testing to gain audit assurance:

- **Preliminary evaluation and compliance testing** — Preliminary evaluation and compliance testing are carried out to determine what reliance can be placed on the auditee's internal controls. The auditor has to see:

- how the IT function is organized;
- use of computer hardware and software;
- application processed by the computer and their relative significance to the organisation; and,
- methods and procedures laid down for implementation of new applications or revision to existing applications.
- In course of preliminary evaluation, the auditor should ascertain the level of control awareness in the auditee organisation and existence of control standards.
- The preliminary evaluation should *inter-alia* identify potential key controls and any

serious control weaknesses. For each control objective the auditor should state whether or not the objective has been achieved, and if not, he should assess the significance and risks involved due to control deficiencies.

- **Substantive Testing--** After completing the preliminary IT systems and compliance testing substantive testing is used by the auditor to substantiate or confirm the figures in the financial statements. This type of testing may include:

- the confirmation of account balances;
- analytical review, i.e. predicting the account balances from external factors;
- the testing of individual transactions against each of the audit assertions, for example, selecting a payment and checking it for completeness, occurrence, measurement, disclosure etc.

Controls in an IT System

- Controls in a computer information system reflect the policies, procedures, practices and organisational structures designed to provide reasonable assurance that objectives will be achieved.
- The controls in a computer system ensure effectiveness and efficiency of operations, reliability of financial reporting and compliance with the rules and regulations.
- Information system controls are broadly classified into two broad categories:

- General Controls

- Application Controls

- General controls include controls over data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance. They create the environment in which the application systems and application controls operate. Examples:

- organisation and management (IT policies and standards);
- segregation of duties;
- physical controls (access and environment);
- logical access controls;
- system development and programme change;
- control over computer personnel;
- controls over there to ensure that the computer systems are there and working when they are needed;
- controls over end user computing;
- guidelines pertaining to IT security and information protection;
- application software development and change controls.

- Application controls pertain to specific computer application. They include controls that help to ensure the proper authorization, completeness, accuracy, and validity of transactions, maintenance, and other types of data input. Examples:

- controls over the input of transactions including system edit checks of the format of entered data to help prevent possible invalid input or prevent users from performing transactions that are not part of their normal duties;
- controls over processing;
- controls over output; and

- controls over standing data and master files

The following two diagrams will show the IT controls framework, vis-à-vis, needs:

Diagram 1
The IT controls framework

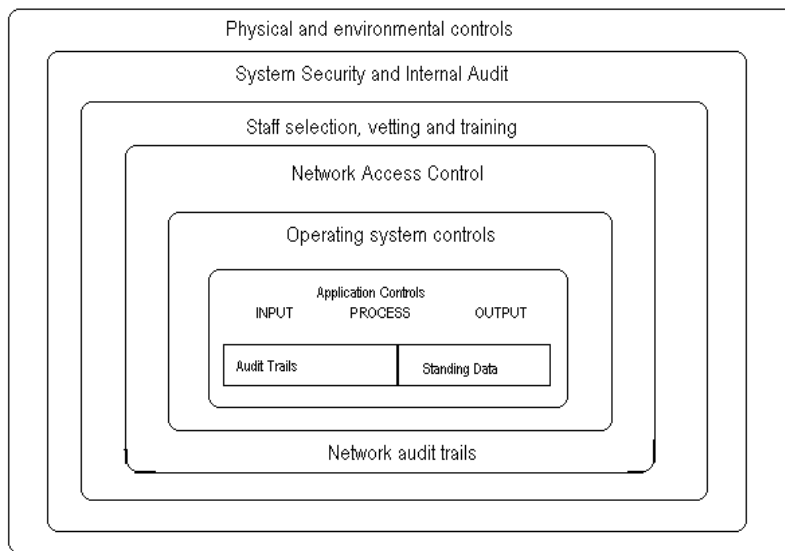
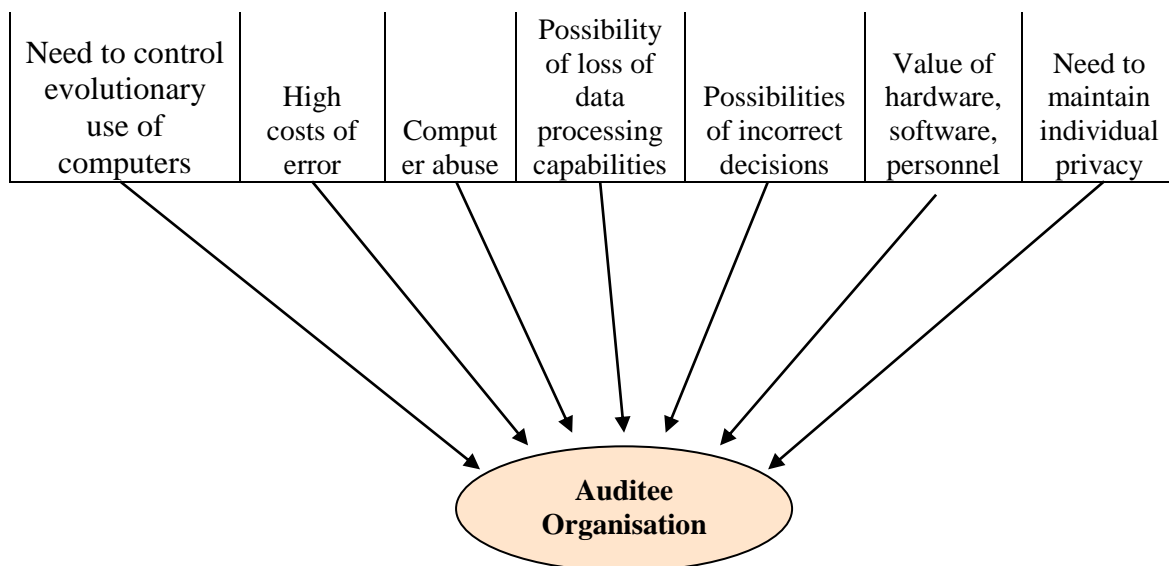


Diagram 2



Significance of controls

- Presence of controls in a computerised system is significant from the audit point of view inasmuch as their absence or weakness may allow duplication of input or processing, conceal or make invisible some of the processes. In some of the auditee organisations where the computer systems are operated by outside contractors employing their own standards and controls, the absence of proper controls may make the systems vulnerable to remote and unauthorized access.
- Apart from this, absence of controls may result in following possibilities:
 - i. Data loss due to file damage, data corruption (manipulation), fire, burglary, power failure (or fluctuations), viruses etc.
 - ii. Error in software can cause manifold damage as one transaction in a computer system may affect data everywhere.
 - iii. Computer abuse like fraud, vengeance, negligent use etc. is a great potential danger.
 - iv. Absence of audit trails makes it difficult for an auditor to ensure efficient and effective functioning of an IT system.

Audit techniques

- IT audit techniques refer to the use of computers, including software, as a tool to independently test computer data of audit interest as discussed below:

• Computer Assisted Auditing Techniques (CAAT)

- i. collecting and processing a set of test data with the help of **CAAT** that reflects all the variants of data and errors which can arise in an application system at different times;
- ii. CAAT include use of soft wares like IDEA, ACL, ACCESS, SQL;
- iii. CAAT tools can be used to:
 - a) extract information from auditee databases,
 - b) total, summarise, sort, compare and select from large volumes of data in accordance with specified criteria,
 - c) tabulate, check and perform calculations on the data;
 - d) perform sampling, statistical processing and analysis, etc.

Computer audit techniques are also employed for:

- simulating the auditees' application programme using audit software to verify the results of processing;
- reviewing programme listings periodically to see that there are no unauthorized alterations to the programmes;
- extracting samples of data from the auditee database/files, using sampling techniques, for post

analysis and review. The nature of data and type of analysis required determine what technique is to be employed. The auditor should give the sample size and design.

- verification of ledger balances and control totals independently,
- recalculation of critical computerised calculations to check mathematical correctness;
- range checks to verify the working of computer based controls and testing for exception conditions;
- testing the validity of data which have gone into the master file
- detection of data abuse/frauds and
- substantive testing with large volumes of data which is difficult, if not impossible, in a manual audit process.

The particular computer audit technique employed depends on:

- the type of application system under review;
- the extent of testing required;
- the availability of resources in terms of computer facilities, and the level of EDP skills among the audit staff; and
- volume of data and availability of printer information..

• **Control Objectives for Information and Related Technology (COBIT).**

- it is a model for control of the IT environment;
- it supports IT governance;
- it is a generally applicable and accepted standard for good IT security and control practices;
- it is internationally accepted as a good practice for control over information, IT, and related risks; and
- it helps in understanding, assessing and managing the risks together with the benefits associated with IT.

• **Internet**—The Internet has become increasingly important as a research, planning, communication and reporting tool. Auditors should be sufficiently familiar with the Internet to be able to use it to facilitate the conduct of performance audits and to understand the implications for performance auditing.

Performance auditing in IT environment

- Auditors should not only be aware of the uses of IT, they should also develop strategies and techniques for providing assurance to stakeholders about value for money from the use of IT, security of the systems, existence of proper process controls, and the completeness and accuracy of the outputs.

- The approach towards performance auditing in an IT environment should involve the following inter-related processes:

- obtain an understanding of the auditees' IT systems and determine their significance to the performance audit objective;
- identify the extent of IT systems auditing required to achieve the performance audit objective and develop and use appropriate CAATs to facilitate the audit.

A performance audit in an IT environment should:

- identify any deficiencies in IT controls and the resulting effect on the efficiency, economy and effectiveness of the performance of the agency;
- examine the IT system development and maintenance practices of the agency;
- determine whether system outputs meet agency quality and service delivery parameters;
- assess whether the IT systems enhance the economy, efficiency and effectiveness of the agency's programme management, in particular in relation to programme planning, execution, monitoring and feedback.

Performance auditing involving IT system development

- A performance audit involving IT systems development should determine if the agency:

- has the appropriate executive approvals for the development of the IT system, i.e. that IT management fits within the corporate governance of the agency;
- has appropriate project management processes in place to manage the project;
- has met required targets of time, cost, system function and value for money;
- uses an appropriate system development methodology; and
- has processes in place, including the involvement of Internal Audit, to ensure that the new system includes all the necessary controls and audit trails, and is likely to meet the requirements of the agency and its stakeholders.

Performance aspects of auditing in an IT environment

- The auditor may examine whether the IT system has enhanced the efficiency with which the agency manages its programmes/activities and whether the conversion to IT system has any beneficial results for the stakeholders in the agency.

- The auditor may also be expected to assess if the IT systems have facilitated improved programme management.

Audit Points

An auditor should see:

- if there is a comprehensive strategic plan;
- if it accurately reflects business needs;
- if management effectively controls strategy;
- Whether a published standard methodology is being used for designing and developing systems?
- Whether there is a common understanding by all parties-users, systems analysts, management and auditors-of the basic structure of both manual and computer processing activities, as well as of the concepts and needs for control and of the applicable control techniques?
- Who authorizes IT applications development – the user or steering Committee or management?
- Whether the system development work was preceded by a feasibility study to determine the most appropriate solutions to standard problems?
- Whether there is adequate cross referencing between the following stages:
 - i. content and format of preliminary studies,
 - ii. feasibility studies,
 - iii. system specifications,
 - iv. programme coding
- Whether project management techniques, are applied in system development work-that is to say, are there project decision milestones, time and cost estimates so that progress could be monitored against estimates?
- Whether programming standards using modular structured methodology are being adhered to in coding?
- Whether existing in house or external available application packages were considered before deciding upon new in-house application development?
- Whether manuals are maintained and kept up-to-date specifying the control procedures and whether they are enforced in practice through a 'test check'?
- Whether system documentation is sufficiently comprehensive?
- Whether a back-up copy of the documentation is held?
- Whether all prime input, including changes to standing data is appropriately authorized?
- For on-line systems, whether the ability to enter data from a terminal is adequately restricted and controlled?
- Whether there is a method to prevent and detect duplicate processing of a source document?
- Whether all input has been submitted?

- Whether there are procedures for ensuring correction and resubmission of rejected data?
- Whether the transaction processing is accurate, complete, valid, unique (i.e. no duplicates), and the computer processes are auditable?
- Whether the computer outputs are produced and distributed on time?
- Whether the same are reconciled with input control parameters?
- Whether the same are physically controlled at all items, depending on the confidentiality of the document?
- Whether the errors and exceptions pertaining to the same are properly investigated and acted upon?
- Could the auditor gauge the security measures adopted by the ULBs in respect of both physical security and system security?
- Were the security measures adequate?
- Were there any cases of system failure due to absence of proper security control?
- Were the security measures certified by the appropriate authority?
- While auditing IT performance did the auditor take the help of CAAT?
- Could the auditor test check correctness of data processing and generation of information?
- Could the auditor ensure that the system processing was complete and reasonably accurate?

- Could the auditor identify any deficiencies in IT controls and the resulting effect on the efficiency, economy and effectiveness of the performance of the system?
- Could the auditor ensure that the system outputs actually met agency quality and service delivery parameters?
- Could the auditor ascertain that the IT systems actually enhanced economy, efficiency and effectiveness of the programme management in relation to planning, execution, monitoring and feedback?
- Could the auditor ensure that application of the systems had actually met required targets of time, cost, system function and value for money?
- Did the system management use an appropriate system development methodology?
- Could the auditor ensure that the system included all the necessary controls and audit trails?
- Could the auditor ensure that the system had actually rendered benefits to the management and the related stakeholders?

Some important case studies on IT

Kerala Information Network for Local Bodies

Introduction

With a view to facilitate easy and prompt communication between State Planning

Board (SPB) and 1215 local bodies for swift plan monitoring, Government launched a Project 'Kerala Information Network for local bodies' in August 1999. Networking, plan monitoring, service automation and training were the components of the project. The SPB initially implemented the project through Information Kerala Mission (IKM), constituted with *inter-alia* a group drawn from Centre for Development of Information Technology (C-DIT). IKM was headed by Executive Mission Director with Headquarters at Thiruvananthapuram. The administrative control of IKM was transferred from SPB to the Local Self Government Department (LSGD) in July 2001.

A review of the implementation of the project was conducted by Audit during February – July 2003 with reference to records in IKM headquarters, one Grama Panchayat and two Municipal Corporations. The bilingual data base in SQL Server in MS Access format was analysed using Computer Assisted Audit Technique and sample test method. The review revealed among other things the following points:

Absence of well-conceived Project Report

In the absence of a well-conceived project report with component-wise cost, Government released funds on the basis of *ad hoc* proposals submitted by the Executive Mission Director from time to time.

Government admitted (January 2004) that there were some ambiguities in completely demarcating all contours of the project at the start.

Inconsistent procurement policy

Though the Project started in August 1999, there was delay in taking decision on procurement and also inconsistency regarding the mode of procurement of computers. It was only in December 2002 Government finally decided to provide computers to Local Bodies under BOLT mode. Though the notification inviting tenders for the supply of computers under BOLT mode was issued in July 2004, the final decision on purchase has not been taken by Government (February 2005). The computers, which are the vital component of the project, could not be provided for the last four years.

Non-utilisation of Central assistance

Special Central assistance of Rs 33 crore (Grant: 30 *per cent*; Loan: 70 *per cent*) was received for the project during 1998-2001. The expenditure on the project upto March 2004 was only Rs. 8.36 crore, which was less than the Central grant. While the entire loan amount remained unutilized, Government had to pay Rs 10.99 crore (up to March 2004) towards interest for the loan amount. Unutilized portion of the Central assistance of Rs 25.72 crore was released to IKM in March 2003 based on a proposal, which

contained justification for activities for Rs 1.39 crore only. In view of the Government decision to provide computers under BOLT mode, there were no approved activities justifying immediate release of Rs 24.33 crore in March 2003 through Supplementary Grant.

Government stated (July 2004) that the unutilized Central assistance of Rs 25.72 crore released during March 2003, according to ways and means position, had been deposited in the PD account of the Director of Panchayats. As IKM had utilized only Rs. 2.37 crore during 2003-04, there was no justification to release funds of that magnitude to them.

Wasteful expenditure on technical persons

For rendering technical support for implementation of the project, IKM appointed (between September 2000 and March 2001) 1353 selected persons as apprentice trainees for a period of one year from 1 April 2001. In June 2001, IKM retrenched them due to non-availability of computers in local bodies. As Government had already decided to implement the project on BOLT basis, the services of the trainees were no longer required. The expenditure of Rs 69.78 lakh incurred on selection, training and stipend to the apprentice trainees had become a waste.

The Government stated (November 2004) that the expenditure incurred on training of

technical persons was insignificant compared to substantial cost benefits that would accrue from BOLT mode. The reply is not tenable as the wasteful expenditure represented 22% of funds earmarked for training (Rs 3.15 crore)

Delay in development of software for Office Automation

Besides development of software for Plan monitoring, IKM was required to develop separate applications for (i) delivery of services such as issue of birth / death / marriage certificates and disbursement of destitute pension/unemployment wages (Sevana), (ii) demand & collection of about 80 sources of revenue (Sanchaya), (iii) administration of purchase and works (Sugama), (iv) preparing accounts (Samkhya), (v) automation of establishment functions (Sthapana) and (vi) work flow automation (Soochika). It was seen in audit that the application Sevana, Sanchaya and Soochika had been installed in one Grama panchayat and the certificate module of Sevana in four Municipal Corporations. Though 24 programmers were engaged for software development for the past four years, the other applications were not in implementation stage as of April 2004.

Government stated (January 2004) that staggered development was due to complexities involved in handling legacy, building up internal database and the learning curve of staff. But it was a fact that

absence of specific time frame for implementation of the Project and inadequate supervision also contributed to the delay.

Ineffective computerisation in Urban bodies

Computerisation of Kozhikode estimate to cost Rs 70.71 lakh was entrusted to IKM in March 2001 stipulating the period of completion as nine months. Though *Janasevanakendram* comprising of eight counters started functioning from January 2003, only the cash collection other than fee was computerised.

The Kochi Corporation entrusted (June 2002) the computerization of all functional areas to IKM. The project costing Rs 1.33 crore was to be completed within one year. But apart from the setting up of *Janasevanakendram* in January 2003 for issue of birth/death and marriage certificates using *Sevana*, no other software had been installed for online transaction. IKM did not fulfill its obligation to supply software relating to Plan Monitoring (*Sulekha*), Revenue Module (*Sanchaya*) to the Corporations. The software for disbursement of services – *Sevana* did not include the module for pension disbursement. The birth and death registration at Kochi covered only four out of seven Zones of the Corporation. Certificates were issued on the same day, only if the data in computer matched the details in manual record. In Kozhikode

Corporation, there was delay of three days in issuing birth and death certificates as the certificates were to be verified with the original records. Thus in both the Corporations, the databases were not reliable.

