

Training Module On Audit of Urban Local Bodies



Regional Training Institute, Kolkata

CGO Complex, (5th.Floor – A wing), DF Block

Salt Lake, Kolkata 700064

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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.

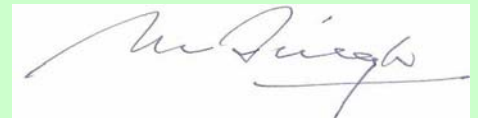
The initiatives undertaken by the C&AG for capacity building of the auditors and accountants included, inter-alia, designating Regional Training Institute (RTI), Kolkata as the nodal centre of excellence for training in audit of local bodies. The RTI, Kolkata did an excellent job in producing two training 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	BMC	Brihanmumbai Municipal Corporation
6	C & AG	Comptroller and Auditor General of India
4	CC	Chennai Corporation
7	CDS	Community Development Societies
	CFC	Central Finance Commission
3	CO	Community Organisers
5	CPT	Chennai Port Trust
8	Dt.	Dated
9	DUDA	District Urban Development Agency
10	DWCUA	Development of Women and Children in the Urban Area
	HLC	High Level Committee
11	HUDCO	Housing and Urban Development Corporation
12	IEC	Information, Education & Communication
13	JMC	Joint Municipal Commissioner
14	LIC	Life Insurance Corporation
15	MC	Municipal Commissioner
16	MCD	Municipal Corporation of Delhi
17	MKSS	Majdoor Kishan Shakti Sanghathan
	MoF	Ministry of Finance
18	MSW	Municipal Solid Waste
24	NCPRI	National Corporation for Peoples' Right to Information
22	NGO	Non-Government Organisation
23	NHC	Neighbour hood

Sl. No.	Abbreviated Form	Full Form
		Committees
20	NHG	Neighbourhood Group
19	NMAM	National Municipal Accounts Manual
25	NRTI	National Right to Information
21	NSDP	National Slum Development Programme
26	PA	Poverty Alleviation
27	PWD	Public Works Department
29	RCV	Resident Community Volunteer
28	RTI	Right to Information
	SFC	State Finance Commission
31	SGSRY	Swarnajayanti Shahari Rozgar Yojana
30	SUDA	State Urban Development Agency
	TFC	Twelfth Finance Commission
31	UBSP	Urban Basic Services for the Poor
32	UEPA	Urban Employment and Poverty Alleviation
33	ULB	Urban Local Bodies
34	UNFCCC	United Nations Framework Convention in Climatic Change
38	UPE	Urban Poverty Eradication
35	USEP	The Urban Self Employment Programme
36	UWEP	The Urban Wage Development Programme
39	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, Octroi 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 Schemes like National Slum Development Programme (NSDP), Swarna Jayanti Shahari Rozgar Yojana (SJSRY), Night Shelter for Urban Shelterless Programme, Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Twelfth Finance Commission.
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.	Duties and powers of Auditor, Auditing standards.

Day 5

Session	Time	Topic
12	10.30 hrs. to 11.45 hrs.	Environment Management 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
(In CD Rom)
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 sharing 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 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 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:

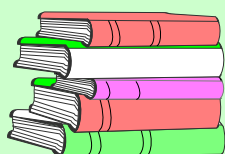
Urban Local Bodies (Municipalities and Municipal Corporations) — A Historical perspective

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.

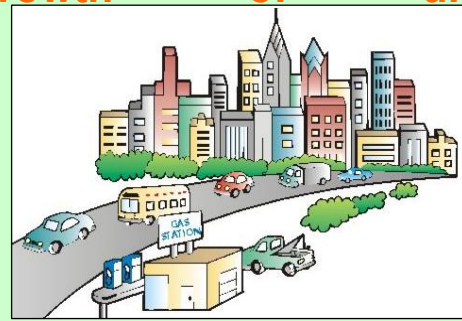
The municipal government in the urban areas may be conceived as an elected political institution for local popular choice for local civic services. The municipal government has been universally regarded as people’s government at the grass roots level in the shape of local government for the urban areas. 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.



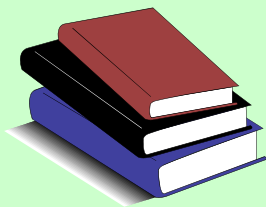
Urban India in the making

The new millennium is expected to brace about 290 million people living in urban India. Urbanization trends indicate that the urban population would continue to grow at the rate of about 3 percent per year in the next few decades. 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) recommended an ad hoc grant of Rs. 400 crore per annum (Rs. 2000 crore for five years) for the municipalities in India. The Twelfth Finance Commission (TFC) has recommended a grant-in-aid of Rs 5000 crore for municipalities for the period 2005-10 @ Rs. 1000 crore per year. vide table given below. It is in this perspective again that the need for modernisation of the concept of accounting and accountability of the urban local governance is of paramount importance today.

In terms of the “Guidelines for Utilisation of TFC grants”, issued by Department of

Expenditure, Ministry of Finance, Government of India, the timely release and utilisation is to be audited and reported by the C&AG of India.

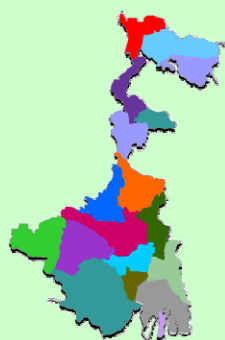
The guidelines of TFC, inter alia, made it imperative for the ULBs (a) to spend at least 50% of the Grants-in-aid for the scheme of solid waste management and (b) to give high priority to creation of database and maintenance of accounts.