In Kozhikode, Property tax and other taxes were collected at the counter using software supplied by IKM. In the absence of database relating to assessee under the different sources of Revenue, the details of collection could not be updated in the ledger. Revenue collection by Bill Collectors was remitted in bulk at the counter, but the details of assesses were not captured. The present system would only help to compile the collection of revenue on a particular day as IKM had not installed the software *Sanchaya* for revenue collection till date (April 2004).

The Government stated (November 2004) that *Sulekah* software has been supplied to all Corporations and the system of maintenance of stock of preprinted stationery had been put in place. But obligation on the part of IKM to install *Sanchaya* and *Sevana* (Pension Module) has not been fulfilled so far.

Improper maintenance of database on birth / death / marriage

Analysis of the electronic data kept in the server at *Janasevanakendrams*, Kochi and Kozhikode Corporations revealed the following:

In the data relating to birth at Kozhikode (306464 cases) and Kochi (196756 cases) Corporations, the vital fields such as date of birth (128 cases), reporting date (303 cases), sex of child (312 cases), registration date (188 cases) and child's mother's name (158 cases) were blank. The fields-date of birth and reporting date included future dates in 70 cases. There were 1723 pairs of duplicate records. In 2808 cases the date of registration was before the date of birth.

In the data relating to death in Kozhikode (67058 cases) and Kochi (67166 cases) Corporations the fields such as date of death (294 cases), registration date (359 cases), the reporting date (359) cases, name of dead person (538 cases) etc were blank. The date of death included future dates in 64 cases and date of registration was before the date of death in 1008 cases. There were 125 pairs of duplicate records.

In respect of marriage data in Kozhikode (4651 cases) and Kochi (3310 cases) Corporations the vital fields such as

registration date (115 cases), marriage reporting date (3111 cases), name of bride and bride groom (193 cases), place of marriage (682 cases) were blank. Date of marriage was after date of registration in 540 cases.

The Government stated (November 2004) that the improper maintenance of database was due to poor verification of records by Corporation staff and the process of verification by IKM was in an advance stage. The process of 100 per cent verification which was to be completed before commencement of Janasevakendram in January 2003 is yet to be completed and hence the Corporation had resorted to manual verification of registration data defeating the very purpose of computerisation.



Session 10

Session Title: Internal Control



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 10**Session at a glance****Session Title:** Internal Control**Learning Objectives:**

Given the inputs on the internal control of ULBs on macro level through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of internal control mechanism followed in municipalities and municipal corporations which will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: In this session we will discuss about internal controls in ULBs followed in municipalities and municipal corporations of *West Bengal.	5 min	Lecture
Key Teaching Point Internal control mechanism.	65 min	Interactive Lecture, and PowerPoint slide show
Summary:	5 min	Lecture
Total:	75 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

* This is to be adopted as per State specific scenario

Session: 10**Instructor's Guide****Session Title:** Internal Control.

		Ref.
Session Overview: Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss the internal control mechanism of municipalities and municipal corporations.		
Learning Objective: Given the inputs on the key features of internal control mechanism of municipalities and municipal corporations along with manner of conducting internal audit, the participants will acquire the basic concepts of internal control mechanism. These will help them to focus on audit issues at the practical job scenario.		
Basic Concept: Ask the participants about their understanding of internal control mechanism in ULBs. Encourage each participant to make the session interactive. Obtain responses from participants and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss .		PowerPoint Slide: Session 10 Internal Control
Request any participant to summarise the session. Thank the participants for their active participation and bring the session to a close.		

This session dwells on macro-level discussion on system of Internal Control of ULBs. The micro-level discussions have been made in respective sessions.

Session Title

Internal Control.

Session Overview:

In the previous sessions we have discussed evolution of ULBs, constitution and organisation of ULBs, audit of Municipal Fund, loans, grants, budget, taxation and accounting system, schemes sponsored by Central Government / State Government and implemented by municipalities and municipal corporations alongwith audit points. In this session we will discuss the internal control mechanism of municipalities and municipal corporations.

Learning Objective:

Given the inputs on the key features of internal audit mechanism of *Kolkata Municipal Corporation and other municipalities of West Bengal through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of internal control system which will help them to focus on audit issues at the practical job scenario.

* This is to be adopted as per State specific scenario

†Internal Audit of Kolkata Municipal Corporation (Chapter XI of the Kolkata Municipal Corporation Act, 1980)

Audit of accounts by the Chief Municipal Auditor:

- The Chief Municipal Auditor shall conduct a monthly internal audit of the accounts of the Corporation and shall report thereon to the Municipal Commissioner who shall cause an abstract of the receipts and expenditure of the month last proceeding, to be placed before the Mayor-in-Council.
- The Chief Municipal Auditor shall also conduct such other audit of the accounts of the Corporation as the Municipal Commissioner may from time to time direct.
 - For the purpose of audit of the accounts of the Corporation the Chief Municipal Auditor shall have access to all the accounts of the Corporation and all the records and correspondence relating thereto.

Report by the Chief Municipal Auditor:

- The Chief Municipal Auditor shall—
 - report to the Municipal Commissioner any material impropriety or irregularity which he may at any time observe in the accounts of the receipts and expenditure of the Corporation;

† This is to be adopted as per State specific scenario

- furnish to the Municipal Commissioner such information as he may from time to time require concerning the progress of the audit.
- As soon as may be after the commencement of each year the Chief Municipal Auditor shall deliver to the Municipal Commissioner, a report of the entire accounts of the Corporation for the previous year.
- The Municipal Secretary shall cause the aforesaid report to be printed and shall forward as soon as may be a printed copy thereof to each member of the Corporation.
- The Municipal Commissioner shall forward without delay to the State Government as many copies of the report as may be required by the latter with a brief statement of the action, if any, taken or proposed to be taken thereon.
- The Chief Municipal Auditor shall audit the accounts of the Corporation with the assistance of the officers and other employees subordinate to him.
- In the discharge of his functions the Chief Municipal Auditor shall audit the accounts of:-
 - expenditure from the revenue of the Corporation, expenditure on account of loan and works, and other expenditure, if any, and shall ascertain whether the moneys shown therein as having been disbursed were legally available for, and applicable to, the service or purposes to which they were applied and whether such expenditure was authorized;
 - debts, deposits in the Sinking Funds, advances, suspense, and remittance transactions of the Corporation and shall report upon such accounts and the results of verification of the balances in such accounts;
 - stores and stocks of the Corporation and shall undertake such physical verification thereof as he may consider necessary.
- The Chief Municipal Auditor shall check the inventory of the properties of the Corporation including its holdings of lands and buildings and shall undertake such verification thereof as he may consider necessary.
- The Chief Municipal Auditor shall, subject to any directions given by the Municipal Commissioner determine the form and the manner in which his reports on the accounts of the Corporation shall be prepared and shall have the authority to call upon any officer of the Corporation to furnish any information necessary for the preparation of the reports.
- Subject to the directions as the Municipal Commissioner may give, the Chief Municipal Commissioner may make such queries and observations in relation to any of the accounts of the Corporation

which he is required to audit and call for such vouchers, statements, returns and explanations in relation to such accounts as he may think fit.

- Every such query or observation shall be promptly taken into consideration by the office of the Corporation to whom it may be addressed and shall be returned without delay with the necessary vouchers, statements, returns or explanations to the Chief municipal Auditor.

- The powers of the Chief Municipal Auditor with regard to the disapproval of and the procedure of settlement of objections to any expenditure from the revenues of the Corporation shall be such as may be determined by the Mayor-in-Council with the approval of the Corporation.

- If the Chief Municipal Auditor considers it desirable that the whole or any part of the audit of any accounts shall be conducted in the office in which such accounts originate, he may require such accounts, together with all necessary books and documents to be made available at all convenient times in such offices for inspections.

- The Chief Municipal Auditor shall have the power to require any books or other documents to be sent for inspection by him.

- Subject to the approval of the Municipal Commissioner, the Chief Municipal Auditor shall have the authority to frame standing

orders and to give directions on all matters relating to audit, and particularly in respect of the method and extent of the audit to be conducted and the raising and pursuing objections.

Internal Audit of other Municipalities and Corporations

[Section 91 of The West Bengal Municipal Act, 1993 and Chapter - V of The West Bengal Municipal (Finance and Accounting) Rules, 1999]

Provisions in the Act –

- In terms of provisions contained in Section 91 of The West Bengal Municipal Act, 1993 the State Government may by rules provide for internal audit of the day to day accounts of a Municipality in such manner as it thinks fit.

Manner of conducting internal audit-

- The Chairman-in-Council of a Municipality shall cause a checking of accounts of the Municipal Fund, at least once in every month. In course of such checking, the officer authorized in this behalf shall identify the errors, irregularities and illegalities, if any, in the matter of maintenance of accounts and make notes of the same and shall render all possible assistance in so far as reconciliation and rectification of accounts.

- The Chairman-in-Council shall also cause the preparation of report on checking of accounts of the Municipal

Fund for every quarter of a financial year.

- Such quarterly report on checking of accounts of the Municipal Fund shall be placed before the Municipal Accounts Committee and the Director of Local Bodies for examination and report.

Audit points on Internal Audit

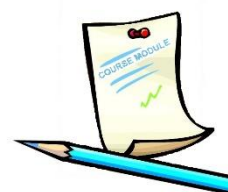
- Could the auditor ensure that there was an established system of Internal Audit in the Corporation/Municipality? Was such audit conducted monthly or at prescribed periodicity?
- Could the auditor ensure that in case of Kolkata Municipal Corporation, the Chief Municipal Auditor sent a monthly report to the Chief Municipal Commissioner? Did the Chief Municipal Commissioner regularly place before the Mayor-in-Council an abstract of the receipts and expenditure of the month last preceding?
- Could the auditor verify the annual report on internal accounts of the Corporation by the Chief Municipal Auditor? Were copies of such reports sent to the State Government?
- Were there any cases of material impropriety or irregularity in the report on internal accounts? If so, were proper remedial measures or actions taken on the same under intimation to the State Government?

- Could the auditor ensure that there were proper records of check including the results of verification of balances on debts, deposits in the Sinking Funds, advances, suspense, and remittance transactions?
- Was there any record of undertaking physical verification of stores and stocks of the Corporation?
- Could the auditor ensure that the Chief Municipal Auditor checked the inventory of the properties of the Corporation including its holdings of lands and buildings?
- In case of other Municipalities and Corporations, did the Chairman-in-Council/Mayor-in-Council set up a system of checking of the accounts of the Municipal Fund at least once in every month by an officer specially authorized to do so?
- Was there any record to show that the officer authorized to undertake the internal audit actually did the necessary check? Was any report on the same forthcoming? Were all the quarterly reports on such check placed before the Municipal Accounts Committee and Director of Local Bodies?
- The auditor should also verify whether
 - Appropriate internal control were adhered to;
 - Any material impropriety or irregularity was detected during internal audit;
 - Any efficiency or loss was caused by the gross negligence or misconduct;

- all the expenditure incurred by the ULBs were authorised by appropriate provision in the sanctioned budget, whether made originally or subsequently;
- all sums due to and received by the ULBs had been brought to account within the prescribed time limits;
- all transactions (incomes, expenditures, assets and liabilities) were correctly classified;
- the amounts received as specific grants had been utilised for the purposes as stated in the grant sanction order;
- the Special Funds, had been created as per the provision of relevant statutes and whether the Special Funds had been utilised for the purposes for which created;
- Whether the ULBs was maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
- Whether physical verification had been conducted by the ULBs at reasonable intervals in respect of stores;
- the valuation of stores was in accordance with the accounting principles laid down in the Accounts Manual;
- Whether the parties to whom the loans, or advances in the nature of

loans, had been given by the ULBs were repaying the principal amounts as stipulated and were also regular in payment of the interest and if not, whether reasonable steps had been taken by the ULB for recovery of the principal and interest;

- there existed an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets.



Session: 11

Session Title:

Audit mandate, Scope of Audit & Auditing Standards



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 11**Session at a glance**

Session Title: Audit Mandate, Scope of Audit & Auditing Standards.

Learning Objectives:

Given the inputs of provision of audit mandate, scope of audit, procedure for technical guidance and support, preparation of audit report, follow up action on audit report and certification of annual accounts of ULBs as prescribed by C&AG of India through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of audit mandate, auditing standards, reporting standards which will help them to focus on audit issues at the practical job scenario.

	Time Required	Training Method
Session Overview: In this session we will in this session we will discuss the audit mandate, scope of audit, procedure for technical guidance and support, preparation of audit report, follow up action on audit report and auditing standards, reporting standards and certification of annual accounts of ULBs as prescribed by C&AG of India..	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 Audit mandate, scope of audit, procedure for technical guidance and support, preparation of audit report, follow up action on audit report and auditing standards, reporting standards and certification of annual accounts of ULBs.	60 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 2 Duties and power of auditor, auditing standards, reporting standards, certification of annual accounts of municipalities and municipal corporations, audit of financial statements vis-à-vis audit certificate.	80 min	Interactive Lecture, and PowerPoint slide show
Summary:	5 min	Lecture
Total:	150 min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

Session: 11**Instructor's Guide****Session Title:** Audit Mandate, Scope of Audit & Auditing Standards.

		Ref.
Session Overview: Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss the audit mandate, scope of audit, procedure for technical guidance and support, preparation of audit report, followup action on audit report and auditing standards, reporting standards and certification of annual accounts of ULBs as prescribed by C&AG of India.		
Learning Objective: Given the inputs of provision of audit mandate, scope of audit, procedure of technical guidance and support, auditing standards, reporting standards and certification of annual accounts of ULBs through lecture, discussion and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of their duties and powers, auditing standards, reporting standards which will help them to focus on audit issues at the practical job scenario.		
Basic Concept: Ask the participants about their understanding of audit mandate, scope of audit, procedure for technical guidance and support, reporting on audit of financial statement by the Auditor, municipal accounts committee, Obtain responses from participants and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss .		PowerPoint Slide: Session 11 Duties, Powers and auditing standards
Request any participant to summarise the session. Thank the participants for their active participation and bring the session to a close.		

Session Title:***Audit Mandate, Scope of Audit & Auditing Standards.*****Session Overview:**

In the previous sessions we have discussed evolution of ULBs, constitution and organisation of ULBs, audit of Municipal Fund, loans, grants, budget, taxation, accounting system, schemes and internal control system alongwith audit points. In this session we will discuss the audit mandate, scope of audit, procedure for technical guidance and support, preparation of audit report, follow up action on audit report and auditing standards, reporting standards and certification of annual accounts audit report, followup action on audit report and auditing standards, reporting standards.

Learning Objective:

Given the inputs of provision of audit mandate, scope of audit, rendering technical guidance and support, preparation of audit report, follow-up action on audit report through group discussion, lecture and PowerPoint slide show the participants will, at the end of the session, acquire basic concepts of their duties and powers, auditing standards, reporting standards which will help them to focus on audit issues at the practical job scenario.

Audit Arrangement

- Under Articles 243 Z of the Constitution, the legislature of a State may, by law, make provisions with respect to the maintenance of accounts and the auditing of accounts of urban local bodies. Accordingly State Municipal Acts make provisions regarding appointment of Auditor. The local fund auditor, who is generally an officer of the State Government, is responsible for audit of urban local bodies. Only in the States of Bihar, Jharkhand and West Bengal, the Examiner of Local Fund Accounts, who is an officer of the Comptroller and Auditor General, is responsible for the audit of accounts of urban local bodies and appointed under the respective State Act.
- In keeping with the spirit of the 74 th amendments and the 11th FC, 12th FC, 13th FC and 14th FC recommendations, technical guidance and support of ULBs Audit are entrusted to the Comptroller and Auditor General of India in many States for strengthening of the entire accountability framework.
- C&AG is entrusted to conduct audit under section 14 or 19 or 20 of the DPC Act in various States. The audit of urban local bodies is conducted under Section 14 of the Act where such bodies are financed by grants or loans from the Consolidated Fund of India or of any State or Union Territory having a legislative assembly.

Scope of audit

- Within the audit mandate, the Comptroller and Auditor General is the sole authority to decide the scope and extent of audit to be conducted by him or on his behalf. Such authority is not limited by any considerations other than ensuring that the objectives of audit are achieved.
- In the exercise of the mandate, the Comptroller and Auditor General undertakes audits which are broadly categorised as financial audit, compliance audit and performance audit,
- The scope of audit includes the assessment of internal controls in the auditable entities
- The Comptroller and Auditor General may, in addition, decide to undertake any other audit of a transaction, programme or organisation in order to fulfill the mandate and to achieve the objectives of audit.

Financial audit

The primary purpose of financial audit is to verify whether the accounts of ULBs are properly prepared, are complete in all respects and are presented with adequate disclosures. Financial audit verifies:

- books of accounts and the financial statements for their compliance with the applicable laws, rules and regulations and accounting principles, policies and acceptable standards including

conformity with the form of accounts prescribed by the Comptroller and Auditor General.

- completeness of the books of accounts and the financial statements.
- accuracy of the books of accounts and the financial statements.
- timeliness of the books of accounts and the financial statements.
- adequacy of disclosures including appropriate and necessary explanations for any entry or amount that is *prima facie* unusual;

Certification of Accounts

Unless specifically provided, audit by the Accountant General (Audit) does not include the certification of accounts of urban local bodies.

Compliance Audit

Compliance audit examines the transactions relating to expenditure, receipts, assets and liabilities of ULBs for compliance with:

- the rules, regulations, orders and instructions issued by the competent authority either in pursuance of the provisions of the Constitution of India and the laws or by virtue of the powers formally delegated to it by a superior authority.

Audit of expenditure incurred examines and verifies whether adequate, proper and sound systems and procedures are in place

and are being complied with, both in letter and spirit, for spending public money. Audit checks in expenditure audit:

- Availability of funds in the budget.
- Authorisation by the competent authority.
- Compliance with the requirement of the applicable laws, rules, regulations.
- Evidence by way of vouchers, payees' acknowledgements.
- Record in the books of the spending officer, including cross-verification with the records of the treasury, bank.
- Accounting in the books of the ULB.
- Monitoring, control and reporting as prescribed.

Audit of receipts includes an examination of the systems and procedures and their efficacy in respect of:

- identification of potential tax assesseees, ensuring compliance with laws as well as detection and prevention of tax evasion;
- prompt investigation of losses of revenue through fraud, default or mistake.
- exercise of discretionary powers in an appropriate manner.
- amounts that may have fallen into arrears, maintenance of records of arrears and action taken for the recovery of the amounts in arrears.
- amounts of refunds, rebates, drawbacks, remissions

Audit of stores and stock is primarily an extension of audit of expenditure. It involves verifying that adequate and sound systems and procedures are in place and complied with for:

- establishment of the need for procurement of stores,
- proper assessment of requirement of stores,
- authorisation of procurement of stores,
- procurement of stores in a cost-effective manner in accordance with the prescribed systems and procedures,
- receipt, inspection, custody, issue and accounting of stores,
- verification of physical balances at prescribed intervals,
- identification of obsolete and surplus stores, their disposal by way of sale

Performance Audit

Performance audit assesses:

- **Economy** – Economy is minimising the cost of resources used for an activity, having regard to appropriate quality. Economy issues focus on the cost of the inputs and processes. Economy occurs where equal-quality resources are acquired at least cost.
- **Efficiency** – Efficiency is the relationship between the output, in terms of goods, services or other results and the resources used to produce them.

Efficiency exists where the use of financial, human, physical and information resources is such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

- **Effectiveness** – Effectiveness is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity. Effectiveness addresses the issue of whether the scheme, programme or organisation has achieved its objectives.

Risk Assessment Methodology

Before taking up audit study of the risk areas of the ULBs is an important tool to conduct an effective audit and strengthening an appropriate audit work. The Auditor should collect the related information and analysis the reasons for variations wherever applicable with a view to identify the risk areas to be covered in audit. The following could be some of the risk indicators:

- Expenditure trends.
- Persistent and unexplained excess drawals.
- Unadjusted account bills.
- Large purchases
- Delivery under programmes not being susceptible to verification.
- Leakage of revenue.
- Lack of attention to serious audit objections,

- Weaknesses in internal control mechanisms.
- Poor performance in service delivery in spite of availability of fund.
- Weak response on the application of RTI Act.

Technical Guidance and Support

The functions of technical guidance and support to audit of urban local bodies have been entrusted to the Comptroller and Auditor General under Section 20(1) of the Act in many States.

The salient features of the collaborative arrangement between the Comptroller and Auditor General and the local fund auditor under technical guidance and support are as follows:

- The local fund auditor will prepare by the end of March every year, an annual audit plan for audit of urban local bodies in the next financial year and forward it to the Accountant General (Audit) of the State;
- The audit methodology and procedures for audit of urban local bodies by the local fund auditor will be as per various Acts and statutes enacted by the State Government and guidelines prescribed by the Comptroller and Auditor General.
- Copies of inspection reports in respect of selected local bodies are forwarded by the local fund auditor to the Accountant General (Audit) for advice on system improvements and the Accountant

General (Audit) review the same with a view to make suggestions for improvement of existing systems being followed by the local fund audit department. The Accountant General (Audit) also monitor the quality of the inspection reports issued by the local fund auditor by scrutinising such inspection reports.

- The local fund auditor furnish returns in such format as prescribed by the Comptroller and Auditor General for advice and monitoring.
- The Accountant General (Audit) conducts test check of some of urban local bodies in order to provide technical guidance. The report of the test check are sent to the local fund auditor for pursuance of action to be taken by urban local bodies. The local fund auditor will pursue the compliance of such paragraphs in the inspection reports of the Accountant General (Audit) in the same manner as if these are his own reports.
- Irrespective of the money value of the objections, any serious irregularities such as system deficiencies, serious violation of rules and fraud noticed by local fund auditor are to be intimated to the Accountant General (Audit).
- The local fund auditor shall develop, in consultation with Accountant General(Audit), a system of internal control in his organisation.

- The Accountant General (Audit) also undertakes training and capacity building of the local fund audit staff.

- In addition to pursuance of paragraphs in the inspection reports of the Accountant General (Audit) by the local fund auditor, the Accountant General (Audit) also ensure their regular pursuance.

Annual Technical Inspection Report(ATIR)

The Accountant General (Audit) by the end of June every year send to the concerned Secretary or Secretaries to the Government an annual technical inspection report based on the results of audit of urban local bodies conducted by his office during the preceding year. The Secretary or Secretaries may ensure that appropriate remedial action is taken expeditiously and the Accountant General (Audit) is informed of the action taken.

In the States of Bihar, Jharkhand and West Bengal, the Technical Inspection Report is prepared by the Examiner of Local Fund Accounts and countersigned by Accountant General (Audit).

Communication of proposed audit observations to Government

The proposed audit observations for inclusion in the audit report or ATIR are forwarded to the concerned Secretary to Government by name in the form of a draft paragraph for communicating the comments, observations and explanation of the Government within a period of six weeks from

the date of the letter or within such other period of time as may be specified.

The Secretary to Government of the concerned department shall (a) confirm, the receipt of the audit observation to the Accountant General(Audit) as soon as it is received, and communicate the comments, observations and explanation of the Government on the draft paragraph in writing to the Accountant General (Audit) by name within the specified period.

Forwarding copies of Audit Report or ATIR

An officer authorised by the Comptroller and Auditor General shall send copies of the ATIR duly signed by the Comptroller and Auditor General to the Secretary to the Government, Finance Department or the Administrator of a Union Territory having legislative assembly who shall take prompt action for the submission of the ATIR to the Governor or Administrator for further action and for the presentation of the report in the State or Union Territory legislature.

The Accountant General (Audit) shall send copies of the audit report or ATIR to the Secretary to Government of concerned department after the presentation of the report in the legislature.

Action taken note for submission to PAC

The Secretary to Government of the concerned department shall cause preparation of self-explanatory action taken note(s) on the audit paragraph(s) that are

included in the audit report or ATIR, for submission to the Public Accounts Committee or a separate committee of the legislature establishes on the lines of the PAC framed for discussion ULB Reort.

The self explanatory action taken note shall state:

- whether the facts and figures stated in the audit paragraph are acceptable;
- the circumstances in which the loss, failure, infructuous expenditure, etc. as pointed out in the audit paragraph occurred;
- the action taken to fix responsibility on the individual(s) responsible for the loss, failure, infructuous expenditure, etc;
- the current status of recovery of any amount due to Government;
- the action taken or proposed to be taken on the suggestions and recommendations made in the audit paragraph;

the remedial action taken or proposed to be taken to avoid occurrence of similar cases in future

Auditing standards, Reporting standards, Certification of annual accounts of ULBs

Auditing Standards

- Auditing Standards prescribe the norms which the Auditors are expected to follow in the conduct of audit. They provide minimum guidance to the Auditor that helps

determine the extent of auditing, steps and procedure that should be applied in the audit and it constitutes the criteria or yardstick against which the quality of audit results are evaluated. The Auditor must exercise due care and concern in complying with the auditing standards.

- Detailed instructions on the issue have been prescribed by the Comptroller & Auditor General of India in the manual entitled “Auditing Standards for Panchayati Raj Institutions & Urban Local Bodies”. Now we will be discussing some major areas of Auditing Standards viz.

- General Standards
- Field Standards
- Reporting Standards

General Standards

- The general auditing standards define the basic professional needs of the auditor, his awareness of his responsibilities and zeal to develop necessary skills and tasks, so that the audit of municipality and municipal corporations is performed efficiently and economically. The salient features are as follows:

- The Auditor must be independent. In all matters relating to audit work the Auditor must be free from personal or external impairments to independence, must be institutionally independent and shall maintain an independent attitude and appearance. Any imposition of restrictions

by the executive, which would constrain the exercise of mandate by the Audit Institution, would be a matter for reporting to the appropriate authority;

- The Auditor must possess the required competence. Performance and exercise of technical skill should be of a quality appropriate to the complexities of a particular audit. Auditors need to be alert to detect control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity; and,
- The Auditor must exercise due care in planning, specifying, gathering and evaluating evidence and in reporting findings, conclusions and recommendations.

Field Standards

- The field standards establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the Auditor has to follow in conducting or managing audit work. Now we will discuss three major components of Field Standards, viz.:

- Applicability
- Audit Evidence
- Internal Control

The field standards applicable to all types of audit are:

- The Auditor should plan the audit on risk based analysis, which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner;
- The work of the audit staff at each level and audit phase should be properly supervised during the audit and a senior member of the audit staff should review documented work;
- In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The Auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement accounts; and,
- In regularity (financial) audit and in other types of audit when applicable, Auditors should analyze the financial statements to establish whether prescribed accounting procedure for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.
- Sufficient, competent, relevant and reliable evidence should be obtained to support the Auditor's judgment and

conclusions regarding the body, programme, activity or function under audit;

- The data collection and sampling techniques should be carefully chosen;
- The audit evidence should be adequately documented in working papers, including the basis and extent of the planning, work performed and the findings of the audit;
- Adequate documentation is important for several reasons. It will
 - Confirm and support the Auditor's opinions and reports;
 - Increase the efficiency and effectiveness of the audit; and
 - Serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party.
- The Auditor should study and evaluate the reliability of internal control. The study and evaluation of internal control should be carried out according to the type of audit undertaken;
- In the case of financial audit, study and evaluation are made mainly on controls that assist in safeguarding assets and resources, and assure the accuracy and completeness of accounting records;
- In case of performance audit or value for money audit, the study and evaluation shall be made of the internal control systems applicable to the audited body, programme, activity or function under audit; and,

- Where accounting or other information systems are computerized, the Auditor should determine whether internal controls are operating effectively to provide reliability of and security over the data being processed.
- The object is to point out, inter alia:
- Absence of appropriate segregation of duties consistent with appropriate control objectives;
- Absence of appropriate reviews and approvals of transactions, accounting, entries or systems output;
- Inadequate provisions for the safeguarding of assets;
- Evidence of failure to safeguard assets from loss, damage or misappropriation;
- Evidence that the system fails to provide complete and accurate output consistent with the Auditee's control objectives because of the misapplication of control procedures;
- Evidence of failure to perform tasks that are part of internal control, such as reconciliation not prepared or not timely prepared; and,
- Failure to follow up and correct previously identified deficiencies in internal control.

Reporting Standards

- Reporting standards constitute the framework for the audit organisation and the Auditor to report the results of audit of

regularity or performance audit or express his opinion on a set of financial statements. The report *ibid* will include, inter alia, a certificate. Detailed instructions in this regard have been prescribed by the Comptroller & Auditor General of India in Chapter IV of the Manual entitled "Auditing Standards for Panchayati Raj Institutions & Urban Local Bodies".

- With regard to regularity audits, the Auditor should prepare a written report which may either be a part of the report on the financial statements or the value for money audit or a separate report on the tests of compliance of applicable laws and regulations.
- With regard to Performance or value for money audits, the report should include a description of the scope and coverage of audit, objective of audit, area of audit, main findings in respect of the efficiency, economy and effectiveness (including impact) aspects of the area (subject matter) which was audited and recommendation suggesting the improvements that are needed.

Audit of Financial Statements, vis-à-vis, Audit Certificate

- With regard to audit of financial statements, the Auditor should prepare a report expressing opinion on the fair presentation of the financial position of the audited entity in the financial statements.

- The Auditor's certificate shall state expressly:
- The financial statements to which it relates;
- That the audit has been carried out in accordance with the relevant statutory authority and with auditing standards; and
- An opinion about the accounts which the Auditor has formed as a result of the audit.
- Audit has to be planned to enable the certificate to be given. The planning of audit follows familiarisation with the auditee's financial and accounting system and control procedures. It would, inter alia, involve:
 - Examining the legislation which affects the auditee i.e. legislation that governs the ULBs;
 - Confirming the scope of audit and the authority for it;
 - Acquainting with the form of accounts and disclosure requirements;
 - Studying and evaluating the reliability of internal controls;
 - Occurrence – all recorded transactions properly occurred and were relevant to the year of account;
 - Disclosure – the recorded transactions have been properly classified where appropriate; and
 - Regularity - the recorded transactions are in accordance with the legislation and other specific provisions.

- The procedure at the end of the audit should ensure that the account has been prepared in the correct form and all disclosure requirements have been met; all information has been obtained to enable the auditor to arrive at the audit opinion and determine the form of the certificate; and working papers have been documented and are adequate to support the audit opinion.

Provisions regarding Audit Report on Financial statements as suggested in the National Municipal Accounts Manual

- The Municipal accounts as contained in the financial statements including the accounts of special funds, if any, and the balance sheet shall be examined and audited by Director Local Fund Audit or his equivalent authority or an Auditor appointed by the State Government.
- The Auditor so appointed shall upon completion of audit of the accounts, issue a report on the financial statements of the ULB.
- The MCA's Report on the Balance Sheet, Income and Expenditure Statement, Receipts and Payments Statement, and Cash Flow Statement shall be addressed to the Authority (as required by the relevant Act), of the ULB, with a copy being forwarded to the Municipal Commissioner.

PERIODICAL AUDIT REPORT / CERTIFICATE

- At the end of each period, the MCA may furnish a certificate on the quarterly coverage to the Municipal Commissioner. The suggested format of the certificate can be as follows:

“Certified that the accounts from ----- to ----- have been audited by me and found correct with the exception of the following items:” (*The exceptions shall be explained in detail*).

Drafting of Audit Inspection Report

- The effectiveness of audit inspections lies in reporting the results of inspections to the appropriate authority of the auditee organisation, so that necessary action may be initiated by the latter to rectify the irregularity and prevent recurrence of the same or similar irregularity.
- The following major points should be kept in view as regards drafting of Audit Inspection Reports:
- Draft Inspection Reports should be written up continuously as the inspection proceeds so as to be ready as soon as it is completed;
- The comments of audit should be brief, intelligible and to the point;
- The objections should be made out in courteous and gentle language, and always in impersonal terms;

- It is of utmost importance that any statement or criticism should be accurate, fair, moderately worded and dispassionate.
- One must not forget that innuendo is forbidden. If a charge cannot be substantiated, there should not be even any hint of it in the write up;
- The write up should contain full reference to the relevant documents;
- The statutory orders or rules, considered to have been violated, should be explicitly stated;
- The subject matter of the objections should be arranged in logical sequence;
- All objections of similar type should be grouped together, and generalized comments made wherever desirable;
- It should be kept in mind that it is in the treatment of results of audit that the auditorial function demands the highest qualities of understanding, balanced judgment and sense of proportion;
- Undue insistence on trifling errors and use of too much technical expression should be avoided as far as possible;
- Mention of the names of the officials should be avoided except in case of personal claim;
- Suggested headings should be given above the different paragraphs in indication of contents. General headings like ‘cash book’, ‘credit sales’, etc. do not indicate anything. But headings like ‘irregularities in

the maintenance of cash book' 'outstanding dues from Government officers' etc. give a definite idea and make one inquisitive about the subject contained;

- The culmination of the audit process is the reporting which summarises the evidence gathered during the conduct of audit and communicates the audit opinion and other findings. It is essential for the Auditor to prepare report in such a way so that audit observations are easy to understand;
- Timeliness of the report is the essence as delay may make the report irrelevant and corrective action may not be practicable; and
- The tone of reports should encourage decision-makers to act on the Auditor's findings and recommendations. Although findings should be presented clearly and forthrightly, the Auditors should keep in mind that one of their objectives is to persuade and this can be done by avoiding language that generates defensiveness and opposition.

The form and content of audit opinion and report as prescribed by the C&AG

- The form and content of all audit opinions and reports are founded on the following general principles:
- Title - The opinion and the report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.

- Signature and date - The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the Auditor became aware up to that date.
- Objectives and scope - The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
- Completeness – Opinions should be appended to and published with the financial statements to which they relate, but performance report may be free standing. The Auditor's opinions and reports should be presented as prepared by the Auditor. In exercising its independence audit authority may acquire information from time to time, which in the national interest cannot be freely disclosed. This can affect the completeness of the report. In this situation the Auditor should consider the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
- Addressee – The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This is unnecessary where formal procedures exist for its delivery.

- Identification of subject matter – The opinion or report should identify the financial statements in the case of regularity (financial) audits to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
- Legal basis – Audit opinions and reports should identify and mention the legislation or other authority providing for the audit.
- Compliance with standards – Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.
- Timeliness – The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.
- An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter,

whether it is qualified in certain respects or is adverse or a disclaimer of opinion.

- An unqualified opinion is given when the Auditor is satisfied in all material respects :
 - The financial statements have been prepared using acceptable accounting bases and policies, which have been consistently applied;
 - The statements comply with statutory requirements and relevant regulations;
 - The view presented by the financial statements is consistent with the Auditor's knowledge of the audited entity; and
 - There is adequate disclosure of all material matters relevant to the financial statements.
- An Auditor may not be able to express an unqualified opinion when any of the following circumstances exist and, in the Auditor's judgment, their effect is or may be material to the financial statements :
 - There has been limitation on the scope of the audit;
 - The Auditor considers that the financial statements are incomplete or misleading, or there is an unjustified departure from prescribed accounting procedures; and
 - There is uncertainty affecting the financial statements.

- **Qualified opinion** – Where the Auditor disagrees with or is uncertain about one or more particular items in the financial statements that are material but not fundamental to understanding of the statements, a qualified opinion should be given. It helps the users of the statements if the Auditor quantifies the financial effect of the uncertainty or disagreement although this is not always practicable or relevant.
- **Adverse Opinion** - Where the Auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly state specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.
- **Disclaimer of Opinion** - Where the Auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction that is so fundamental that an opinion, which is qualified in certain respects, would not be adequate, a disclaimer is given. The wording of such a

disclaimer makes it clear that an opinion cannot be given, mentioning clearly and concisely all matters of uncertainty.

- It is customary to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.
- In addition, regularity audits often require that reports are made where weaknesses exist in systems of financial control or accounting (as distinct from performance audit aspects). This may occur not only where weaknesses affect the audited entity's own procedures but also where they relate to its control over the activities of others. The Auditor should also report on significant irregularities, whether perceived or potential, on inconsistency of application of regulation or on fraud and corrupt practices.
- In reporting on irregularities or instances of non-compliance with laws or regulations, the Auditors should be careful to place their findings in the proper perspective. The extent on non-compliance can be related to the number of cases examined or quantified monetarily.
- Reports on irregularities may be prepared irrespective of a qualification of the Auditor's opinion. By their nature they tend to contain significant criticism, but in order to be constructive they should also address future remedial action by

incorporating statements by the audited entity or by the Auditor, including conclusions or recommendations.

***Submission of Inspection Reports:**

- The relevant Municipal Acts in West Bengal do not prescribe any format for submission of the Audit Inspection Report. Section 87(2) of the West Bengal Municipal Act, 1993, however, provides that the Auditor appointed by the State Government shall include in report a statement showing -

—

- every payment which appears to him to be contrary to law;
 - account of any deficiency or defalcation or loss which appears to have been caused by the gross negligence or misconduct of any person;
 - the account of any sum received, which ought to have been, but have not been, brought into account by any person;
 - any other material impropriety or irregularity which may be observed in the accounts;
- The format of Audit Inspection Report of ULBs is being used by office of the Pr. Accountant General(GSSA), West Bengal/Local Audit Department, broadly covers the above provisions. Copies of the format are appended in the next page.