12th Finance Commission: Shares of State in allocation(2005-2010)

Sl. No.	State	12 th Finance Commission's recommendation (2005-2010) State-wise allocation per year Rs. in crores	11 th Finance Commission's recommendation (2000-2005) State-wise allocation per year Rs. in crores
1	Andhra Pradesh	74.80	32.93
2	Arunachal Pradesh	0.60	0.14
3	Assam	11.00	4.31
4	Bihar	28.40	18.78
5	Chhattisgarh	17.60	-
6	Goa	2.40	0.93
7	Gujarat	82.80	26.50
8	Haryana	18.20	7.33
9	Himachal Pradesh	1.60	0.78
10	Jammu & Kashmir	7.60	3.13
11	Jharkhand	19.60	-
12	Karnataka	64.60	24.96
13	Kerala	29.80	15.05
14	Madhya Pradesh	72.20	31.20
15	Maharashtra	158.20	63.25
16	Manipur	1.80	0.88
17	Meghalaya	1.60	0.54
18	Mizoram	2.00	0.77
19	Nagaland	1.20	0.36
20	Orissa	20.80	7.99
21	Punjab	34.20	10.95
22	Rajasthan	44.00	19.88
23	Sikkim	0.20	0.04
24	Tamil Nadu	114.40	38.67
25	Tripura	1.60	0.80
26	Uttar Pradesh	103.40	50.33
27	Uttaranchal	6.80	-
28	West Bengal	78.60	39.50
	TOTAL	1000.00	400.00

Source: Nagarpalika Update, Vol.-3, No.-2 March-April, 2005.



Urban Local Bodies in West Bengal

Modernization in the system of Urban Local Bodies in West Bengal started in the late seventies. The State Government constituted an Urban Development Strategy Committee which recommended, *inter alia*:

- bringing uniformity in the development programmes of the municipalities and corporations,
- optimum utilization of local resources,
- giving precedence to the development of the poorest section of the society,
- decentralisation of development schemes entrusting the local bodies to draw the schemes for civic services and execution thereof.

Besides, the five-point programme followed by the State Government included *inter alia*:

- holding civic elections of all the urban local bodies at fixed regular intervals,
- establishing development in the urban infrastructure, efficiency, modernization and transparency,

The State Government also brought down the minimum age of adult franchise from 21 to 18 (which was later implemented in the all

India general elections) and made series of new enactments governing municipalities and corporations in the state.

At present there are 117 municipalities, 6 municipal corporations and 3 notified area authorities in West Bengal.

The acts governing municipal administration in the state include:

- The Central Valuation Board Act, 1978
- The Kolkata Municipal Corporation Act, 1980 as amended from time to time;
- The Howrah Municipal Corporation Act, 1980,
- The Siliguri Municipal Corporation Act, 1990;
- The Asansol Municipal Corporation Act, 1990,
- The Chandernagore Municipal Corporation Act, 1990;
- The West Bengal Municipal Act, 1993; and
- The West Bengal Municipal Elections Act, 1994

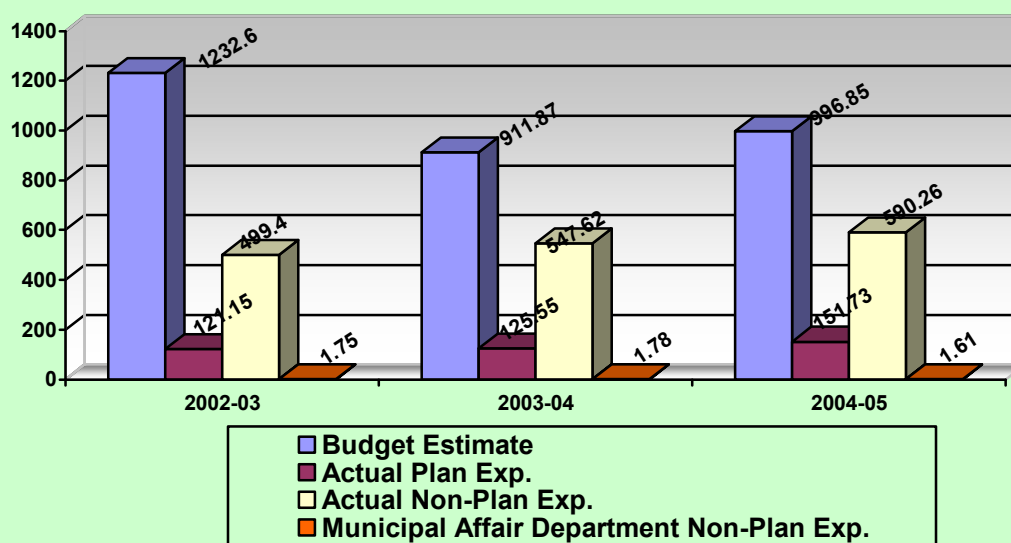
Changes in the office in respect of Accounting Procedure of ULBs in West Bengal

- The recommendations of the C&AG's Task Force on Accounting Reforms to be introduced in ULBs viz introduction of accrual based Double Entry System were accepted by the Government of India at the national level. Subsequently, the Ministry of Urban Development, Government of

India brought out National Municipal Accounts Manual based on the recommendations *ibid*.