* This is to be adopted as per State specific scenario

***INSPECTION REPORT ON THE TRANSACTION OF _____
MUNICIPALITY FOR THE PERIOD FROM _____ TO _____**

P A R T - I A

1.1 Introductory

The Corporation/Municipality was established in the year under and the audit on the transactions of the Municipality covering the period from to was conducted under section of the Act, by Shri, Asstt. Audit Officer during to..... Shri, Sr. Audit Officer supervised the audit. All officials are from the Office of the Pr. Accountant General (GSSA), West Bengal. The Corporation/Municipality has population of nos. (2011 Census) and numbers of wards.

“The Inspection Report has been prepared on the basis of information furnished and made available to audit by Corporation Municipality. The Examiner of Local Accounts under O/o the Pr. Accountant General (GSSA) West Bengal disclaims any responsibility for any misinformation and/or non-information on the part of auditee”.

1.2 Administration

The present body of the Corporation/Municipality had taken charge on The incumbency in the key administrative and executive areas of the local Government was as under:

Sl. No.	Name	Period
Mayor/Chairman		
Vice- chairman.		
Commissioner/Executive Officer		
Finance Officer		

1.3 Status of Annual Accounts

Volume of Transaction for the year.....

(₹ in lakh)

Year	Opening Balance	Receipts	Total	Expenditure	Closing Balance

* This is to be adopted as per State specific scenario

Bank and Treasury Accounts

Sl No.	BANK NAME	ACCOUNT No.	FUND	AMOUNT(₹)

1.4 Receipts and Expenditure Budget**(A) Expenditure Budget & Actual**

(₹ in lakh)

Year*		Budget Provision	Actual Expenditure	Savings(+)/ Excess(-)
	Revenue			
	Capital			
	Revenue			
	Capital			
	Revenue			

*For last three years

(B) Receipts Budget & Actual (available from Budgets and Annual Accounts):

(₹ in lakh)

Year*	*		*		*	
	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual
Own Source						
Rev. Grant (Salary, D.A., Fixed Grant etc.)						
Total Rev. Receipts						
Capital Receipts						

* For last three years

(C) Details of own source for the year

Category	Demand			Actual Realization			Closing Balance		
	Arrear	Current	Total	Arrear	Current	Total	Arrear	Current	Total
Property Tax									
Year									
Water Charges									

Year									
Tax on Advertisement									
Year									
Food License									
Year									
Others									
Year									

1.5 Position of Advance Accounts of the Municipality for the year

(₹ in lakh)

Year	
Opening balance	
Addition	
Adjustment	
Closing balance	

1.6 Debt Service/Loan Position as on 31.03.....

	Opening Balance		Addition		Repayment		Outstanding	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
State								
Central								
Others								

1.7 Position of Investment as on 31.03.....

	Opening Balance	Addition	Dis-investment	Closing balance
State				
Central				
Others				

1.8 Position of Ongoing work:

Sl. No.	Name of works	Purpose(with coverage)	Estimated cost	Date of commencement	Schedule date of completion	Expenditure incurred as on 31.03.05	Reasons for delay

1.9 Internal Control/Internal Audit

P A R T - I B**Review of previous outstanding audit paras**

SL No	Year of Accounts /Para no.	PARA CAPTION	MONEY VALUE (₹ IN LAKH)	REMARKS

P A R T - I C**Schedule of persistent irregularities****Part II A**

All Audit objections/irregularities having monetary value of Rs. 25 lakh and above

Part II B

All Audit objections/irregularities having monetary value less than Rs. 25 lakh

Part II C

All minor nature of audit objection / irregularities which were issued under TAN and compliances of which are to be verified by next local audit party.

Session: 12

Session Title: Environment Management, Services & Social Audit



Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note

Session: 12**Session at a glance**

Session Title: Environment management, services and social audit.

Learning Objectives:

Given the inputs of importance of environment management in urban society and role of municipalities and municipal corporations thereon, basic features of environmental services as embodied in the Constitution of India, Model Municipal Law, measures taken in India for protection of urban environment alongwith understanding of social audit in respect of Right to Information Act through interactive discussion, lecture and PowerPoint slide show the participants will be, at the end of the session, aware of importance of environment management role of municipalities and municipal corporations to render services in this aspect and social audit in respect of Right to Information Act which will help them to grow their consciousness on auditing environment and social issues.

	Time Required	Training Method
Session Overview: In this session we will discuss the role of municipalities and municipal corporations in environment management, basic features of environmental services as embodied in the Constitution of India, Model Municipal Law, measures taken in India for protection of urban environment alongwith understanding of social audit in respect of Right to Information Act through interactive discussion, lecture and PowerPoint slide show.	5 min	Lecture
Key Teaching Point 1 Role of ULBs in environment management which includes conceptualization of modern day urbanisation, urbanisation and waste generation, urban waste and industrial pollutants, environmental services as embodied in the Constitution of India, Model Municipal Law, measures taken in India for protection of urban environment.	35 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 2 Conceptualisation of Right to Information Act 2005 and , role of social audit and impact thereof.	30 min	Interactive Lecture, and PowerPoint slide show
Summary:	5 min	Lecture
Total:	75min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

Session: 12**Instructor's Guide****Session Title:** Environment management, services and social audit.

		Ref.
<p>Session Overview:</p> <p>Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss the role of municipalities and municipal corporations in environment management, basic features of environmental services as embodied in the Constitution of India, Model Municipal Law measures taken in India for protection of urban environment alongwith understanding of social audit in respect of Right to Information Act through interactive discussion, lecture and PowerPoint slide show.</p>		
<p>Learning Objective:</p> <p>Given the inputs of importance of environment management in urban society and role of municipalities and municipal corporations thereon, basic features of environmental services as embodied in the Constitution of India, Model Municipal Law measures taken in India for protection of urban environment alongwith understanding of social audit in respect of Right to Information Act through interactive discussion, lecture and PowerPoint slide show the participants will be, at the end of the session, aware of importance of environment management, role of municipalities and municipal corporations in this aspect and social audit in respect of Right to Information Act which will help them to grow their consciousness on auditing environment and social issues.</p>		
<p>Basic Concept:</p> <p>Ask the participants about their understanding of importance of environment management, the role of ULBs in Indian urban scenario and measures taken in India for protection of urban environment.</p> <p>Obtain responses from participants and recognise them point-wise by noting on the white board.</p> <p>Show PowerPoint slide and discuss.</p> <p>Ask the participants about their understanding of social audit in respect of Right to Information Act.</p> <p>Obtain responses from participants and recognise them point-wise by noting on the white board.</p> <p>Show PowerPoint slide and discuss.</p>		PowerPoint Slide: Session 12 Environment Management and Social Audit
<p>Request any participant to summarise the session.</p> <p>Thank the participants for their active participation and bring the session to a close.</p>		

Session Title:

Environment Management,
Services and Social Audit

Session Overview

In the previous sessions we have discussed evolution of ULBs, constitution and organisation of ULBs, audit of Municipal Fund, loans, grants, budget, taxation, accounting system, schemes, internal control system alongwith audit points and duties and power of auditors. In this session we will discuss the role of municipalities and municipal corporations in environment management, basic features of environmental services as embodied in the Constitution of India, Model Municipal Law measures taken in India for protection of urban environment alongwith understanding of social audit in respect of Right to Information Act.

Learning Objective

Given the inputs of importance of environment management in urban society and role of municipalities and municipal corporations thereon, basic features of environmental services as embodied in the Constitution of India, Model Municipal Law measures taken in India for protection of urban environment alongwith understanding of social audit in respect of Right to Information Act through interactive discussion, lecture and PowerPoint slide show the participants will be, at the end of

the session, aware of importance of environment management, role of municipalities and municipal corporations in this aspect and social audit in respect of Right to Information Act which will help them to grow their consciousness on auditing environment and social issues.

Modern day urbanization

Urban growth, also known as urbanization, accelerated dramatically with the advent of industrialization some 200 years ago. At that time, large numbers of people moved to cities in search of jobs, mostly in factories. But the most rapid growth has taken place over the past 50 years. While less than one-third of the world's population lived in cities in 1950, about two thirds of humanity is expected to live in urban areas by 2030. Most of that urbanization is taking place in Asia, Africa, and Latin America.

Cities make a lot of sense for humans. People are concentrated in a small space rather than being spread out over a large territory. This allows the government and others to provide more service such as water, electricity, and transportation to a larger number of people.

- Rapid urbanization has become the order of the day. It is, in fact, today a natural constituent of the process of civilization and a key indicator of economic development. Cities and towns in most countries around

the world have been gaining considerable attention due to the large number of households migrating to cities and its consequent effects. It has also been due to the centrality of goods and services that cities offer. Over the last few decades they have emerged as the major form of settlement inasmuch as the second half of the twentieth century witnessed phenomenal growth in urbanization. A dramatic urban growth was noticed in the Asia and the Pacific region during the last two decades of the twentieth century – urban population doubled from 700 million in 1980 to 1.4 billion in 2000. It is estimated that by the turn of 2020, half of the world's population will be living in towns and cities. A study by the United Nations predicts that the level of urbanization is slated to cross 50% mark in 2005 itself. The projection *ibid* further forecast that by the year 2025, more than three-fifth of the world population (approximately 5.2 billion) will be urban settlers. Of this again, 77% will be in the developing countries. The inclination of migration in the developing countries is towards the growth centres. The major factors that contribute largely to urbanization are – (i) high rate of population growth, (ii) declining opportunities in the rural areas and (iii) low paying agriculture sector to more paying urban occupations. One can, however, see that most cities have grown haphazardly showing signs of

saturation of services, infrastructure and employment potential. This has resulted in congestion, slums, inadequate water supply and sanitation, urban poverty and environmental degradation. The priority assigned to urban environmental issues has traditionally been low, resulting in irreversible damage to human health. The cities and towns are regarded as growth engines, but growth bereft of environmental concern is self-defeating.

- The natural assets in the environment may be of three types:
 - non-renewable resources like minerals and fossil fuels;
 - renewable resources like food crops, forestry products and water supplies;
 - capacity of the natural system on this planet to absorb emissions and pollutants of the human activities.
- The assets *ibid* are limited and their indiscriminate use in the name of development implies greater danger for each succeeding generation. This is in terms of scarcity of resources and emissions of human activities leading to consequences like greenhouse effect and climatic changes. Rapid techno-industrial development tuned with population explosion has forced this world of ours to combat multifarious problems of environment-degradation, which has caused enormous stain on the natural resources.

• This explosive growth in urbanization brings with it a host of negative effects. Population concentration in increasingly smaller land masses has caused a drastic decline in the quality of living both in the residential and work fronts. The effects of activities in urban areas (Table below) have in many cases outweighed the relative

agglomeration and centrality advantages that they offer. Hence, along with the benefits of urbanization come multifarious social ills like lack of access to drinking water and sanitation services, pollution and carbon emissions, disposal of huge solid wastes etc. etc.

Table: Components of urban environment

Resources	Processes	Effects
Human resources Sunlight Land Water Minerals Electricity Fuels Finance Intermediary products Recyclable materials	Manufacture Transportation Construction Migration Population Growth Residence/Living Community Services (Education, Health....)	<i>Negative Effects:</i> Pollution (air, water, noise) waste generation(garbage, sewage), congestion, overcrowding <i>Positive Effects:</i> Product value-addition, increased knowledgebase/ education, access to resources and better services

- There is thus an urgent need to balance the environmental capacity and quantum of resource utilization. The Earth Summit in Rio in 1992 and the United Nations Framework Convention on Climatic Change (UNFCCC) underlined the urgency of harmonizing environmental sustainability and development goals. The Rio Declaration on environment and development called Agenda 21 reflects global consensus and political commitment on development and environment cooperation.

Indian scenario

- Presently, urbanization is taking place at a faster rate in India, but still, only 1/3 of its population live in urban areas. In India, the urban population, which was 28.6 crore in 2001 census has reached to 37.70 crore in 2011 census an increment of 91 million. Level of urbanization increased from 27.81% in 2001 Census to 31.16% in 2011 Census. As per the 2011 census, there are 53 cities with a million plus people, and by 2031 that number will rise to 87. With economic liberalization and growing contribution of the cities to the national economy, the rate of urbanization could continue to be very high. Failure of the urban planning process to give matching

response to the trend has created chaotic conditions, specially in the metropolitan cities and left municipal services crumbling. Huge consumption and waste generated in the cities deplete the natural resources and pollute environment. Environment pollution created by human activities tells upon public health and hygiene contributing in turn to morbidity and mortality levels. The ecological footprints of urban activities expand far beyond the city limits and usurp natural resources of much larger areas.

Urbanization and Waste Generation

- Urbanization results in waste generation. Unscientific waste handling causes health hazards and urban environment degradation. Municipal solid waste (MSW) includes refuse from the households, non-hazardous solid waste, discards of the industrial, commercial and institutional establishments, market waste, yard waste and street sweepings which are collected by the municipal authorities for disposal.
- Cities and towns generate huge quantities of solid waste, and these increase with income. In cities of the developing countries, 20 to 50 percent of the waste generated remains uncollected,

even though up to one half of local operational expenditures often goes towards waste collection. In low income or squatter settlements, garbage collection is often non-existent, either because these settlements fall outside “official” service areas or because scavenger trucks are unable to maneuver along narrow unpaved streets/lanes. Uncollected domestic waste is the most common cause of blocked urban drainage channels in Asian cities, increasing thereby the risk of flooding and vector borne diseases.

- In most of the urban areas 100 percent of the population is serviced by municipal waste collection. However, with their higher consumption levels, they have to confront increasing mounds of garbage. Despite massive recycling and incineration projects, Tokyo is unable to cope with more than 22,000 metric tons garbage generated each day. As a result, officials are building islands of waste in Tokyo Bay, which threaten both the shipping and the fishing industry.
- Some of the adverse environmental impacts of the unscientific handling and indiscriminate dumping of the solid waste are:

- Ground water contamination by the leachates generated by the waste dumps;
- Surface water contamination by the runoff from the waste dumps;
- Foul odour, pests, rodents and wind-blown litter in and around the waste dumps;
- Generation of the inflammable gas (methane) within the waste dumps resulting into fires of the landfill and smoke and smog around;
- Release of green house gases such as carbon dioxide and methane;
- Bird menace above waste dumps affecting traffic;
- Epidemics through stray animals and other disease vectors.

Environmental services as embodied in the Constitution of India

- The 74th Constitution Amendment Act, 1992 is a watershed in India inasmuch as it has ushered in a new era in the history of the institution of the urban local government. It gives constitutional recognition to the municipalities and corporations as institutions of local self-government and incorporates some landmark provisions with the underlying objective of

democratization of urban management responsibilities down to the grass-roots level and institutional strengthening of ULBs. There are 18 functions listed in the Twelfth Schedule that the Amendment desires the urban local governments to perform. One of these functions is “Urban forestry, protection of the environment and promotion of the ecological aspect.” Though discretionary unless the State Legislatures make these functions obligatory by law, this constitutional provision reflects the consciousness in respect of environmental degradation that the city-dwellers are threatened with. Though the Amendment does not codify the measures or actions that ULBs should take or the services that they should provide to prevent environmental pollution, a number of functions listed in the Schedule may be construed as “*environmental services*”, such as:

- Regulation of land use and construction of buildings;
- Public health, sanitation, conservancy and waste management;
- Urban forestry, protection of the environment and promotion of the ecological aspect;

- Water supply for domestic, industrial and commercial purposes;
- Urban amenities and facilities such as parks, gardens and playgrounds;
- Slum improvement and upgradation;
- Regulation of slaughterhouses and tanneries.
- ULBs have traditionally been providing these environmental services assigned to them by the States. With the growing concern about the urban environment, most of the municipal functions or services are perceived as essential environmental services.

Measures taken in India for protection of urban environment

- Since 1974 a number of laws have been enacted and rules framed for prevention of pollution from different sources and protection of the environment, some of which are stated below:
 - Water (Prevention & Control of Pollution) Act, 1974;
 - The Environment (Protection) Act, 1986;
 - Hazardous Waste (Management & Handling) Rules, 1989;

- Manufacture, Storage and Import of Hazardous Chemicals Rules, 1989;
- Bio-medical Waste (Management & Handling) Rules, 1998;
- The Recycled Plastics Manufacture & Usage Rules, 1999;
- The Municipal Solid Wastes (Management & Handling) Rules, 2000
- The Acts and Rules *ibid* prescribe various punitive measures for the defaulting units including, *inter alia*, closure of the defaulting units as well as disconnection of electricity. In accordance with the provisions contained in Section 25 of Water (Prevention & Control of Pollution) Act, 1974 prior consent of the State Pollution Control Board is necessary:
 - to set up any industry, plant or process which is likely to discharge sewage or trade effluent into a stream or well or sewer or on land; or
 - bring into use any new or altered outlets for the discharge of sewage; or
 - begin to make any new discharge of sewage.
- Again, The Municipal Solid

Wastes (Management & Handling) Rules, 2000 make it imperative for the Municipalities and Corporations to comply with the following:

- Every municipal authority shall, within the territorial area of the municipality, be responsible for implementation of the provisions of the rules and for infrastructure development for collection, storage, segregation, transportation, processing and disposal of municipal solid wastes (Rule 4).
- The municipal authority shall make an application in the prescribed form, for grant of authorisation for setting up waste processing and disposal facility including landfills from the State Pollution Control Board in order to comply with the implementation programme (Rule 4).
- The municipal authority shall furnish its annual report to the Secretary-in-charge of the Department of Urban development, in case of a metropolitan city; or to the District Magistrate/ Dy. Commissioner, in case of all other towns and cities, and also give a copy of it to the State Pollution

Control Board on or before 30th June every year (Rule 4).

- Any municipal solid waste generated in a city or a town, shall be managed and handled in accordance with the compliance criteria and the prescribed procedure (Rule 7).

- The waste processing and disposal facilities to be set up by the municipal authority on their own shall meet the prescribed specification and standard (Rule 7).

- From the foregoing it is evident that the industrial institutions are supposed to discharge their waste water after treatment into the municipal drains and the municipalities are responsible to see to it as well as to treat the waste water discharged from the different domestic households in their drainage systems. They are also required to obtain a “Consent to operate” certificate from the State Pollution Control Board.

- The municipal authorities are statutorily responsible for fixing up a site to dump their municipal and domestic wastes and also to treat the same in proper manner in accordance with the provisions contained in the Environment (Protection) Act, 1986 and the Municipal Solid Wastes (Management & Handling)

Rules, 2000.

- The following issues are important in connection with waste collection:

- Collection;
- Segregation;
- Transportation; and
- Treatment.

- For disposal of wastes the Municipal Solid Wastes (Management & Handling) Rules, 2000 prescribe proper methods. Municipal authorities are to follow the prescribed provisions.

- It is mentioned in the Bio-medical waste Management Rules, 1998 that municipalities are to identify a specific place for dumping the bio-medical wastes after proper treatment by the Nursing Homes and Hospitals. The municipalities may approach the State Pollution Control Boards for obtaining technical guidance, if resourceful persons to identify the bio-medical wastes , hazardous wastes or industrial wastes are not available with them.

- Site of the industries is a major component for controlling pollution. The State Pollution Control Boards have declared siting policies. The local authorities, before granting trade licence to any manufacturing unit or any

godown of hazardous substances, should ask them to produce environmental clearance certificate from the State Pollution Control Board.

- Development of Housing Projects in the urban areas is a major threat to the environment, specially due to the depletion of ground water resources owing to use of water in a very unscientific manner. The Housing Complex covering more than 6000 sq. ft. plinth area or above will require environment clearance certificate from the State Pollution Control Board.

- Rain water harvesting and plantation are now an important measure for restoration of environment in the urban area. Forest Department, State Pollution Control Board and the Institute of Environmental Studies and Ecological Design need be consulted for the above purposes.

- Preservation of wetland and water-bodies is a challenge to the urban environment. Proper maintenance of the wetland and water-bodies is a significant component for maintaining environmental equilibrium and in such matters the State Fisheries Department, State Pollution Control Board and the Institute of Environmental Studies and

Ecological Design need to be consulted.

- Use of plastic carry bags aggravates the environmental problems in the urban areas. Due to throw away of these bags on the roadside, the drainage system in the urban areas is largely affected. Hence their use needs to be restricted and positive steps should be taken for proper implementation of the Recycled Plastic Manufacture Usage Rules, 1999. The use of plastic bags has already been banned in India. The municipalities and corporations need to take proper steps for implementation of this ban.

- To sum up, environmental hazards are now posing alarming threats to urban health and life. No doubt various laws have been enacted and rules framed to combat these hazards with a view to ensuring preservation of our environment. The urban local bodies have now to shoulder greater responsibilities on the issue and develop their own infrastructure management for the same. They should work in close liaison and tandem with the State Pollution Control Boards and other related advisory institutions for preservation of the environment.

Environmental Services

Responsibilities of ULBs for

providing environmental services are provided under MML. The discussion on environmental services is based on provision of MML.

Solid Waste Management

- Municipality shall, within the municipal area, be responsible for implementation of the rules made by the Central Government in exercise of the powers conferred by the Environment (Protection) Act, 1986, to regulate the management and handling of municipal solid wastes and for development of any infrastructure for collection, storage, transportation, processing and disposal of such solid wastes.
- For the purposes of management and handling of municipal solid wastes and for development of infrastructure, if any, for collection, storage, transportation, processing and disposal of such solid wastes, a charge shall be levied, and payment thereof shall be made, at such rate as the Municipality may fix from time to time.
- The charge as far as practicable, be such as shall cover the costs on account of management and handling of municipal solid wastes and development of infrastructure, if any, for collection, storage, transportation, processing and

disposal thereof and also the costs of debt-servicing, depreciation of plant and machinery, and other charges.

- Chief Municipal Officer may, with the prior approval of the Empowered Standing Committee, entrust development of infrastructure for collection, storage, transportation, processing and disposal of solid wastes and the work of management and handling of municipal solid wastes and of billing and collection of the charges as aforesaid to any agency under any law for the time being in force or to any other agency.
- The Municipality shall, either on its own or through any other agency authorized by it in this behalf, -
 - (a) organize collection of municipal solid wastes through any of the methods, like community bin collection (central bin), house to-house collection, and collection on regular pre-informed times and schedules,
 - devise collection of wastes from slums and squatter areas or other localities including hotels, restaurants, office complexes and commercial areas,
 - remove at regular intervals all solid wastes so collected for

- disposal on daily basis, and
- arrange for making use of biodegradable wastes from slaughterhouses, meat and fish markets, and fruits and vegetable markets in an environmentally acceptable manner.
 - The Municipality may, either on its own or through any other agency, cause the solid wastes to be disposed of at such place or places within or outside the municipal area, and in such manner, as it considers suitable.
 - Provided that no place which has not been used before the commencement of this Act for the purpose specified in this section, shall be so used, except –
 - in conformity with the provisions of any State law relating to development planning and land use control or any other law relating thereto for the time being in force, or
 - in the absence of any such law, with the approval of the State Government
 - The solid wastes shall not be finally disposed of in any manner which the State Government may think fit to disallow.
 - It shall be the duty of the owners

and the occupiers of all lands and buildings in the municipal area –

- to have the premises swept and cleaned on a regular basis,
- to provide for separate receptacles or disposal bags for the storage of - (i) organic and bio-degradable wastes, (ii) recyclable or non-biodegradable wastes, and (iii) domestic hazardous wastes, so as to ensure that these different types of wastes do not get mixed,
- to keep such receptacles in good condition and order, and
- to cause all such wastes, including rubbish, offensive matter, filth, trade refuse, carcasses of dead animals, excrementitious matters, bio-medical wastes and other polluted and obnoxious matters to be collected from their respective premises and to be deposited in community bins or receptacles at such times and in such places as the Chief Municipal Officer may, by notice, specify.
- It shall be the duty of the Municipality, either on its own or

through any other agency authorized by it in this behalf, to implement the provisions of the rules made by the Central Government in exercise of the powers conferred by the Environment (Protection) Act, 1986, to regulate the management and handling of bio-medical wastes to the extent such rules apply to the Municipality.

Drains and Sewerage Functions of Municipality

- The Municipality shall, either on its own or through any other agency, construct and maintain drains and sewers, and provide a safe and sufficient outfall, in or outside the municipal area, for effectual drainage and proper discharge of storm-water and sewage of the municipal area in such manner as may not cause any nuisance, whether by flooding any part of the municipal area, or of the areas surrounding the outfall, or in any other way.
- No place, which has not been used before the commencement of the Act for any of the purposes specified in this section, shall be so used except –
 - in conformity with the provisions of any State law relating to land use planning or any other law

relating thereto for the time being in force, or

- with the approval of the State Government, in the absence of any such law
- Provided further that with effect from such date as may be appointed by the State Government in this behalf, no sewage shall be discharged into any watercourse until it has been so treated as not to affect prejudicially the purity and the quality of the water of such water course.
- For the purposes of receiving, treating, storing, disinfecting, distributing, or otherwise disposing of sewage, the Municipality may, either on its own or through any other agency, construct, operate, maintain, develop and manage any works within or outside the municipal area.

Proprietary Rights of Municipality

- All public drains, all drains in, alongside or under any public street, and all sewage disposal works, constructed or acquired out of the Municipal Fund or otherwise, and all works, materials and things appertaining thereto, which are situated within or outside the municipal area, shall vest in the Municipality,

○ For the purposes of laying, constructing, enlarging, deepening or otherwise repairing or maintaining any such drain or sewage disposal system, so much of the sub-soil appertaining thereto, as may be necessary for such purposes, shall be deemed also to vest in the Municipality, and

○ All drains and ventilation shafts, pipes and all appliances and fittings connected with the drainage works constructed, erected or set up out of the Municipal Fund in or upon premises, not belonging to the Municipality, whether –

✓ before or after the commencement of the Act, and

✓ for the use of the owner or the occupier of such premises or not, shall, unless the Municipality has

otherwise determined, or does at any time otherwise determine, vest, and shall be deemed always to have vested, in the Municipality.

- The Municipality may, with the prior approval of the State Government and subject to such conditions as the Municipality may determine, make over to, or take over from, an authority under any law for the time being in force any drain or sewer or sewage disposal works

for administration and management thereof.

Municipal Drain

- The Chief Municipal Officer, or any other agency authorized by him in this behalf, may carry any municipal drain through, across or under any street, or any place laid out as, or intended for, a street or under any cellar or vault, which may be under any street, and, after giving a reasonable notice in writing to the owner or the occupier thereof, into, through or under any land whatsoever within the municipal area, or, for the purpose of out-fall or distribution of sewage, outside the municipal area.

- The Chief Municipal Officer, or any other agency authorized by him in this behalf, may construct any new drain in place of an existing drain or repair or alter any municipal drain so constructed.

- For the purpose of effectual drainage of any premises there shall be one drain for sewage, offensive matter and polluted water and an entirely separate drain for rain water or unpolluted sub-soil water or both rain water and unpolluted sub-soil water, each emptying into separate municipal drains or other suitable places.

• Subject to such terms and conditions as may be specified by regulations from time to time, the Chief Municipal Officer, or any other agency authorized by him in this behalf, may –

- enlarge, alter the course of, lessen, or arch over, or otherwise improve, any municipal drain within the municipal area,
- discontinue, close up, or destroy any such drain,
- properly flush, clean, and empty such drain, and
- restrict throwing, emptying, or turning into any municipal drain, or into any drain communicating into the municipal drain, any matter likely to damage the drain or interfere with the free flow of its contents or affect prejudicially the treatment and disposal of its contents, or any chemicals, refuse or waste steam, or any liquid which is dangerous or is the cause of a nuisance or is prejudicial to health, or any petroleum Class 'A', petroleum Class 'B' or petroleum Class 'C'.
Explanation. - For the purposes of this section, the expression "petroleum Class 'A', petroleum

Class 'B' or petroleum Class 'C'" shall have the same meaning as in the Petroleum Act, 1934.

• Subject to such terms and conditions as may be specified by regulations from time to time, the Chief Municipal Officer, or any other agency authorized by him in this behalf, may –

- permit the owner or the occupier of any premises having a drain, or the owner of a private drain, to have his drain made to communicate with the municipal drain for discharge of foul water,
- limit the use of the municipal drain by the owner or the occupier of any premises having a private drain or the owner of a private drain,
- require the owner of any land or building, which is without sufficient means of effectual drainage, to construct a drain and to provide all such appliances and fittings as may be necessary for drainage of such undrained land or building,
- require the group of owners of a block of premises, which may be drained more economically or

- advantageously in combination than separately, to undertake at their own expense any work necessary for drainage of such block of premises to be drained by a combined operation,
- require the owner of any land or building to carry out such construction, repair or other work as may be necessary for effectual drainage of such land or building, or
 - authorize any person, who desires to drain his land or building into a municipal drain through a drain of which he is not an owner, to use the drain or declare such person to be the joint owner thereof.

Trade Effluent

- Subject to the provisions of the Act and the regulations made thereunder and of any other law for the time being in force, the occupier of any trade premises may, with the approval of the Municipality or, so far as may be permitted by this Act or the regulations made thereunder or any other law for the time being in force, without such approval, discharge into the municipal

drain any trade effluent proceeding from such premises.

- Notwithstanding anything contained in this Act or the regulations made thereunder or any usage, custom or agreement, where, in the opinion of the Chief Municipal Officer, any trade premises are without sufficient means of effectual drainage and treatment of trade effluent or the drains thereof, though otherwise not objectionable, are not adapted to the general drainage system of the municipal area, or the effluent is not of specified purity, the Chief Municipal Officer may, by notice, in writing, require the owner or the occupier of such premises –

- to discharge the trade effluent in such manner, at such times, through such drains, and subject to such conditions, as may be specified in the notice, and to cease to discharge the trade effluent otherwise than in accordance with the notice,
- to purify the trade effluent before its discharge into a municipal drain and to set up for purifying the trade effluent such appliances, apparatus, fittings

- and plants, as may be specified in the notice,
- to construct a drain of such material, size and description, and laid at such level, and according to such alignment, and with such fall and outlet, as may be specified in the notice,
 - to alter, amend, repair or renovate any purification plant, existing drain, apparatus, plant-fitting or article used in connection with any municipal or house-drain.

Power of Municipality

Subject to such terms and conditions as may be specified by regulations from time to time, the Chief Municipal Officer may, either on his own or through any other agency, authorized by him in this behalf, -

- (a) erect upon any land or building, or affix to the outside of any building, or to any tree, any shaft or pipe as may appear to him to be necessary for the purpose of ventilating any drain or cesspool, whether vested in the Municipality or not, and
- examine the condition of a private drain or cesspool within the municipal area in respect of which

there is reasonable ground for believing that such private drain or cesspool is in such condition as is prejudicial to health, or is a nuisance, by applying any test other than a test by water under pressure, and if he deems it necessary, by opening the ground.

Sewerage Charge

- The Municipality shall levy sewerage charge on the owners of premises for connection of such premises to sewerage mains, such amount being not less than one-half of the amount chargeable for water-supply as may be determined by regulations from time to time.
- Where the owner of any premises in a locality where sewer is laid by the Municipality has not taken connection from the sewerage mains, he shall be liable to pay a sewerage cess of such amount, not being more than one-half of the amount chargeable as sewerage charge as may be determined by regulations from time to time.
- Where the owner fails to pay the sewerage charge or sewerage cess, such sewerage charge or sewerage cess, as the case may be, shall be realized from the occupier, and the occupier shall be

entitled to recover the amount from the owner.

- The connection of premises to sewerage mains shall be provided within a period of thirty days from the date of receipt of an application in this behalf from the owner of the premises.
- The charges received by the Municipality from the owner or the occupier for connecting the premises to sewerage mains shall be spent only for the works relating to the sewerage system.

Service Level Benchmark (SLB)

Urban areas are striving to improve service delivery, which is key for success of various schemes launched by the Government of India. Experience has shown that investments in urban infrastructure have not always yielded desired result in service delivery. Therefore, necessity to focus towards service delivery is felt.

The Thirteenth Central Finance Commission had recommended the operation of SLB process by making it mandatory to commit to service level improvements to access performance based grants. Recognising the enormity of the process, the 13th FC suggested initially four services viz., water supply,

sewerage, solid waste management, and storm water drains to be taken up. The Fourteenth Central Finance Commission also emphasized the need of implementation SLB in urban areas.

The Ministry of Urban Development (MOUD), Government of India has formalized benchmarks for key performance indicators for water supply, waste water/sanitation, solid waste management and storm water drainage to enable cities to measure and improve their own performance vis-à-vis the benchmarks. A Handbook on SLB was released in the year 2008 by the MoUD to guide the process.

It is well recognized that a sustained process of benchmarking comprising (i) developing comprehensive and disaggregated baseline data on service levels (ii) information system improvement to enhance quality of planning and (iii) performance improvement plans to attain new standards, is critical to ensure optimal use of investment and to sustain outcomes in service delivery.

Benchmarking enables cities/states to identify strengths and weaknesses in their own practices and to reach out and learn from the practices of

others to achieve excellence in service delivery. It also increases accountability and transparency to citizens.

Maharashtra, Andhra Pradesh and Karnataka states have already initiated the process of benchmarking the services to all ULBs in the state. Each ULB has to fix goals for SLB achievements during each financial year

and furnish the details of achievement of these goals to State Government.

Performance indicators identified for four basic urban services (1) Water Supply, (2) Waste Water/Sanitation, (3) Solid Waste Management and (4) Storm Water Drainage are given in the next page.

Annexure III Performance Indicator for Service Level Benchmark

Service	Indicator	Benchmark
Water Supply	Coverage of water supply collection	100%
	Per capita availability of water at consumer end	135 LPCD
	Extent of metering of water connection	100%
	Extent of non-revenue water	15%
	Continuity of water supply	24 X 7
	Efficiency in redressal of customers complaints	80%
	Adequacy of treatment and disinfection and quality of water supplied	100%
	Cost recovery in water supply services	100%
	Efficiency in collection of water supply related charges	90%
	Number of persons receiving less than 70 LPCD	0
Sewerage	Coverage of toilets	100%
	Coverage of sewerage network services	100%
	Collection efficiency of sewage network	100%
	Adequacy of sewerage treatment capacity	100%
	Quality of sewage treatment	100%
	Extent of reuse and recycling of sewage	20%
	Extent of cost recovery of sewage	100%
	Efficiency in redressal of customer complaints	80%
	Efficiency in collection of sewerage charges	90%
Solid Waste Management	Household level coverage of solid waste management services	100%
	Efficiency of collection municipal solid waste	100%
	Extent of segregation of municipal solid waste	100%

	Extent of municipal solid waste recovered / recycled	80%
	Extent of scientific disposal of municipal solid waste	100%
	Extent of cost recovery in solid waste management services	100%
	Efficiency in redressal of customer complaints	80%
	Efficiency in collection of SWM charges	90%
Storm Water Drainage	Coverage of storm water drainage network	100%
	Incidence of water logging and flooding	0

Right to Information Act 2005

It goes without saying that an informed citizen is better equipped to keep necessary vigil on the instruments of governance and make the government more accountable to the people. The Act is a big step towards making the citizens informed about the activities of the Government.

Right to Information Act 2005 mandates timely response to citizen requests for government information. The basic object of the Right to Information Act is to empower the citizens, to promote transparency and accountability in the working of the Government, to contain corruption, and to enhance people's participation in democratic process thereby making our democracy work for the people in a real sense.

Act provides that every public authority should:

- maintain all its records duly catalogued and indexed in a manner and the form which facilitates the right to information under this Act and ensure that all records that are appropriate to be computerised are, within a reasonable time and subject to availability of resources, computerised and connected through a network all over the country on different systems so that access to such records is facilitated.
- Public authority should provide as much information suo motu to the public through various means of communications so that the public have minimum need to use the Act to obtain information. Internet being one of the most effective means of communication, the information may be posted on the website.
- Information means any material in any form including records, documents, memos, e-mails, opinions, advices, press releases, circulars, orders, log books, contracts, reports, papers, samples, models, data materials, held in any electronic form and information relating to any private body which can be accessed by a public authority.
- Section 4(1)(b) of the Act, in particular, requires every public authority to publish following sixteen categories of information:
 - the particulars of its organisation, functions and duties;
 - the powers and duties of its officers and employees;
 - the procedure followed in the decision making process, including channels of supervision and accountability;
 - the norms set by it for the discharge of its functions;
 - the rules, regulations, instructions, manuals and records, held by it or under its control or used by its employees for discharging its functions;

- a statement of the categories of documents that are held by it or under its control; (vii) the particulars of any arrangement that exists for consultation with, or representation by, the members of the public in relation to the formulation of its policy or implementation thereof;
 - a statement of the boards, councils, committees and other bodies consisting of two or more persons constituted as its part or for the purpose of its advice, and as to whether meetings of those boards, councils, committees and other bodies are open to the public, or the minutes of such meetings are accessible for public;
 - directory of its officers and employees;
 - the monthly remuneration received by each of its officers and employees, including the system of compensation as provided in its regulations;
 - the budget allocated to each of its agency, indicating the particulars of all plans, proposed expenditures and reports on disbursements made;
 - the manner of execution of subsidy programmes, including the amounts allocated and the details of beneficiaries of such programmes; public use;
 - particulars of recipients of concessions, permits or authorisations granted by it;
 - details in respect of the information, available to or held by it, reduced in an electronic form;
 - the particulars of facilities available to citizens for obtaining information, including the working hours of a library or reading room, if maintained for
 - the names, designations and other particulars of the Public Information Officers.
- Every public authority is required to designate Public Information Officers. Public authorities should also designate the First Appellate Authorities and publish their particulars alongwith the particulars of the Public Information Officers.
 - A citizen has a right to seek such information from a public authority which is held by the public authority or which is held under its control. This right includes inspection of work, documents and records; taking notes, extracts or certified copies of documents or records; and taking certified samples of material held by the public authority or held under the control of the public authority.
 - The Public Information Officer is not required to furnish information which require drawing of inference and/or making of assumptions; or to interpret information; or to solve the problems raised by the applicants; or to furnish replies to hypothetical questions.
- Public Authority**
- A "public authority" is any authority or body or institution of self government established or constituted by or under the

Constitution; or by any other law made by the Parliament or a State Legislature; or by notification issued or order made by the Central Government or a State Government.