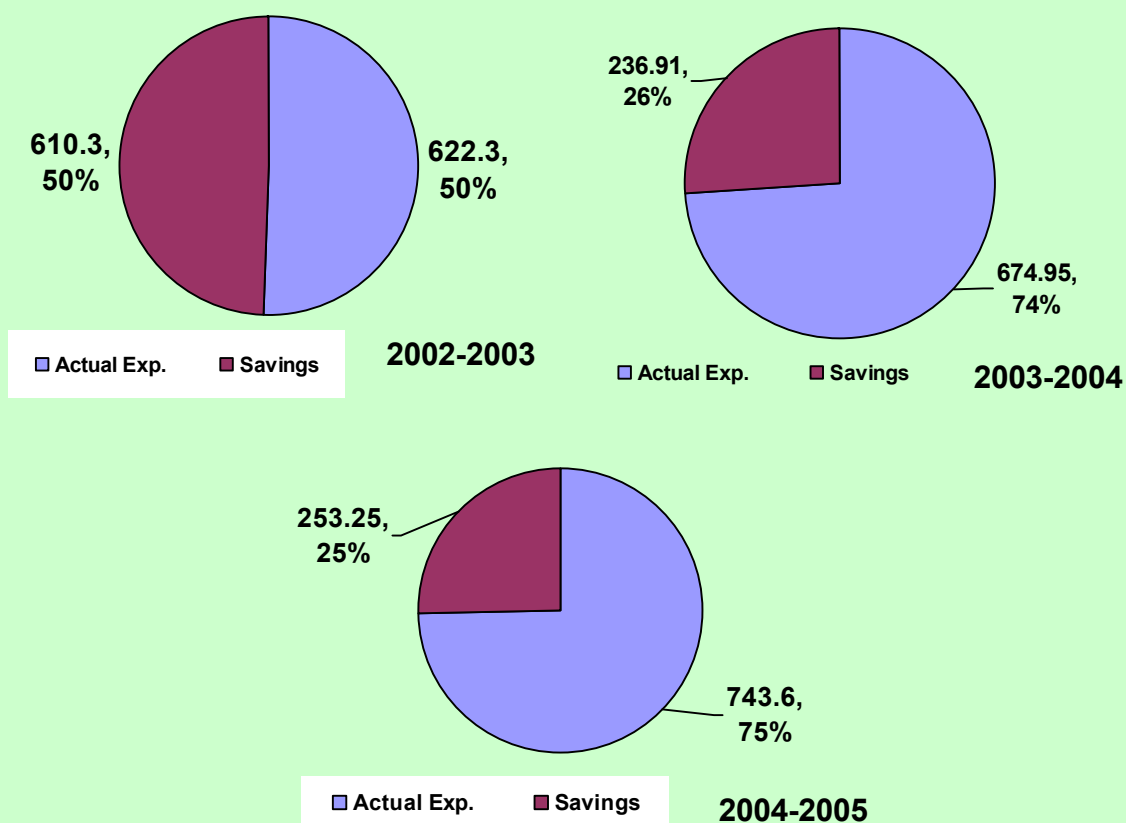
- In tune with the above, the Government of West Bengal decided to introduce accrual based Double Entry System in place of existing cash based accounting system in all urban local bodies in West Bengal.
- It has been decided that the new system will be introduced in the first instance in the 40 ULBs of Kolkata Metropolitan Area (except Kolkata Municipal Corporation), with support from the DFID assisted Kolkata Urban Services for the Poor (KUSP) programme.
- Change Management Unit, KUSP has been entrusted with the job of making the desired change.
- The CMU, in its turn, has brought out an accounting manual for Urban Local Bodies covering the aspects of accrual based Double Entry System in the said 40 ULBs. The Government of West Bengal have planned to take up necessary amendment to the relevant provisions of the WB Municipal Act, 1993 and the WB Municipal (Finance and Accounting) Rules, 1999, after the process of conversion of accounting system in the first few ULBs is successfully implemented.

Budget provision and expenditure of Urban Local Bodies in West Bengal (Rs. in Crores)



The percentage of over all expenditure is illustrated in the following graphs: (Rs. in crores)

Year	Budget Estimate	Actual Expenditure	Savings(+)/ Excess(-)	Percentage of Over all Expenditure
2002-03	1232.6	622.3	(+) 610.30	50.48
2003-04	911.86	674.95	(+) 236.91	74.01
2004-05	996.85	743.60	(+) 253.25	74.59



Analysis of Financial performance

Subject to availability of data, a performance study on the working of ULBs may be made through an interesting analysis of allotment, vis-à-vis, actual expenditure under different heads, as shown below by way of illustration, say for the year 2004-05:

Heads	Allotment (Rs in crore.)	Actual Expenditure (Rs. in crore)	Savings (+)/ Excess (-)	% age of Savings/Excess
Salaries	500	525	(-) 25	(-) 5
Sewerage	50	35	(+) 15	(+) 30
Sanitation	50	30	(+) 20	(+) 40
Water supply	200	150	(+) 50	(+) 25
Health care	100	70	(+) 30	(+) 30
Solid Waste Management	300	150	(+) 150	(+) 50



Session 2

Session Title:

**Constitution, Organisation,
Powers and Functions of ULBs**



Session at a glance
Instructor's Guide
PowerPoint Slides
(In CD Rom)
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, 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 Constitution
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 under the West Bengal scenario.

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.



* Constitution of Municipal areas: (Part II, Chapter II of the West Bengal municipal Act, 1993)

Whenever it appears to the Governor that any town, together with any village, land,

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

building or Railway Station in the vicinity of any such town-

- i) contains a population of not less than 20,000 inhabitants;
- ii) has a density of population of not less than 750 inhabitants/sq. km. of area, and
- iii) has an occupational pattern in which more than one-half of the adult population are chiefly engaged in pursuits other than agriculture and

if the Governor of the State is satisfied that if such town is constituted in a municipal area— the municipal income from taxation and other sources is likely to be adequate for the discharge of municipal function under this act, he may, by notification, declare his intention to constitute such town a municipal area under this Act.

On the expiry of three months from the date of publication of the notification in the Official Gazette and two leading newspapers and after consideration of all objections which may be submitted, the Governor may, by notification, constitute such town or any specified part thereof a municipal area under this Act.

The State Government may classify the municipal areas into the following groups on the basis of the population as ascertained at the last preceding census:-

Group-A: Municipal areas having population above 2,15,000

Group-B: Municipal areas having population above 1,70,000 but not exceeding 2,15,000

Group-C: Municipal areas having population above 85,000 but not exceeding 1,70,000

Group-D: Municipal areas having population above 35,000 but not exceeding 85,000

Group-E: Municipal areas having population not exceeding 35,000

For the purpose of classification of municipal areas in hill areas, the State Government may by notification determine separate size of population for each such group.

Power to abolish or alter limits of a municipal area:

The State Government may by notification-

- i) withdraw any municipal area from the operation of this Act; or
- ii) exclude a municipal area any local area comprised therein and defined in the notification; or
- iii) include within a municipal area any local area contiguous to the same and defined in the notification; or
- iv) unite two or more municipal areas; or
- v) revise or redefine the boundaries or limits of a municipal areas

At present, in West Bengal, there are 6 Municipal Corporations, 117 Municipalities and 3 Notified Area Authorities.

The Municipal Corporations are:

1. The Kolkata Municipal Corporation[KMC (Governed by The Kolkata Municipal Corporation Act, 1980)]
2. The Howrah Municipal Corporation (Governed by the Howrah Municipal Corporation Act, 1980)
3. The Siliguri Municipal Corporation (Governed by the Siliguri Municipal Corporation Act, 1990),
4. The Asansol Municipal Corporation (Governed by the Asansol Municipal Corporation Act, 1990)
5. The Chandernagore Municipal Corporation (Governed by the Chandernagore Municipal Corporation Act, 1990)
6. The Durgapur Municipal Corporation (Governed by the Siliguri Municipal Corporation Act, 1990)

Municipal Authorities (Chapter III of the Act):

The municipal authorities charged with the responsibility of carrying out the duties and functions shall, for each municipal area, be as follows:

- a. The Municipality,
- b. The Chairman-in-Council, and
- c. The Chairman.