Information Exempted From Disclosure

➤ Information, disclosure of which would prejudicially affect the sovereignty and integrity of India, the security, strategic, scientific or economic interest of the State, relation with foreign state or lead to incitement of an offence;

➤ Information, the disclosure of which would cause a breach of privilege of Parliament or State Legislature; or

➤ cabinet papers including records of deliberations of the Council of Ministers, Secretaries and other Officers subject to the conditions given in proviso to clause (i) of sub-section(1) of Section 8 of the Act.

Fee for Seeking Information

- A citizen who desires to seek some information from a public authority is required to send, along with the application, a demand draft or a bankers cheque or an Indian Postal Order of Rs.10/- (Rupees ten), payable to the Accounts Officer of the public authority as fee prescribed for seeking information. The payment of fee can also be made by way of cash to the public authority.

- The applicant may also be required to pay further fee towards the cost of providing the information, details of which shall be intimated to the applicant by the PIO as

prescribed by the Right to Information Rules, 2012. Rates of fee as prescribed in the Rules are given below:

- rupees two (Rs.2/-) for each page (in A-3 or smaller size paper) ;
- actual cost or price of a photocopy in larger size paper;
- actual cost or price for samples or models;
- rupees fifty (Rs.50/-) per diskette or floppy; and
- price fixed for a publication or rupees two per page of photocopy for extracts from the publication
- so much of postal charges involved in supply of information that exceeds fifty rupees.
- A citizen has a right to inspect the records of a public authority. For inspection of records, the public authority shall charge no fee for the first hour. But a fee of rupees five (Rs.5/-) for each subsequent hour (or fraction thereof) shall be charged.

Format of Application

- There is no prescribed format of application for seeking information. The application can be made on plain paper. The applicant should mention the address at which the information is required to be sent.

Time Period for Supply of Information

➤ In normal course, information to an applicant shall be supplied within 30 days

from the receipt of application by the public authority.

➤ Additional 05 days shall be added to the time period if the application is received through APIO.

➤ In cases where the applicant is asked to pay additional fee the period intervening between informing the applicant about additional fee and the receipt of such fee by the public authority shall be excluded for calculating the period of furnishing reply.

➤ If information sought concerns the life or liberty of a person, it shall be supplied within 48 hours.

➤ An applicant can file an appeal to the first appellate authority if the information is not supplied to him within the prescribed time of thirty days or 48 hours, as the case may be, or is not satisfied with the information furnished to him. The first appellate authority of the public authority shall dispose of the appeal within a period of thirty days or in exceptional cases within 45 days of the receipt of the appeal.

- If a request is rejected the Public Information Officer shall communicate the reasons for such rejection to the person making the request.

Social Audit

- The RTI Act empowers the people to demand information on all public works from the government. Through social audit people

make use of the RTI to obtain the actual status of the works undertaken by the Government Departments or any Local Public Bodies. Thereby they watch the manner in which the money is spent. This is Social Audit which is an important means to hold the public authorities accountable. Social Audit thus creates a lot of public pressure on the establishments to take corrective steps.

- Social Audit unlike the formal institutional audit mechanism, seeks to achieve the twin objectives of transparency and accountability. It has the potential of developing into an important tool for enhancing the effective delivery of public services and programmes by the urban local bodies like municipalities and corporations. It may thus be termed as 'People's Audit' in consideration of the fact that under this mechanism, the people as a collective entity are afforded an opportunity of analyzing and assessing not only the issues pertaining to financial matters but also several other aspects such as, *inter alia*, the following:

- Identification of collective and individual needs of the local community;
- Selection of schemes and their location;
- Selection of the potential beneficiaries, particularly those belonging to disadvantaged groups; and
- The manner in which the developmental and welfare

programmes/schemes are being implemented, vis-à-vis their declared objectives.

- Proper social audit is feasible if Ward Committee members of the urban local bodies have free and ready access to all relevant, demystified and comprehensible information and documents regarding the works that they are empowered to audit. The findings of a social audit are presented and discussed in the public meetings in a ward or area in the presence of the entire community and stakeholders. Such public meetings are titled public hearings or *jansunwais*.

- A silent wave of revolution in the form of RTI campaign is sweeping across the country. The Supreme Court has observed that RTI is a part of right to Speech and Expression, a fundamental right under Article 19(1) of the Constitution. RTI laws have also been passed by nine State Governments in the country viz., Goa, Tamil Nadu, Karnataka, Delhi, Rajasthan, Madhya Pradesh, Maharashtra, Assam and Jammu & Kashmir.

Social Audit and Statutory Audit

- RTI initiatives are stymied by, inter-alia, the inadequacy of civil society institutions to play a role, lack of popular awareness and interest; the failure to sustain activism beyond the campaign period; the poor state of record-keeping and lack of equipment such as photocopier machines for copying documents. Although NGOs are playing a crucial role in

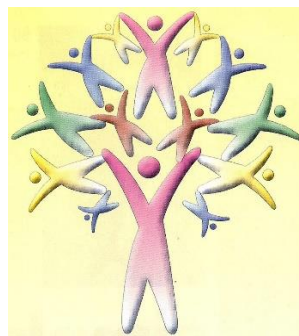
the process, social audits, like many other community initiatives, need more champions and motivators and dedicated volunteers to sustain participatory functioning.

- There is also a need for more inter face between social audit and statutory audit in order to facilitate transparency at the level of the urban local bodies. The Auditor should be aware of social audits that have been carried out, review the responsiveness of the urban local bodies to applications for information that may have been submitted by individuals/ organisations and accordingly make a comment on the operationalisation of the people's Right to Information.

- Social audit is the people's audit i.e. audit by the people of the affairs of a government and public sector undertaking including local bodies. Right to Information Act (RTI) is a tool provided by the Constitution of India to the citizens to know and oversee the affairs of a government and public sector undertaking including local bodies. Statutory audit is the constitutional obligation devolved on the Supreme Audit Authority to perform audit of accounts and records of a government and public sector undertaking including local bodies. Thus, so far as the audit and accounting of ULBs are concerned, the objectives and functions of all these three viz. social audit, RTI and statutory audit are complementary to one another with a view to promoting better transparency, efficiency,

economy and effectiveness in the functioning of the ULBs. An auditor should take note of the outcome of the *Jansunwais* and make use of the information gained from the same in verification and examination of the accounts and records of a ULB and advise the ULB accordingly with particular reference to cases of defects and shortcomings, errors and

omissions, losses and embezzlements, inefficiency and mismanagement of the affairs of the ULB. Similarly, recorded observations of the citizens on RTI concerning a ULB and examine the adequacy of the responsiveness of the ULB with the object of highlighting the true state of affairs of the concerned ULB.



Session: 13

Session Title:

**Important Observations
Raised in Audit Reports
Of Different States**



**Session at a glance
Instructor's Guide
PowerPoint Slides
(Given in Annexure)
Participants' Note**

Session: 13**Session at a glance****Session Title:** Important Observations raised in Audit Reports of Different States**Learning Objectives:**

Given the inputs of significant audit observations on municipalities and municipal corporations of different states through interactive discussion, lecture and PowerPoint slide show the participants will be acquainted with different audit points taken in different perspectives.

	Time Required	Training Method
Session Overview: In this session we will discuss some observations on municipalities and municipal corporations of different states.	5 min	Lecture
Key Teaching Point Interactive discussion on different audit observations on municipalities and municipal corporations of different states.	65 min	Interactive Lecture, and PowerPoint slide show
Summary:	5 min	Lecture
Total:	75min.	

Materials Required:

- PowerPoint Slides
- Projector
- White Board Marker Pen
- Participants' Note

Session: 13**Instructor's Guide****Session Title:** Important Observations raised in Audit Reports of Different States

		Ref.
Session Overview: Welcome participants to the session and remind them that their active participation is important for the success of each session. Tell the participants that in this session we will discuss some audit observations on municipalities and municipal corporations of different states through interactive discussion, lecture and PowerPoint slide show.		
Learning Objective: Given the inputs of significant audit observations on municipalities and municipal corporations of different states through interactive discussion, lecture and PowerPoint slide show the participants will be acquainted with different audit points taken in different perspectives.		
Discuss the audit observations through PowerPoint slide show. Encourage each participant to be interactive in discussion. Obtain para-wise responses from participants and recognise them point-wise by noting on the white board and discuss .		PowerPoint Slide: Session 13 Important Audit Observations
Request any participant to summarise the session. Thank the participants for their active participation and bring the session to a close.		

Session Title Important Observations raised in Audit Reports of Different States

Session Overview:

In the previous sessions we have discussed evolution of ULBs, constitution and organisation of ULBs, audit of Municipal Fund, loans, grants, budget, taxation, accounting system, schemes, internal control system alongwith audit points, duties and power of auditors and social audit including environment management. In this session we will discuss important audit observations by different states.

Learning Objective:

Given the inputs of significant audit observations on municipalities and municipal corporations of different states through interactive discussion, lecture and PowerPoint slide show the participants will be acquainted with different audit points taken in different perspectives.

Performance review

Implementation of Building Regulations (Audit Report for the year ended 31st March, 2001, Municipal Corporation of Delhi)

- The building department of municipal corporation of Delhi (MCD), responsible for control and monitoring of building activities in Delhi failed to control unauthorised constructions due to its lax attitude in taking action against un-authorised construction such as regularisation, sealing and

demolition of un-authorised structures. Not only were the statutory provisions not implemented by the department, even specific directions of the Commissioner and the Lieutenant Governor were ignored and not carried out by zonal offices and others concerned. This omission on their part for the last five years has gone unnoticed and unpunished and consequently orders remain unimplemented. MCD's failure in implementing the orders for demolition or sealing action resulted not only in increase of unauthorised constructions year after year but also in loss of revenue to the Department. The Department needs to review its activities to arrest the growth of unauthorised constructions in an effective manner.

- The building department of MCD failed to contain the growth of un-authorised constructions. Such constructions increased five-fold over the period 1996-2000 with reference to the base year 1995 in six zones test checked by audit.
- In 68% to 93% of un-authorised constructions ordered to be demolished during 1995-2000, the officers concerned did not demolish the un-authorised structures.
- The un-authorised constructions ordered to be sealed by the competent authority were not sealed in more than 50% cases.

- The department did not recover demolition charges of Rs.26.33 lakhs recoverable from building owners. The department also suffered a loss of Rs.24.53 lakhs approximately towards demolition charges not assessed in respect of 1887 cases of demolition action during 1995-2000.

- Fund collected on account of regularisation of un-authorised buildings which were required to be kept in a separate account and utilised for augmentation of civic services were merged with a fund earmarked for other purposes. Out of Rs.56.25 Crores collected upto 31st March, 2001, Rs.0.53 Crore in a separate escrow account and the balance Rs.55.72 Crores were utilised for general purpose.

Under assessment of property tax payable by Chennai Port Trust (Audit Report for the year ended 31st March, 2001, Corporation of Chennai)

“Commissioner, Chennai Corporation failed to ascertain annual additions and alterations to the properties of Chennai Port Trust and also incorrectly assessed as Government Property which resulted in under assessment of property tax to the tune of Rs.4.24 crores”.

- According to the Madras City Municipal Corporation Act, 1919, property tax was leviable on all buildings and lands at a percentage of their annual value. Property tax leviable for properties exceeding annual

value of Rs.5000 was 11.95% per half year since the first half year 1993. In the case of any building not ordinarily let, the annual value of which cannot be estimated, it shall be determined to be 6% of the total of the estimated market value of the land at the time of assessment and the estimated cost of erecting the building at such time after deducting for depreciation not less than 10% of such cost.

- Scrutiny of records in Chennai Corporation (CC) revealed that the tax levied in respect of the properties of Chennai Port Trust (CPT) for the period 1995-96 to 1998-99 was Rs. 24.75 lakh per half year.

- Although there had been a general revision of property tax in April, 1993 and in October, 1998, it was not applied to property tax of CPT, as the Commissioner of CC included the properties of CPT in ‘Government Property List’ as belonging to the State Government. In fact CPT was a corporation established under an Act of Parliament. However, based on the recommendations (February, 2000) of a committee constituted for revision of service charge of the State/Central Government properties, 100% increase in annual value of property was applied to CPT and property tax of Rs.45.34 lakh per half year was arrived at with effect from October, 1998. Demand for payment of Rs.63.66 lakh (after

assessing the annual value as Rs.379.47 lakh) as arrears for 3 half year ending 1999-2000 was sent by the Revenue Officer of the Corporation to Chairman, CPT in March, 2000.

- Thus, the Commissioner of CC wrongly classified CPT property as government property and also failed to ascertain the number of new buildings constructed or additions and alterations carried out by CPT annually. Based on the value of land and building reflected on the annual accounts of the CPT, an adopting annual value of 6% of the value of the property as per prevailing act in force, tax payable for the period 1995-96 to 1999-2000 works out to Rs.691.17 lakh. The property tax actually levied including the arrears of Rs.63.66 lakh demanded in March, 2000, was Rs.266.69 lakh. Thus, there was an under-assessment of at least Rs.4.24 crore for this period.
- Government replied (June, 2001) that exact details of additions/deletions of buildings would be ascertained from Chennai Port Trust. However, property tax demand upto 1999-2000 has been raised by the Commissioner based on the audit observation, and the CPT has referred the matter to their legal department.

Lack of accountability in Kolkata Municipal Corporation (Para 2.16 of Audit Report 2000-2001 of Government of West Bengal)

- In terms of provisions of the Calcutta Municipal Corporation Act, 1980 and the account code framed thereunder the Kolkata Municipal Corporation (KMC) is required to prepare annual accounts by the 15th July of the next financial year and the Municipal Commissioner shall submit account to the auditors immediately thereafter. The prescribed format of the annual accounts includes compilation of receipts and payments accounts, income and expenditure account and balance sheet. The Controller of Municipal Finances and Accounts being Head of the Municipal Finance and Accounts, Accounts Department is responsible for financial management, compilation of accounts, maintenance of books of accounts. He is assisted by a special CMFA, two additional CMFAs, fifteen Dy. CMFs and about seven hundred other staff. During the last five years approximate receipts and expenditure of KMC were as under:

Year	Receipt [Rs. in crore]	Expenditure [Rs. in crore]
1995-96	262.12	308.33
1996-97	336.26	371.73
1997-98	514.97	460.26
1998-99	505.66	601.64
1999-2000	516.91	599.49
TOTAL	2135.92	2341.95

KMC did not prepare their annual accounts in the formats prescribed in the KMC account code from the year 1990-91. During 1997-98 (between December 1997 & March 1998), 6 hand written statements for the year from 1990-91 to 1995-96 were presented to audit. The statements comprised of R&PA and I&EA for KMC headquarters without incorporating the transactions of 3 added units. Balance sheet was not compiled for any of these years. The statements were not authenticated, nor were any of the figures supported by relevant documents/schedules from 1996-97 and onwards, KMC did not prepare accounts in any form (June 2001). Thus, KMC failed to discharge their accountability for such huge receipts and expenditure as shown in the above table. In absence of balance sheet, no account of assets and liabilities are known.

The inadequacies and incompleteness in the accounts of 1990-1994 (4 years) were pointed out to the Municipal Commissioner by Examiner of Local Accounts in February 1998 for early rectification so that the accounts could be examined in audit. A copy of the letter was also forwarded to the Secretary, Municipal Affairs Department of the Government for information. These accounts were not rectified except for 1990-1991 (resubmitted in June 2001) and supporting documents were not submitted for any of the years. The government did not reply to the letter as of September 2001.

Audit verified the General Cash Book of KMC at its Headquarters with a view to verify the correctness of the balance of the municipal fund as shown in the R&P A with reference to the balance as per cash book for the period 1990-91 to 1995-96. Scrutiny revealed that cash book was not totalled and balanced by the Treasurer as required at the end of any month or year and the balance as shown in R&P A for those years did not bear any relevance to cash book balance (as worked out in audit). The Treasurer did not arrange to work out the balance and therefore, the opening balance of respective R&P A was taken into consideration by audit to arrive at fund balances at bank by totalling receipts/remittances and disbursements shown in the cash book for each of those years. The balances, so worked out, revealed that cash at bank at the close of the respective years as shown in the R&P A were much in excess with reference to cash book balances. The variation ranged between Rs. 1072 crore and Rs. 35.12 crore. The CMFA did not ever furnish to audit list of bank accounts with balances. Therefore, it was not possible to ascertain whether the R&P A included the balances of all the bank accounts and whether the cash book was complete in all respects. This would explain partially the huge discrepancy between the two sets of accounts as detailed above and also indicated the unreliability of these accounts and records.

Huge accumulation of dishonoured cheques in Kolkata Municipal Corporation

(i) Bank reconciliation statement was prepared by CMFA in KMC in consolidated manner for each year instead of individual bank account-wise reconciliation. Even this was not supported by bank statements. KMC did not produce documents to audit in support of balance as per bankers' accounts and the balance as per cash book. The overall correctness of the reconciliation statement was not therefore, susceptible of verification / scrutiny. The reconciliation statement brought out the following cumulative position as of 31 March 1996:

(a) Cheques issued but not encashed Rs. 19.99 crore.

(b) Receipt challans presented to bank but not credited- Rs. 9.08 crore

(c) Dishonoured cheques- Rs. 10.38 crore.

The correctness of the position at (a) and (b) could not be verified due to non-availability of supporting documents, register, etc. As per dishonoured cheques, year-wise registers are maintained but the cumulative position of subsequent collection of fresh cheques in lieu thereof was not indicated. The register was not totalled at the end of the year. Authenticity of the figures shown in the bank reconciliation statement could not, therefore, be ensured in Audit.

Test check of register of dishonoured cheques against receipts from 1990-91 to 1995-96 with reference to bank reconciliation statement revealed discrepancies in the year-wise amount of dishonoured cheques as shown below:

Accumulation of dishonoured cheques the year			
Year	As per register	As per bank reconciliation statement (Rupees in lakh)	Difference
1990-91	21.98	75.98	54.00
1991-92	23.22	123.73	100.51
1992-93	45.56	173.84	128.28
1993-94	8.37	46.68	38.31
1994-95	21.70	80.80	59.10
1995-96	61.32	133.97	72.65

The table would indicate that incidence of dishonoured cheques is sharply rising since 1993-94. The remitting departments did not take action for recovery of the amounts and/or penal action against the drawers of the dishonoured cheques. The Accounts

Department of KMC failed to monitor the matter. This resulted in loss of substantial receipts and interest thereon on one hand while the dues of the parties stood wrongly settled on the other. Possibility of serious malpractice in this area is strong and calls

for investigation. CMFA did not monitor this matter to ensure that the dues of KMC are collected promptly and legal action is taken against the defaulters. The Municipal Commissioner also failed to ensure that the receipts were duly and properly collected and accounted for and legal action initiated against the defaulters. The Register of dishonoured cheques was also not maintained in consolidated manner and the details were not fully carried forward to the next year's accounts.

(ii) Eighty four dishonoured cheques valuing Rs. 32.89 lakh relating to the year 1990-96 were cancelled under the orders of the Deputy Municipal Commissioner (Revenue Headquarter) as recorded in the register of dishonoured cheques. Relevant orders for cancellation of the cheques were not shown to audit. Circumstances leading to cancellation of dishonoured cheques and steps taken for realisation of the amounts/necessary adjustments in the demand registers, etc. were not furnished, though called for in Audit.

Loss of Rs. 63.15 lakh due to non remitting of Government dues by Kolkata Municipal

Corporation (Para 7.2 of Audit Report 2003-2004 of Government of West Bengal)

Rule 30 of the Income Tax Rules 1962 provides that the tax deducted at source under Section 192 to 194 of the Income Tax Act 1961 shall be paid to the credit of the Central Government within one week from the last day of the month in which the deduction is made.

It was noticed, however, that KMC failed to deposit the tax deducted at source from salary and contractors' bills within the prescribed time limit. The amount so deducted was unauthorisedly retained by the KMC. The Income Tax (IT) authority after verification of annual return for the financial year 1999-00 and 2001-02 observed delay in filing returns, short deposit of TDS and non-deduction of surcharge from contractors' bill. Accordingly, they proposed (March 2003) imposition of penalty of Rs. 4.90 crore and gave an opportunity for submission of arguments by the KMC.

The authorized representatives of the KMC appeared (March 2003) before the IT authority and filed written submission. The IT authority raised demand as under:

(Rupees in lakh)

Interest for delay in remittance of TDS	49.66
Short deduction of surcharge	4.17
Penalty under section 201(1)	46.74
Total	100.57

On May 2003, the KMC appealed seeking suitable relief. Pending disposal of the appeal, the IT authority extended a scheme for payment of Rs. 52.85 lakh in monthly instalments subject to payment of interest at the rate of 1.5 per cent per month on the balance amount. During May 2003 to May

2004, the KMC paid the amount of Rs. 52.85 lakh, on which accrued interest was of Rs. 4.65 lakh.

The appeal was disposed off and order passed in July and August 2003 imposing dues as follows:

(In rupees)		
(i)	A nominal penalty u/s 221 read with Sec. 192 & 194 © of the Act	4,67,410
(ii)	Short deduction of Surcharge u/s 201(I) over contractors I.T	4,16,709
(iii)	Interest u/s 201(IA)- Salary of Main Office	17,10,055
(iv)	Interest u/s 201(IA)- Added area	97265
(v)	Interest u/s 201(IA)- Contractors bill	31,58,537
Total		58,49,976
Interest accrued on Rs. 52.85 lakh		4,65,354
Grand Total		63,15,330

The KMC paid (31 July 2004) Rs. 58.73 lakh including Rs. 0.23 lakh being the demand after giving offer of appeal but excluding interest of Rs. 4.65 lakh. The KMC, however, did not take any action or fix responsibility for loss.

Due to professional inefficiency/negligence of the Controller of Municipal Finance and Accounts and unauthorised retention of taxes, the KMC suffered a loss of Rs. 63.15 lakh.

In reply, the KMC stated (November 2004) that the Corporation had withheld the terminal benefits of the then Controller of Municipal Finances and Accounts because of his negligence. They further added that charge sheet was being framed against the erring officer. The Corporation, however, did not furnish any reason as to why and

how such a serious financial mismanagement was overlooked for years despite having own internal audit and how the loss could be recovered.

The matter was referred to the Government in June 2004; reply had not been received (January 2005).

Avoidable expenditure of Rs. 31.89 lakh towards fees to Chartered Accountant firms by Kolkata Municipal Corporation (Para 7.3 of Audit Report 2003-2004 of Government of West Bengal)

The Finance and Accounts Department of KMC is manned by 700 functionaries. In spite of that huge establishment, a Chartered Accountant firm was engaged in September 2002 to compile the annual accounts for the years 1993-94 to 2002-03 at a remuneration of Rs. 1.25 lakh per accounting year. The

KMC again appointed (April 2003) the same firm for compilation of annual accounts for the year 2002-03 at a remuneration of Rs. 2.35 lakh. Thus, expenditure of Rs. 14.16 lakh towards engagement of a Chartered Accountant firm in spite of having such a large accounts establishment was totally unjustified and highly irregular.

While accepting the fact, the KMC stated (November 2004) that the Corporation had to appoint Chartered Accountant firm to pull up arrears of annual accounts for nine years which was not possible with in-house expertise within the stipulated time frame. KMC, however, did not furnish reasons for non-preparation of annual accounts within prescribed period of six month after closure of each financial year despite having huge manpower in the Accounts establishment.

As per provision of Article 957 of the Accounts Code of the Corporation it is the duty of Superintendent of Stores to supervise the store depots by frequent inspection to check the receipts and issues of stores and to check balance returns received from depots. It was, however, noticed that stock and store accounts of KMC was not prepared since 1993-94. The KMC incurred an expenditure of Rs. 19.93 crore for the period from 1996-97 to 2002-03 in maintaining the Central Stores Department only. The circumstances under which the said accounts had not been maintained since long were not on record or explained to

audit. As a result, the expenditure on maintenance of the staff was largely infructuous and the possibilities of loss of stores by way of theft, misappropriation or otherwise could not be ruled out.

In order to introduce modern store management system, verify and value the stocks, the KMC appointed (18 February 2003) a Chartered Accountant firm at a cost of Rs. 18.50 lakh with the scope of work as under:

- (i) codification and classification of stores
- (ii) determination of consumption pattern
- (iii) determination of stock and reorder level
- (iv) verification and valuation of stores
- (v) preparation of price stock ledger including obsolete and condemned materials
- (vi) preparation of manual and
- (vii) designing computer system of MIS system.

Except for the item of designing computer system of MIS system, the rest of the works were within the ambit of duties of the existing manpower. The KMC, instead of proper utilisation of own manpower, engaged the CA firm and paid Rs. 15.73 lakh being 85 per cent of Rs. 18.50 lakh. Further an amount of Rs. 2 lakh was spent as labour charge for handling materials. In addition to Rs. 19.93 crore spent towards store management for the period from 1996-

97 to 2002-03, the expenditure of Rs. 17.73 lakh was unjustified.

Thus, the KMC incurred an avoidable expenditure of Rs. 31.89 lakh instead of proper utilisation/mobilization of available manpower. The KMC also did not fix responsibility for non-maintenance of the store accounts and related records by the staff deployed for this purpose.

In reply, the KMC stated (November 2004) that store accounting and physical verification was not done over a decade and therefore the consultant was appointed. The reasons for non-accounting of stores over a decade and not taking action against the erring official for such gross negligence to duty, were not furnished to audit.

The matter was referred to the Government in June 2004; reply had not been received (January 2005).

Avoidable expenditure on Performance Guarantee in Brihanmumbai Municipal Corporation (Para 6.12 of Audit Report 2001-2002 of Government of Maharashtra)

The Brihanmumbai Municipal Corporation (BMC) awarded the construction of Aerated Lagoons at Bhandup and Ghatkopar and the Bandra Influent and Effluent Disposal, parts of the World Bank-aided Bombay Sewerage Disposal Project, to a construction company in December 1995 and March 1996.

The general conditions of the tender stipulated that the contractor was to provide

security in the form of bank guarantee, letter of credit or bond for proper execution of the contract and bear the cost of complying with such security.

Scrutiny of records of the BMC (January 2001) revealed that the Bill of Quantity (BOQ) of the tender contained an item for reimbursement of expenses incurred by the contractor for giving performance security by way of bank guarantee. This was contradictory to the existing clause.

The matter was referred by the BMC to their Legal Department, who opined that since the requirement was of BMC, the contractor has to be reimbursed as per principle known as 'Contra Referendum' (which means drafters to suffers). BMC accordingly had to reimburse Rs. 0.89 crore to the contractor.

Similarly, in the other civil work of Bandra Influent and Effluent Disposal, Rs. 0.95 crore was reimbursed for giving performance security. In this case, clause 10.4 as per which the contractor was to bear the cost of performance security was subsequently deleted by issue of an Addendum to the tender document (September 1995).

The Chief Engineer, Bombay Sewerage Disposal Project, BMC, stated (November 2001) that it was always a good contractual practice to pay the contractor for any services rendered so as not to encourage him to overload such services on the other items, which would make them unrealistic. Had the

BMC not provided the item in BOQ, the contractor could have overloaded the cost in other items.

The Government in their reply (July 2002) have also concurred with the views of BMC. The reply is merely an after thought and not tenable. It is pertinent to note that the clause of performance security acts as a safeguard to the contract awarding party and is a normal condition in execution of high value contracts. The BMC itself had subsequently discontinued the practice of reimbursing the contractor for the cost of the bank guarantee (October 2000).

National Slum Development Programme (Para 4.5 of Annual Audit Report (ULB) 2003-2004 of Government of Rajasthan)

National Slum Development Programme (NSDP) was launched in 1996-97 with 100 per cent central assistance to make adequate provision for water supply, sanitation, primary education facility, health care, housing, community improvement as well as environmental improvement and convergence of different social sector programmes through creation of sustainable support system in slum areas.

The following irregularities were noticed:

(i) Under-utilisation of funds by State Government

Out of Rs. 108.71 crore allocated by Government of India during 1996-97 to 2003-04, only Rs. 94.18 crore were released to the State and Rs. 14.53 crore were

withheld (2000-04) due to under-utilisation of the funds and non-submission of UCs and quarterly progress reports by State Government / ULB. This deprived the dwellers of slum areas of the State from benefits of infrastructural development.

(ii) Irregular expenditure on works executed in non-regularised/un-identified slums

As per State Government instructions (March 2000), the works under NSDP were to be executed only in such *kutchi basties* which were regularised up to 15th August 1998 or which could be regularised.

In disregard of these instructions, JMC, two MCs and 18 MBs executed (1998-2003) 136 works worth Rs. 3.03 crore in such *kutchi basties* which were neither regularised up to 15th August 1998 nor amenable to regularisation due to their location in forest land or unsafe place like low lying areas. Some of the ULBs intimated that such works were approved by District Urban Development Agencies (DUDAs)/District Collectors. This was not tenable as powers to sanction funds against the scheme guidelines were not given to these authorities.

Performance Audit on Delivery of Basic Civic Services by Select Municipal Councils (Para 4.1 of Audit Report (Local Bodies) for the year ended 31 March 2014 of Government of Maharashtra)

The Municipal Councils(MCs) of Maharashtra are governed by the

Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965 (MMC Act). It is mandatory on the part of the MCs to plan for social and economic development as well as provide essential civic services to its citizens, such as, supply of drinking water, disposal of sewage and management of solid wastes, street light, fire services, etc. Audit selected three basic civic services being provided by the 36 MCs i.e. water supply, solid waste management and sewage management, for detailed scrutiny with a view to ascertain broadly that delivery of these basic services by the MCs was efficient and effective with optimum use of available resources. The specific audit observations are:

- Average water supply in 17 of the 36 MCs ranged between 25 and 69 lpcd against the mandated 70 lpcd, due to losses from the distribution system, reduced efficiency of WTPs and irregular electric supply. Twenty one water supply augmentation projects taken up by 20 MCs at a cost of ` 708 crore under Central scheme (UIDSSMT) and State schemes (MSNA and MSJNA) suffered from significant time and cost overruns. The reforms in water supply services taken up by 24 MCs at a cost of ` 33.57 crore were lagging behind.
- Except one MC, none of the 35 MCs were segregating MSW either at source or at the landfill sites and unprocessed solid waste

was being dumped in the landfill sites in a non-environment friendly manner or directly in the pits/near water bodies/road sides. Bio-gas plants and vermi/mechanical composting plants constructed/partially constructed at a total cost of ` 6.29 crore by 11 of 36 MCs could not be put to optimal use due to repair and maintenance problems, lack of demand for the end product (cooking gas) etc. A number of MCs did not have valid authorisation from the State Pollution Control Board for setting up waste processing and disposal facilities in landfill areas or for operating slaughter houses.

- The sewage collection and disposal system in 32 of the 36 MCs were inadequate. The waste water was connected either to open drains or storm water drains leading to the nearby rivers. In 34 MCs, 208.51 MLD was being discharged without treatment either due to inadequate capacity of STPs or non-functioning of STPs. Only two of the 10 capital projects sanctioned between March 2008 and February 2014 at a total cost of ` 612.17 crore for upgradation of underground sewage system in 10 MCs were commissioned.
- None of the 36 MCs were able to achieve the Service Level Benchmarks prescribed by MoUD, GoI against various performance indicators in water supply, solid waste management and sewage management.

Performance Audit on Municipal Solid Waste Management (Annual Technical Inspection Report for the year ended 31st March 2012 of Government of Madhya Pradesh)

The Government of Madhya Pradesh adopted the Municipal Solid Waste (Management & Handling) Rules 2000 (prepared by Government of India) from the date of its publication in Gazette's of India. A performance audit on the Municipal Solid Waste Management for the period 2007-12 was conducted. The sample size consisted of 33 ULBs out of 360 ULBs. The specific audit observations are:

- Records of 25 ULBs out of 33 test check ULBs revealed that an amount of Rs.18.72 crore was received during 2006-10 from the UADD on recommendation of TFC out of which an expenditure of only Rs.8.49 crore was incurred till November 2012 and amount of Rs.10.23 crore (55 per cent) remained un-utilised.
- It was instructed by UADD Bhopal, that the funds earmarked for MSWM should be utilised for development of landfill site, purchase of vehicles, containers, dustbin and other equipments required for this purpose. Examination revealed that the expenditure of Rs. 87.77 lakh was incurred on the items which were not covered under above stated provisions. Thus fund was diverted.
- Despite a lapse of ten years since adopting the MSW Rules, house to house collection of MSW was very poor. As a

result garbage littering in open space, road-side and near open dustbins at primary collection centers. The Commissioners/CMOs replied that the dust bins were estimated on basis of population of that time but due to increase of population the bins became smaller and garbage littering was done near dustbins. It would be replaced after the approval of proposal from Council.

- TFC recommendations make it obligatory to levy user charges for collection of MSW. None of the ULBs levied user charges, except two ULBs. Two ULBs did not recover the user charges as per norms which resulted in outstanding user charges amounting to Rs.1.28 crore. The CMOs replied that no user charges were levied and collected due to non-obtaining the consonance with council. Commissioner of one ULB replied that they are facing difficulty in recovery due to shortage of staff.

- According to paras 11-17 of schedule-III of Rules, the existing landfill site shall be fenced or hedged and well protected. The lands were to be identified by concern ULBs. Out of 33 ULBs 15 ULBs were allotted and given possession of required land for landfill site and one ULB had its own land but none of the ULBs expect two could develop the allotted land as landfill site as envisaged in the Rules. The other 15 ULBs could not get possession

of land and in two ULBs the matter was sub-judice for possession of land due to encroachment till

November 2012. Thus, the Rules could not be implemented properly despite lapse of 10 years.

- Para 5 of Schedule-II of MSW Rules stipulates that the Municipal authorities shall adopt suitable technology or combination of such technologies to make use of wastes so as to minimise burden on landfill. Scrutiny of records of selected ULBs revealed that out of 33, in 31 ULBs no processing of MSW was being done which resulted in dumping of MSW at landfill site that may cause air and water contamination. Non allotment of permanent land was the reason for non adoption of processing facilities as reported by the CMOs. The reply of 16 CMOs is incorrect as they have land in possession.

- Procedure for disposal of liquid waste would be adopted as per the guidelines. Para 5.5.1 of Chapter 5 of the Solid Waste Manual states that as the waste water from slaughter houses is heavily polluted, it should therefore not be allowed to mix with the municipal drain system without pre-treatment. Scrutiny of records revealed that there were slaughterhouses in five ULBs but no arrangement was made for pre-treatment of the liquid waste water generated from these slaughterhouses. The

generated liquid waste was being mixed with the municipal drain which was contrary to provisions *ibid*. Twenty Six ULBs had no separate arrangement for disposal of waste generated from meat/fish markets. On this being pointed out in audit, the concerned CMCs/ CMOs replied that the procedure for disposal of liquid waste would be adopted as per the guidelines.

Session: 14

Session Title: Evaluation Test



Evaluation Questions and answers (to be prepared during training)



Major Audit Points on ULBs at a glance

Municipal Fund

- Could the auditor analyse the break up of the total amount of the Fund under different heads and ensure that the total amount tallies with total amount of collections/receipts under different heads?
- Was there any case of misclassification in credit to the Fund? If so, how was the same regularized?
- Was there any case of irregularity / misclassification in appropriation from Fund? If so, how was it regularized?
- Was an amount equal to 30% of the amount realised on account of property tax credited to Water supply, Sewerage and Drainage Account under the Fund?
- Was the amount credited to the Solid Waste Account equal to 15% of the amount credited on property tax? If not, the same was irregular and the reasons thereof should be analysed?
- Was any expenditure made on physical assets outside Kolkata without a resolution carried by not less than one-half of the number of members of the Corporation? Was such solution approved by the State Government?
- Was any loan raised by a Municipality from any financial institution only with the prior approval of the State Government?
- Was approval of the State Government obtained in respect of work etc. estimated to cost more than Rs. 25 lakh?

Municipal Grants

- Were proper accounts kept in respect of grants received from Central and State governments?
- Was there any case of utilization of the grant for any purpose other than the purpose for which the same was sanctioned?
- Did the municipality/corporation keep separate accounts for Capital and Revenue grants?
- Was any amount received as General Grants accounted for as Specific Grants or vice versa? If so, how was the same regularized?
- Did the municipality/corporation open a Designated Bank Account in case where the concerned Specific Grant so require and maintain separate Books of Accounts for the same?
- Were the State Government's grants based on the formula recommended by the State Finance Commission?

Municipal Loans

- In case of raising of loans, could the auditor ensure that the same was within the power of the Corporation?
- Was there any case of raising of loans without the prior sanction of the State Government?
- Was there any case where any portion of the loan was applied for any purpose other than that for which the loan was raised?
- Could the auditor ensure that the power of the Corporation to raise a loan did not

exceed 15% of the annual value of land and buildings?