But in a municipal corporation like KMC and other Municipal Corporations, the municipal authorities are:

- a. the Corporation
- b. the Mayor-in-Council' and
- c. the Mayor.

The Municipality / Municipal Corporation (Chapter III) :

- 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-

A] such number of elected members as there are wards within the municipal area,

B] 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 (Chapter III):

- 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:

- In case of a Municipal Corporation there shall be, usually, a Mayor-in-Council consisting of the Mayor, the Dy. Mayor and not more than 10 other elected members of the corporation.
- The manner of transaction of business of the Mayor-in-Council shall be such as may be determined by the Corporation by regulations.
- The Mayor-in-Council shall be collectively responsible to the Corporation.

Municipal Accounts Committee (Part II, Chapter II of the Kolkata Municipal Corporation Act, 1980):

- In case of KMC the Corporation shall, at its first meeting in each year, constitute a Municipal Accounts Committee.
- The Committee may consist of
 - Such number of persons not being less than five and more than seven as the Corporation may determine, to be elected by the members of the Corporation from amongst themselves.
 - Such number of persons, both being the members, officers or employees of

the corporation and not exceeding two in number, having knowledge and experience in financial matters, as may be nominated by the Corporation.

- The members of the Municipal Accounts Committee shall elect from amongst themselves one member to be its Chairman.
- The members of this committee shall hold office until a new committee is constituted.
- It shall be the duty of the Municipal Accounts Committee--
 - To examine the accounts of the Corporation showing the appropriation of sums granted by the Corporation for its expenditure and the annual financial accounts of the corporation.
 - To examine and scrutinize the report on the accounts of the Corporation by the statutory audit and 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 the same.
 - To submit report to the Corporation every year and from time to time on such examination and scrutiny.
 - To consider the report of the auditors in cases where the Corporation requires

- them to conduct a special audit of any receipt or expenditure of the Corporation including its land holdings and buildings
- This 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 Corporation as it may consider necessary for explaining any matter in connection with his work.
 - The manner of transaction of business of the Municipal Accounts Committee shall be such as may be determined by the Corporation by regulations.



Power and Functions of Municipality (WB Municipal Act, 1993, Sec. 63 to 66 and The Kolkata Municipal Corporation Act, 1980, Sec. 28 to 42):

It shall be the obligatory duty of every municipality to make reasonable and adequate provision for the following matters within the territorial limits of the municipal area and the financial means at its disposal:-

- Public Works like:
 - Supply of Water for public and private purposes;
 - Construction, maintenance and cleansing of-

- sewers and drains, sewerage and drainage works;
 - public latrines, urinals;
 - public streets and street furniture
- Lighting of public streets;
- Supply of water for fire fitting purposes;
- Maintenance of monuments etc. etc.
- Public Health and Sanitation like:-
 - Disposal of solid and liquid based including polluted matters with efforts to cause re-use of all that can be salvaged;
 - Reclamation of un-healthy localities;
 - Regulating and abating offensive and dangerous trades or practices;
 - Ensuring of wholesomeness of water supplied for drinking and domestic purposes;
 - Maintenance of public tanks, wells and other sources of water supply;
 - Measures for preventing and checking the spread of dangerous disease including public immunization/vaccination and inoculation;
- Town Planning and development:-
 - Devising town planning in accordance with the existing laws;
 - Improvement of bustees;
 - Control of regular lines of streets;
 - Control of all building operations and regulations of building uses;

- | | |
|---|--|
| <ul style="list-style-type: none"> ○ Coordination of activities of agencies relating to laying and maintenance of underground pipelines, tubes, cables and the like; ○ Laying out and maintenance of public parks, squares, gardens or recreation areas; ○ Development of congested areas for providing better living conditions and new areas for human settlement; ○ Measures for beautification of the township; ● Administration like:- <ul style="list-style-type: none"> ○ Survey of buildings and lands and preparation of survey maps and plans of the town and other records relating to survey; ○ Securing or removal of dangerous buildings and places; ○ Registrations of births and deaths; ○ Drawing up an Annual Administrative Report on the activities and performance of the municipality and submission of the same to the State Government; ○ Compilation and maintenance of records and statistics relating to the administrative functions of the municipality; ○ Maintenance and development of properties vested in or entrusted with the management of the municipality; | <ul style="list-style-type: none"> ○ Protecting public properties in general and civil properties in particular; <p>A municipality may, at its discretion, provide out of the municipal property and fund for the following matters:-</p> <ul style="list-style-type: none"> ● Public works like- <ul style="list-style-type: none"> ○ Giving relief to, and establishing and maintaining in time of famine, flood or earthquake, relief works for destitute persons; ○ Construction, maintenance or aids for passengers' sheds, libraries, museums, hospitals, dispensaries, asylums etc. ○ Construction of dwellings for inhabitants, specially low-cost dwellings for the socially backward classes; ● In the sphere of education- <ul style="list-style-type: none"> ○ Establishing and maintaining pre-primary schools; ○ Promotion of civic education, adult education, social education, non-formal education and the like; ○ Advancement of civic consciousness on public health and general welfare by organizing seminars and conferences etc.; ● In the sphere of public health and sanitation:- <ul style="list-style-type: none"> ○ Provision of sewage treatment and preparation of composed manures from sewage and other refuse; |
|---|--|

- Ambulance service for carrying patients;
- In sphere of administration:-
 - Organisation and management of fares and exhibition, organisation, establishment and maintenance of Art Galleries etc.;
 - Construction and maintenance of garages and sheds and stands for vehicles;
 - Organizing voluntary labour and coordinating the activities of voluntary agencies for community welfare;
- All other measures which are likely to promote public safety, health, convenience, education or welfare of the community;

Transfer of functions of State Government:

- The State Legislature may transfer to the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government 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 following matters listed in the Twelfth Schedule under Article 243 W of the Constitution of India :-
 - Urban planning including Town planning,

- Regulation land-use and construction of buildings,
- Planning for economic and social development,
- Roads and bridges,
- Water supply for domestic, industrial and commercial purposes,
- Public health sanitation conservancy and solid waste management,
- Fire services,
- Urban forestry, protection of the environment and promotion of ecological aspects,
- Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded,
- Slum improvement and upgradation,
- Urban poverty alleviation,
- Provision of urban amenities and facilities such as parks, gardens, playgrounds,
- Promotion of cultural, educational and aesthetic aspects,
- Burials and burial grounds, cremations, cremation grounds, and electric crematoriums,
- Cattle pond, prevention of cruelty to animals,
- Vital statistics including registration of births and deaths,

- Public amenities including street lighting, parking lots, bus stops and public conveniences,
- Regulation of slaughter houses and tanneries.