- In case of opening a credit account with a bank instead of raising loan, was the same sanctioned by the State Government?
- Did the Corporation establish a separate Sinking Fund in respect of each loan and was due credit to such fund provided every six months?
- Were all moneys credited to a Sinking Fund invested in Government Securities, Debentures issued or other public securities as approved by the Government?
- Did the Municipal Commissioner prepare an annual statement showing the necessary particulars of investment made during a year?
- Were all Sinking Funds submitted to statutory audit for annual verification? If not, why? If yes, the report thereof should be analysed.
- Was there any case where any amount was certified by the statutory auditor as deficit for a Sinking Fund and, in such case, did the Corporation pay the same into the respective Sinking Fund?
- Was the case of deficit or excess, if any, after due adjustment, referred to the State Government for their decision?
- In case of premature redemption of debentures and bonds, was the amount of issue expenses outstanding during the year written off and charged to the Income and

Expenditure Statement as expense of the year?

- In case of debentures, were the particulars of the debenture holder recorded in the Register of Debentures?
- Was the amount received as loan deposited in the Designated Loan Bank Account?
- Were investments made in respect of Sinking Fund entered in a Sinking Fund Investment Register?
- Is there a robust system of internal controls in place and is the same functioning properly?

Municipal Budgets

- Were the prescribed dates for preparation of the (a) estimated receipts and expenditure (b) draft annual budget estimate (c) placement of the same to the Chairman-in-Council/Mayor and (d) sanction of budget estimate by the Board of Councillors adhered to? If not the reasons thereof should be analysed.
- Could the auditor ensure that the different departmental heads prepare their estimated receipts and expenditure of the following year in consultation with the respective Borough Committees/Ward Committees? If not, the reasons thereof should be analysed.
- Could the auditor ensure that the Accounts Department prepared the Draft Annual Budget Estimate in the prescribed



form in consideration of the departmental requirements?

- Was the Annual Budget Estimate sanctioned within two weeks after a specially convened meeting of the Board of Councillors?
- Was any deficit provided in the sanctioned budget?
- Could the auditor ensure that the revised budget estimate was prepared and adopted in the same way as the original budget?
- Were copies of the sanctioned budget sent to the prescribed authorities?
- Was there any case of extension of time for adoption of budget and revised budget? Was such extension approved by the State Government?
- Were necessary explanations in the prescribed columns forthcoming?
- Were the budget heads broadly divided into three categories of accounts, viz. (a) Revenue Account (b) Capital Account and (c) Extra-ordinary Debt Account?
- Did the aggregate of the opening and closing balances of the respective Account heads tally with the opening and closing balances of the Municipality?
- Could the auditor ensure on a test check of a particular period that the items of receipts/expenditure of revenue, capital and extra-ordinary nature were booked under Revenue, Capital and Extra-ordinary and Debt Accounts respectively?

- Could the auditor ensure that in case any capital expenditure was met out of own revenue income of that year, an equivalent amount was actually transferred to Capital Account from the Revenue Account and the same duly reflected under the appropriate budget head in the prescribed format?

- Could the auditor ensure that ordinarily an average of five years' receipts and expenditure was taken as the required estimate under each head? In case of any variations, were the same duly explained in the budget estimate?

- Could the auditor ensure that the details of outstanding liabilities, if any, were duly shown in the budget?

- Did the budget estimate state the rates at which various taxes, surcharges, cesses and fees would be levied during the proposed year?

- Did the budget estimate state the amount of money to be raised as loan during the proposed year?

- Are the Municipalities and Municipal Corporations actually using the budget to monitor the performance?

Municipal Receipt on Tax, and Cess

- Could the auditor ensure that the levy, assessment and collection of taxes were made as per prescribed rules and bye-laws?

- Did the State Government prescribe the scale for levy of fees or imposition of charges?

- Could the auditor ensure the arithmetical accuracy of the computation of the Property Tax?
- Was the Property Tax imposed on the annual value of the lands and buildings?
- Was the computation of the Property Tax in accordance with the prescribed norms?
- Was there any case where the Property Tax imposed exceeded 30% of the annual value of the lands and buildings?
- Was there any case where reduction or remission of Property Tax was allowed irregularly?
- Could the auditor ensure that the valuation of all municipal holdings was reviewed at the termination of each successive period of six years?
- Was the duty for collection of taxes performed by the authorized personnel under the written order of the Chairman?
- Were separate Assessment Register and Demand and Collection Register maintained for each circle in the prescribed form?
- Were the details of the totals on completion compared with the entries in the Assessment Register for a quarter?
- Was the Collecting Sarkar ever allowed access to the Assessment Register and Demand and Collection Register?
- Could the auditor ensure that all the alterations made in the Assessment Register were attested by the appropriate authority?

- Did the Tax Collector maintain a Hand Book showing therein the circle-wise collection position of each month?
- Could the auditor trace the postings of the Daily Collection register from those of the Cash Book and the counterfoil of the Challan?
- Did the municipality/corporation take steps to follow the National Accounting System as recommended by the Ministry of Urban Development, Government of India? If not, the reasons therefore should be analysed and audit observations furnished.
- Could the auditor ensure that write offs were authorised by the competent authority and as per the approved accounting policies?

ULB Accounts

Cashier's Cash Book (CCB)

- Was the maintenance of the CCB done at the direct supervision of the appropriate officer
- Were the receipts entered daily in the CCB?
- Could the auditor ensure that all receipts under the same heads were grouped together as far as possible for facility of accounting?

Pass Book

- Was there any instance where any entry in the Pass Book was made by the municipal office?
- Could the auditor ensure that the total of the balance and the amount of outstanding cheques of the Pass Book were checked

against the corresponding balance shown in the Cash Book?

Cheques

- Was the Cheque Book supplied by the Treasury kept under the personal custody of the Chairman or the Finance Officer?
- Was the practice of retaining signed cheques in the office permitted?
- Were all payments above Rs. 2,500/- to persons other than the employees of the municipality made in Cheques only?
- In case of cancellation of cheques, was the fact of cancellation noted in red ink?

Appropriation Register

- Was the Appropriation Register kept in the prescribed form?
- Could the auditor ensure that the expenditure was posted monthly from the Register of Works or other appropriate register?
- Was there any case of appropriation of funds, even temporarily, without prior approval of the government to any other object other than that for which it was intended?
- Was there any case of use of unspent balance of government grant made for expenditure in a particular year beyond the subsequent year without prior sanction of the State Government?

Municipal Public Works

- Did the municipality/corporation have a prescribed schedule of rates for each kind of work and was it updated from time to time?

- Was there any case of execution of work, other than in case of emergency, without a proper detailed estimate?
 - Was every work costing above Rs.5,000/- sanctioned by the Board of Councillors in a meeting and signed by the presiding Officer?
 - Was any work costing more than Rs. 5 lakh sanctioned by the Board of Councillors?
 - Did the Board of Councillors sanction any estimate which was a part of a scheme sanctioned by another authority?
 - Did the municipality/corporation maintain a Measurement Book (MB) in the prescribed form? Was it under the custody of the appropriate authority?
- Could the auditor ensure the following points?
- the entries in the MB were made in ink as far as possible;
 - recording of entries in respect of contents or area were invariably made in ink;
 - the pages of the MB in which the detailed measurements were recorded, were quoted in the bill;
 - the bill was signed by the officer in charge of the work and the contractor in token of its correctness;
 - before signing the bill the appropriate authority actually compared the quantities in the bill with those recorded in the MB;

- the number and the date of payment voucher was noted on the abstract of measurement in the MB as well as on the pages containing the detailed measurements.
- Did the municipality/corporation maintain approved list of contractors for three categories of staff viz. (a) general works other than sanitary, plumbing or electrical works (b) sanitary and plumbing works and (c) electrical works?
- Were there cases of awarding of works to contractors without calling for tenders? If so, the following further points should be ascertained:
 - Was the money value of the original work less than Rs 5,000 for the category of general works, Rs 2,500 for plumbing works, Rs 500 for electrical works?
 - In case of repair works was it less than Rs. 2,500 for general works, Rs 1,000 for plumbing works and Rs. 200 for electrical works?
 - Was such awarding of the contract as per discretion of the Chairman/Mayor after recording reasons therefore?
 - Was it awarded for paucity of time?
- Were in all cases competitive tenders invited from the approved list when the financial limit was Rs. 5,00,000 for general works, Rs. 1,00,000 for plumbing and Rs. 50,000 for electrical works?
- Were in all cases of works exceeding the above financial limit open competitive tenders invited?
- In case of non-acceptance of the lowest tenders were the reasons therefore forthcoming?
- Could the auditor ensure that no tender for execution of work was received unless accompanied by the deposit of earnest money at the prescribed rate?
- Could the auditor ensure that tenders for works valued up to Rs.10,000 were accepted by the Chairman/mayor and those exceeding Rs 10,000 by the Chairman/Mayor-in-Council?
- Was Security Deposit at the prescribed rate collected from the contractor before execution of the work?
- Were all payments to the contractors made by cheques and were the same delivered to them direct?
- Was an extract from the Measurement Book endorsed on the Muster Roll and the quantity of work turned out compared with the cost of the labour employed?
- Was the Muster Roll closed immediately after the close of the prescribed period and the labourers paid as soon as possible?
- Was the payment in all cases made in the presence of the competent authority?
- Could the auditor ensure that before final payment for a work was made, a completion

certificate was submitted by the competent authority with the necessary certification?

- Did the municipality/corporation maintain a Register of Works containing record of every original work or repair estimated to cost more than Rs 1,000?

Accounting system as recommended by National Municipal Accounting Manual (NMAM)

- If the State Government has notified application of NMAM in ULBs, did the municipality/corporation follow accounting system/manual as per the guidelines of the NMAM? Did the State Government develop any accounting system on the basis of NMAM?
- Did the municipality/corporation take steps to follow accrual system of accounting?
- Did the municipality/corporation prepare Income and Expenditure Statement and Balance Sheet every year in the prescribed formats?
- Did the “Income” and “Expenditure” in accounts constitute both revenue received and receivable and amounts paid and payable respectively?
- Were the collections made on behalf of the State Government credited to the control account called “State Government Levies in Taxes- Control Account”?
- Was any subsequent collection or recovery of “Receivables for Property &

Other Taxes” which were already written off recognized as a “Prior Period Income”?

- Were the demands raised with retrospective effect treated as prior period income to the extent it pertained to earlier years?
- Was revenue in respect of Water Tax, Water Benefit Tax, Water Supply Charges, Water Meter Rent, Sewerage Charge, Disposal Charges recognized in the period in which they became due, ie. , when the bills were raised?
- Was revenue in respect of Connection Charges for Water Supply recognized on actual receipt?
- Was the additional expenditure incurred for improvement of the fixed asset capitalized and included in the cost of the asset?
- In case the benefits of revenue expenditure for repairs and maintenance of the asset was less than for a year, was such expenditure charged off?
- Were assets under erection/installation on existing projects (including advances for capital works and project stores) shown as “Capital Works-in-Progress”?
- Was deposit received under Deposit Works treated as a liability till such time the projects for which money was received?
- Was expenditure in respect of stores (material, equipment, etc.) procured recognized on accrual basis?

- Was the stock lying at the period- valued at cost in accordance with the FIFO (First in-First out) method?
- Was revenue in respect of disposal of material recognized on actual receipt?
- Did the municipality/corporation follow any prescribed codification structure for classification of income and expenditure under different heads?
- Could the auditor ensure that:
 - Earnest Money Deposit was refunded to the unsuccessful bidders?
 - advance was provided to the contractors as per the terms and procedures of the municipality/corporation?
 - payment was made against bill raised after deducting the Security Deposit, income tax, works contract tax and other deductions/recovery including advance provided, if any?
 - the details of expenditure incurred on capital projects were recorded in the Capital Works-in-Progress Account?
 - separate Capital Works-in-Progress Control Accounts were opened for Civil, Electrical, Water Works and Other projects?
 - the Contract Completion Certificate was annexed to the final bill?
 - in the Contractors Control Account the particulars for liability for amount payable to various contractors were

credited and the amount paid to them debited?

- on completion of construction of the asset, the cost incurred for construction was passed on to the relevant asset account?
- the Accounts Department ensured that the tax deducted at source and works contract tax deducted from the contractor's bill, etc. were deposited with the Government in accordance with the provisions of the relevant Acts?
- the Works Department, Accounts Department and the Internal Audit Department exercised the following internal controls—
 - ensure budget availability at the time of approval of the bill;
 - ensure that all the dues, including liquidated damages/penalties, were recovered from the contractor before making the final payment;
 - ensure that no amount was due from the suppliers/contractors, which might be otherwise adjusted before payment;
- the Stores Department prepared a Summary of Daily Collections and forwarded the same to the Accounts Department?
- the Stores Department prepared the Material Receipt Note in the prescribed form?

- the bank reconciliation was carried out on a monthly basis or such other shorter time interval as the municipality/corporation decided.
- Assessment of the MIS System in place and its use.
- Whether budget and budget variance analysis is being used as a monitoring and financial management tool.
- Whether the opening balance sheet depicts all the assets comprehensively with valuation.
- In case of computerised systems, IT audit techniques/procedures are to be used.

Municipal Schemes

- Did the ULB take action compile accounts and have them audited in time?
- Whether the books of accounts prepared by the local bodies distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the Finance Commission and grants for any agency?
- Whether basic grants were received by ULBs based on the formula laid down by the FFC?
- Did the audited accounts provide reliable data on local bodies' receipt and expenditure?
- Was there improvement in realization of own revenue?
- Did ULB publish the service level benchmarks relating to basic urban services each year and made it publicly available?
- Was the performance grant utilized for making available reliable data, improving own revenue realization and publishing service level bench mark?
- Could the auditor assess any tangible improvement in the work of building database and maintenance of accounts?
- Were the grants released by the Centre transferred to the ULB within 15 days?
- Was interest in case of delay in release of fund were paid by the State Govt?
- Was service charges realized by the ULBs from the beneficiaries for providing services?
- Was fund utilised only on the basic services within the functions assigned to ULB under relevant legislations?
- Could the auditor ensure that the grants under Atal Mission for Rejuvenation and Urban Transportation were actually utilized by the ULB for the specific purposes for which the grants were sanctioned?
- Was the Service Level Improvement Plan (SLIP), according to guidelines prepared by each ULB?
- Was the service level gap assessed at the stage of preparation SLIP and plan formulated to bridge the gap?
- Was the land marked for the project work have clearance from all departments?

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| <ul style="list-style-type: none">• Whether the sources of finance for implementing the projects detailed in the SLIP?• Did ULB ensured coordination and collaboration among stakeholders for timely completion of the project? If not, the reasons to be analysed.• Was SAAP included contribution of State not less than 20 percent of the total project cost?• Did Auditor ensured that the mission of every household access to a tap with assured supply of water and a sewerage connection achieved?• Was there any plan for individual and institutional capacity building by ULB? Was there any shortfall?• Could the auditor ensure that a State level project committee was constituted to sanction the State scheme and the State scheme was actually sanctioned by that committee?• Did any portion of the fund provided under AMRUT remain unutilized? If so, the reasons therefor should be analysed.• Did the ULB keep any record of the number of household to be benefited from the scheme? Was the same in tune with the projected numbers?• Did ULB prepare a city sanitation plan according to National Urban Sanitation Policy-2008? | <ul style="list-style-type: none">• Could the auditor ensure that the State's share of the scheme was released to the ULBs in time?• Was utilisation certificate furnished for 75% of the fund released as 1st instalments at the time of releasing subsequent instalment?• Could the auditor ensure performance grant was released after evaluation of elimination of open defecation, conversion of insanitary latrines into pour-flush latrines, eradication of manual scavenging, prevention of pollution of water sources, ensuring cleanliness and hygiene in public places, awareness creation and capacity building?• Did ULBs prepare DPR for Solid waste management?<ul style="list-style-type: none">• Was implementation of project under PPP mode encouraged by ULBs?• Could auditor ensure availability of private capital in urban infrastructure and private sector efficiency in delivery of urban services in cases of projects under PPP?• Did ULBs draw up a calendar of training programme identifying relevant officials for capacity building?• Could audit ensure active participation of the Ward |
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Committees, Area Sabhas, NGOs in implementation of the mission?

- Did ULB furnished Monthly /Quarterly Progress Reports, in time, in prescribed formats with regard to targets and achievements to NARC?
- Weather self-attested geo-tagged photographs of the household toilet construction along with the applicant was uploaded to the SBM (Urban) MIS? If not, reasons to be recorded.

Internal Audit of ULBs

- Could the auditor ensure that there was an established system of Internal Audit in the Corporation/Municipality? Was such audit conducted monthly or at prescribed periodicity?
- Could the auditor ensure that in case of Kolkata Municipal Corporation, the Chief Municipal Auditor sent a monthly report to the Chief Municipal Commissioner? Did the Chief Municipal Commissioner regularly place before the Mayor-in-Council an abstract of the receipts and expenditure of the month last preceding?
- Were there any cases of material impropriety or irregularity in the report on internal accounts? If so, were proper remedial measures or actions taken on the same under intimation to the State Government?

- Could the auditor ensure that there were proper records of check including the results of verification of balances on debts, deposits in the Sinking Funds, advances, suspense, and remittance transactions?
- Was there any record of undertaking physical verification of stores and stocks of the Corporation?
- In case of other Municipalities and Corporations, did the Chairman-in-Council/Mayor-in-Council set up a system of checking of the accounts of the Municipal Fund at least once in every month by an officer specially authorized to do so?
- Was there any record to show that the officer authorized to undertake the internal audit actually did the necessary check?
- The auditor should also verify whether
 - any efficiency or loss was caused by the gross negligence or mis-conduct;
 - all the expenditure incurred by the ULB were authorised by appropriate provision in the sanctioned budget, whether made originally or subsequently;
 - all transactions (incomes, expenditures, assets and liabilities) were correctly classified;
 - the amounts received as specific grants had been utilised for the purposes as stated in the grant sanction order;
 - the Special Funds, had been created as per the provision of relevant statutes

and whether the Special Funds had been utilised for the purposes for which created;

- Whether the ULB was maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
- Whether physical verification had been conducted by the ULB at reasonable intervals in respect of stores;
- the valuation of stores was in accordance with the accounting principles laid down in the Accounts Manual;
- Whether the parties to whom the loans, or advances in the nature of loans, had been given by the ULB were repaying the principal amounts as stipulated and were also regular in payment of the interest and if not, whether reasonable steps had been taken by the ULB for recovery of the principal and interest;
- there existed an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other asset

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Cover design by: **Shri Sujit Kumar Das, Assistant Faculty Member, RTI, Kolkata**