Power of Municipality to Transfer and function to any organisation:

The municipality may, if it is of opinion that it is necessary so to do in the public interest, transfer, with the prior approval of the State Government, any function or functions of the municipality to any organisation, including a government organisation (an organisation maintained or managed by the State Government), in such manner and on such terms and conditions as may be prescribed.

Powers and functions of the Mayor of a Corporation:

- The Mayor shall exercise such powers and discharge such functions as are conferred on him by or under this Act.
- He shall, for convenient transaction of the business of the Corporation, allocate among the members of the Mayor-in-Council such business and in such manner as he thinks fit.
- In any case in which it is provided in this Act or the rules or the regulations, the Mayor shall take action subject to the approval, sanction, consent or concurrence of the Mayor-in-Council. The Mayor-in-Council may authorise the Mayor in writing to take action in anticipation of such

approval, sanction, consent or concurrence subject to such condition, if any, as may be specified by the Mayor-in-Council.

Powers of the Mayor in Emergency:

If the Mayor is satisfied that an emergency has arisen and is of the opinion that immediate execution of any work, which ordinarily requires the approval, sanction etc., is necessary for the maintenance of services or safety of the public, he may direct the execution of such work without such approval, sanction and, in such case, he may direct that the expenses for such execution or doing shall be paid from Municipal Fund.

Power and functions of the Municipal Commissioner:

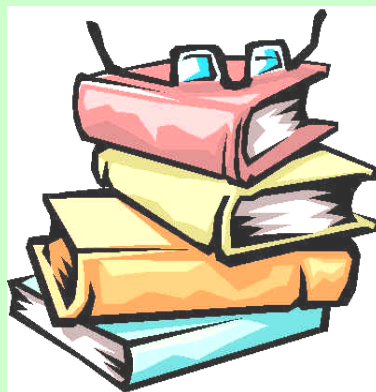
- The Municipal Commissioner is the principal executive officer of a Corporation and shall, subject to the supervision and control of the Mayor,-
 - exercise the powers and perform the functions specifically conferred or imposed upon him;
 - assign the duties, and supervise and control the acts and proceedings, of all officers and employees of the corporation.
- The Municipal Commissioner is responsible for the custody of all records other than paper and documents connected with the proceedings of the corporation and the municipal accounts committee and shall

preserve the same in such manner and for such period as may be determined by regulations.

- As soon as may be after the 1st day of April every year and not later than such date as may be fixed by the State Government, the Corporation shall submit to the State Government a detailed report of the Municipal Government of Calcutta during the preceding year in such form as the State Government may direct.

Powers and functions of the Municipal Secretary:

- The Municipal Secretary shall be the secretary to the Corporation and the Municipal Accounts Committee, and shall exercise powers and discharge such functions as are conferred on him by the Municipal Commissioner.
- He is responsible for the custody of all papers and documents connected with the proceedings of the corporation and the Municipal Accounts Committee.



Session: 3

Session Title:

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



Session at a glance
Instructor's Guide
PowerPoint Slides
(In CD Rom)
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: ⁸ 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

⁸ 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 sharing 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 sharing 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 (Part III, Chapter VIII of The Kolkata Municipal Corporation Act, 1980, Part III, Chapter VII of The West Bengal Municipal Act, 1993 and The West Bengal Municipal (Finance and Accounting) Rules, 1999):**

Municipal Fund:

- The Municipal Fund is a fund held by the Corporation in trust (in case of Kolkata

* This is to be adopted as per State specific scenario

Corporation) or by the Board of Councillors in trust (in case of other Municipalities and Corporations) and all moneys realised or realisable and otherwise received by the Corporation/Municipality will be credited to this fund.

- The Municipal Fund (in case of Kolkata Corporation) is maintained in the following six accounts:

- 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.

- All moneys realised on the above accounts will forthwith be deposited with the State Bank of India or with such other scheduled bank as may be approved by the State Government for credit to the respective heads of accounts styled as—

- the Water-supply, Sewerage and Drainage Account of the Municipal Fund of the Kolkata Municipal Corporation;
- the Road Development and Maintenance Account of the Municipal Fund of the Kolkata Municipal Corporation;
- the Bustee Services Account of the Municipal Fund of the Kolkata Municipal Corporation;
- the Commercial Projects Account of the Municipal Fund of the Kolkata Municipal Corporation;
- the General Account of the Municipal Fund of the Kolkata Municipal Corporation.

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 (imposed under section 171 of the Kolkata Municipal Corporation Act, 1980) 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 to 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 municipalities and other corporations)

• All sums received on account of the municipal fund shall be paid into a treasury. When money received or collected on account of the municipality cannot be immediately remitted to the treasury in which the municipal fund is deposited they shall be kept in a strong iron-safe secured by two locks of different patterns. The custodian of one set of keys should be the finance officer or some other municipal officer who may be placed in charge of the cash chest by the Councillors in a meeting and of the other, the Cashier. The chest shall

never be opened or closed without both custodians being present.

- At the close of each day's transaction the cash and/or cheques in hand of the Cashier as per Cashier's Cash Book shall be physically verified by the Finance Officer or any other officer-in-charge of the cash chest with reference to all relevant receipt documents, and the details of the daily cash balance shall be recorded in a bound book in prescribed form by the Cashier.
- The cash balance certificate, in the daily Cash Balance Register should be signed by the Cashier/finance Officer, or in his absence the municipal officer-in-charge of the cash chest.
- All moneys received on account of the Municipal Fund shall be paid into a Government treasury or into any bank in the municipal area, and shall be credited to an account to be called the account of the municipality to which they belong:
 - Provided that the Chairman-in-Council/Mayor may invest moneys not required for immediate use, either in Government securities or in any other form of security which may be approved by the State Government or in fixed deposit in the State Bank of India or in any nationalized bank or State Co-operative Bank or in any other form as the State Government may direct.

- A Municipality may open and operate a separate bank account in any Nationalized Bank or State Co-operative Bank for implementation of any centrally sponsored scheme in the municipal area, only when so directed by the Central/State Government. Such account shall remain operative for depositing the grants for the scheme specified, and be closed as soon as the scheme is completed [Proviso to Rule 8(2), Chapter II, The West Bengal Municipal (Finance and Accounting) Rules, 1999]
- Deposits made in a Civil Court under the order of Court in favour of a Municipality shall be made by transfer credit to the Local Fund Account of the concerned Municipality on the basis of the payment order issued by the concerned court. In case, cash payment is received by any office of the Municipality, in the Court itself the amount so received shall be deposited by challan in the Treasury for credit into the Local fund Account of the Municipality concerned. [Rule 8(3), Chapter II, The West Bengal Municipal (Finance and Accounting) Rules, 1999]
- Claims against the Municipality shall ordinarily be discharged by cheques but amounts not exceeding rupees five hundred may be paid in cash from the permanent advance. [Rule 10, Chapter III, The West Bengal Municipal (Finance and Accounting) Rules, 1999]

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.

Application of Municipal Fund (in case of Municipalities and other Corporations)

- All 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 regulations made thereunder or for payment of all sums payable out of the Municipal Fund under any other law in force for the time being.
- No payment of any sum shall normally be made out of Municipal Fund unless such expenditure is sanctioned by the competent authority and unless covered by a current budget grant and a sufficient balance of such budget grant is available for the purpose.
- Whenever any sum is paid for the purposes not covered by the budget grant, the matter shall forthwith be communicated to the Chairman-in-Council who shall take such action under the provisions of the Act

as may appear to it to be feasible and expedient for covering the amount of such payments.

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

- No payment out of the Municipal Fund shall be made unless such expenditure is covered by a current budget grant and a sufficient balance of such budget grant is available.

- Provided that this shall not apply to payments in the following cases:-
- refund of taxes and other moneys authorised by the Act;
- repayment of moneys belonging to contractors or other persons and held in deposit and all moneys collected or credited to the Municipal Fund by mistake;
- temporary payments for works urgently required by the State Government in the public interest;
- sums payable as compensation;
 - expenses incurred by the Corporation on special measures on the outbreak of dangerous diseases;
 - sums payable –
 - under orders of the State Government on failure of the Corporation to take any action required by the State Government; or

- under any other enactment in force for the time being; or
- under the decree or order of a civil or criminal court against the Corporation; or
- under a compromise of any claim, suit or other legal proceedings; 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 Corporation or to human life; and
- such other cases as may be prescribed.

Procedure when money not covered by a budget grant is paid

- Whenever any such sum is paid, the Municipal Commissioner shall forthwith communicate the circumstances of such payment to the Mayor-in-Council, and the latter may take or recommend to the Corporation to take such action under the provisions of the Act as may appear to it to be feasible and expedient for covering the amount of such payment.

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

- 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)

- 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 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 Kolkata Corporation)

- On the written requisition of a Secretary to the State Government the Mayor-in-Council may at any time require the Municipal Commissioner to undertake the execution of any work certified by the Secretary to be urgently required in the public interest and, for this purpose, to make payment temporarily for such work from the Municipal Fund in so far as such payment can be made without unduly interfering with the regular work of the municipal government.
- 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 Mayor-in-Council, shall forthwith forward a copy thereof to the Corporation together with report of the steps taken in pursuance of the same.

Investment of surplus moneys (for Kolkata Corporation)

- Surplus moneys standing at the credit of any of the accounts of the Municipal Fund which cannot, either immediately or at an early date, be applied, be transferred by the Corporation either in whole or in part to any other account of the Municipal Fund:
 - Provided that no such money shall be transferred permanently from any of the accounts to any other account without the previous approval of the State Government:
 - Provided further such surplus moneys standing at the credit of the Commercial Projects Account shall not be transferred to the General Account.
- Surplus moneys not transferred above 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 Mayor-in-Council.
- Profit or loss, if any, arising from the above investment shall be credited or debited to the account to which such profit or loss relates.



Financial assistance from the State Government (for

Municipalities and other Corporations)

- The State Government may, from time to time, give grants or financial assistance to a Municipality with or without direction as to the manner in which the sum shall be applied.
- The State Government may also lay down a pattern for distribution of such grants or assistance which may include the conditions of release of grants and classification of Municipalities for the purpose.
- The State Government shall give grants to a Municipality for implementation in full or in part of any scheme included in the Annual development Plan.

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

- 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 twelfth Finance Commission (TFC) Grants

- TFC has recommended Rs. 5,000 crore (for the period as grants for urban local bodies. The Ministry of Finance, Department of Expenditure, Government of India has issued guideline for devolution of

TFC grants to local bodies. The salient features of this guidelines are:

Shares of States in allocation (2005-2010)

- The interstate allocation of Rs.5,000 crore as recommended by TFC will be as follows:

Sl. No.	STATE	Municipalities		Sl. No.	STATE	Municipalities	
		Percent	(Rs. Crore)			Percent	(Rs. Crore)
1	Andhra Pradesh	7.480	374.00	15	Maharashtra	15.820	791.00
2	Arunachal Pradesh	0.060	3.00	16	Manipur	0.180	9.00
3	Assam	1.100	55.00	17	Meghalaya	0.160	8.00
4	Bihar	2.840	142.00	18	Mizoram	0.200	10.00
5	Chhattisgarh	1.760	88.00	19	Nagaland	0.120	6.00
6	Goa	0.240	12.00	20	Orissa	2.080	104.00
7	Gujarat	8.280	414.00	21	Punjab	3.420	171.00
8	Harayana	1.820	91.00	22	Rajasthan	4.400	220.00
9	Himachal Pradesh	0.160	8.00	23	Sikkim	0.020	1.00
10	Jammu & Kashmir	0.760	38.00	24	Tamil Nadu	11.440	572.00
11	Jharkhand	1.960	98.00	25	Tripura	0.160	8.00
12	Karnataka	6.460	323.00	26	Uttar Pradesh	10.340	517.00
13	Kerala	2.980	149.00	27	Uttaranchal	0.680	34.00
14	Madhya Pradesh	7.220	361.00	28	West Bengal	7.860	393.00
TOTAL [Sl. No. 1 to 28]						100.00	5000.00

Duties of the State Government

- The State has to constitute a High Level Committee (HLC) headed by the Chief Secretary, Finance Secretary and the Secretary of the Department concerned as members to ensure proper utilisation of Local Bodies Grants. The Committee is to meet every quarter and minutes of the meeting are to be provided to the Ministry of Finance (MoF) for information.
- A Central Review Committee will be constituted in the Government of India, headed by the Secretary to Government of India, Ministry of Finance, Department of Expenditure to review the release and utilisation of grants. The Committee will include representatives from the Ministry of Panchayati Raj, Ministry of Urban Development and Poverty Alleviation, Ministry of Home and Ministry of Finance (Department of Expenditure). The Committee shall meet at least once in a year.
- The States should avoid delays in the constitution of the State Finance Commissions (SFCs). The SFC reports should be readily available to the Central Finance Commission (CFC). SFCs must be constituted with people of eminence and competence with qualification and experience in the relevant fields.
- The SFCs must clearly identify the issues which require action on the part of the central government to augment the

consolidated fund of the state and list them out in a separate chapter for the consideration of the CFC.

- While estimating the resources of the urban local bodies, the SFCs should follow a normative approach in the assessment of revenues and expenditure rather than make forecasts based on historical trends.
- A permanent SFC cell may be created in the Finance Department of State Governments.
- At least 50% of the grants –in-aid provided to each State for the urban local bodies should be earmarked for the scheme of solid waste management through public-private partnership. The Municipalities should concentrate on collection, segregation and transportation of solid waste. The cost of these activities whether carried out in-house or out sourced could be met from the grants.
- Most States do not have credible information on the finances of their local bodies. Local bodies would continue to need funding support for building database and maintenance of accounts. States may assess the requirement of each local body in this regard and earmark funds accordingly out of the total allocation recommended by the MoF.

Mode of release of Local Body Grants

- Grants will be released in two equal instalments in July and January every year. States have to mandatorily transfer the grants released by the Centre to the ULBs within 15 days of the same being credited to the State's accounts.
- Two sets of details, one on allocation of funds and another on release of funds will be reported by the State Government in the prescribed format.
- State Finance Secretary would be required to provide a certificate within 15 days of the release of each instalment by Government of India under his signature certifying the dates and amounts of local grants received by the State and the dates and amounts of grants released to the ULBs.
- State Finance Secretary would be required to provide a certificate every year of the percentage of grants spent by the ULBs on schemes of solid waste management.
- In case of delayed transfer to ULBs beyond the specified period of 15 days, the State Government shall transfer to ULBs amount of interest at the rate equal to the RBI Bank rate along with such delayed transfer of grants.

Audit by the Comptroller and Auditor General of India (CAG)

- The CAG would be expected to audit the release and use of local bodies' grants

within the time and for the purpose mentioned by the TFC. The Government of India may take appropriate decision about withholding grant of a State if the CAG reports that the State has either not transferred the grants to the local bodies or has allowed the grants to be used for purposes other than for which these are being provided or that the local bodies have not been able to give priority to spend on schemes of solid waste management.

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
- This chapter essentially covers the accounting procedures in respect of Development Funds only.

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 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?
- Were the sums transferred by the Corporation from general Account to the

five different accounts adequately compensated by State Government as subvention as per norms? If so, were the same utilized for the purposes related to the concerned works? If not, the same were irregular and the reasons therefore should be analysed?

- 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 therefor should be analysed?
- Was the amount of the property tax realised from bustees credited to the Bustee Services Account?
- 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 Kolkata without a resolution carried by not less than one-half of the number of members of the Corporation?
- 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?

- Was at least 50% of the grants-in-aid provided to the ULB earmarked for the scheme of solid waste management through public-private partnership?

- Could the auditor ensure that the ULB concentrated on collection, segregation and transportation of solid waste?





Session: 4

Session Title:

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



**Session at a glance
Instructor's Guide
PowerPoint Slides
(In CD Rom)
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 Loans, 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:

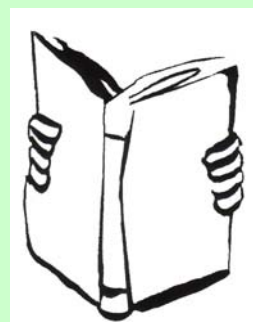
Given the inputs on the salient features of loans received by municipalities and municipal corporations, its accounting system and Sinking Fund and audit points thereon through group discussion, lecture and exercises the participants will, at the end of the session, acquire basic concepts of accounting 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 of the Corporation to raise Loans:

- The Corporation may raise a loan, by the issue of debentures or otherwise on the security of the property tax or of all or any of the taxes, surcharges, cesses and fees and dues under this Act or on the guarantee by the State Government, of any sum of money which may be required—
 - for construction of works or
 - for the acquisition of land or buildings or

- to pay off any debt due to the State Government, or
- to repay a loan raised under this Act, or
- for the acquisition of a public utility concern which renders such services as the Corporation is authorized to render under this Act, or
- for the purchase of vehicles, locomotive engines, boilers and machinery necessary for carrying out its function, or
- for any other purposes for which the Corporation is authorized to borrow; Provided that—
 - no loan shall be raised without the prior sanction of the State Government; and
 - the rate of interest to be paid for such loan and the terms and conditions of repayment shall be subject to the approval of the State Government: Provided further that any loan may be taken from the State Government or the Kolkata Metropolitan Development Authority in addition to the loans as aforesaid.
- Without the previous sanction of the State Government, no portion shall be applied to any purpose other than that for which it has been raised, and
- No portion of any loan raised for the construction of works shall be 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.

Limit to the power of raising loans:

- The power of Corporation to raise a loan shall not exceed 15% of the annual value of land and buildings as determined under the Act.

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

- The Corporation may, when the raising of a loan is sanctioned by the State Government, instead of raising such loan or any part thereof, take credit, from any scheduled bank on a Cash Account to be kept in the name of the Kolkata Municipal Corporation Cash Account.

Time for repayment of loans:

- The time for repayment of any loan shall in no case exceed sixty years and the time for repayment of any loan raised for the purpose of discharging any previous loan shall not extend beyond the unexpired portion of the period for which such previous loan was sanctioned.

Manner of repayment of loans:

- Every loan raised by the Corporation shall be repaid within the time approved and such repayment shall be made either (a) from a Sinking Fund or (b) partly from such Sinking Fund and partly from the loan raised for the purpose.

Priority of payments for interest and repayment of loans over other payments:

- All payments due from the Corporation on account of interest on and repayment of, shall have priority over all other payments due from the Corporation.

Establishment and maintenance of Sinking Funds for loans:

- Corporation shall establish a separate Sinking Fund in respect of each loan and shall credit to such fund every six months a sum which shall be so calculated that if regularly paid, such sum together with the compound interest accruing thereon would be sufficient, after payment of all expenses, to pay off the loan within the period approved by the State Government.

Power to discontinue payment towards Sinking Fund:

- 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.

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

- All moneys credited to a Sinking Fund shall as soon as possible be invested by the Corporation in –
 - Government securities, or

- Securities granted by the Central or State Government, or
- Debentures issued by the Corporation, or
- Debentures issued by the KMDA, Trustee for the Improvement of Kolkata or Board of Trustee for the Port of Kolkata, or
- Such other public securities as may be approved by the State Government,
- and shall be held by the Corporation for the purpose of repaying, from time to time, the loans raised by it by the issue of debentures or otherwise.
- All dividends and other sums received in respect of any such investment shall, as soon as possible, be credited to the appropriate Sinking Fund and invested.
- Moneys standing at the credit of two or more Sinking Funds may be invested together as common fund.

Discharge of the Corporation from liability under debentures in certain cases:

- The Corporation shall –
- When the amount due on a debenture has been paid on or after the date on which payment has become due, or
- When a debenture has been renewed or issued upon subdivision, amalgamation or exchange, or
- When a duplicate debenture has been issued in lieu of one alleged to have been lost, stolen or destroyed, either wholly or in

part, be discharged from all liabilities in respect of the debenture which has been so paid or renewed or in place of which new or duplicate debenture has been so issued,-

- in the case of payment, after the lapse of six years from the date on which payment was due,
- in the case of a renewed debenture or a new debenture issued upon subdivision, amalgamation or exchange, after the lapse of six years from the date of renewal or issue thereof, as the case may be,
- in the case of duplicate debenture, after the lapse of six years from the date of the order for issue of the duplicate debenture or from the date of the last payment of interest on the original debenture, whichever date is later.

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 Municipal commissioner shall, at the end of each year, prepare a statement showing-
- The amount which has been invested during the year,
- The date of last investment made during the year,

- The aggregate amount of the securities in the hands of the Corporation at the end of the year, and
- The aggregate amount which has been applied for the purpose of repayment of loan.
- Every such statement shall be laid before a meeting of the Corporation and shall be published in the Official Gazette.

Annual examination of Sinking Funds:

- All Sinking Funds shall be subject to the annual examination by the statutory audit to ascertain whether the cash and the value of securities belonging thereto are equal to the amount which should be at the credit of such funds had the investment been regularly made and had the interest accruing on account of such investments been regularly obtained.
- The amount which should be at the credit of a Sinking Fund shall be calculated on the basis of the sums credited to such fund.
- The Corporation shall pay into a sinking fund such amount as the auditors may certify to be deficit in respect of such fund, unless the State Government specially sanctions a gradual readjustment of such debit.
- If the cash and the value of the securities at the credit of a sinking fund are in excess of the amount which should be at its credit,

the auditors shall certify the amounts of such excess sum, and the Corporation shall transfer the excess sum to the Municipal Fund in the General Account.

- If any dispute arises as to the accuracy of any deficit or excess referred to in the certificate, the Corporation may, after payment of such deficit or after transfer of such excess, refer the matter to the State Government whose decision thereon shall be final.

Power to borrow money from the State Government:

- The Corporation may borrow money from the State Government on such terms and conditions as the State Government may determine.
- If any such money is not repaid, or any interest is not paid, the State Government may attach the Municipal Fund.

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 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?
- Was there any case where the time for repayment of any loan exceeded 60 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?

- 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 published in the Official Gazette?

- 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. Chairman-in-Council consists of Chairman, Vice-Chairman and other members not exceeding _____ (for Gr.-A municipal area), _____ (for Gr.-B municipal area), and _____ (for Gr.-C municipal area).
2. In case of Kolkata Municipal Corporation, 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. Funds like Fire Brigade Fund, Road Fund, after Supply Reserve Fund, Tree Authority Fund, City Development Funds, Solid Waste Management Fund, Pension Fund, General Provident Fund / Contributory Provident etc. are treated as _____.
6. The purpose of establishment of _____ is to accumulate money, including interest, adequate to repay the loan as per the repayment schedule.
7. 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 _____. *(Name the fund)*

Tick (✓) True / False

1. In Kolkata Municipal Corporation, the duty of Municipal Accounts Committee is to examine and scrutinize the report on the accounts of the Corporation by the statutory audit and that the expenditure was incurred in accordance with the authority governing the same. **True / False**
2. In West Bengal, a municipality may transfer, with the approval of State Government, any function or functions of the municipality to any organisation, including a government organisation. **True / False**

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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. Five, four, three
2. Municipal Commissioner
3. Road Development and Maintenance Account
4. Commercial Project Account
5. Municipal Special Fund
6. Sinking Fund
7. 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
(In CD Rom)
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.
<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 municipality and municipal corporation budget, its time schedule, format and approval as per National Municipal Accounts Manual recommended by Ministry of Urban Development, Govt. of India as well as the position of West Bengal in this subject. Session will be ended with discussion of Audit points on this issue.</p>	
<p>Learning Objective:</p> <p>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.</p>	
<p>Basic Concept:</p> <p>Form * five groups amongst participants.</p> <p>Ask about their understanding of the 'municipality and municipal corporation budget process, calendar, approval, revision and controls' as per †West Bengal scenario.</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 along with position of ‡West Bengal.</p> <p>Ask about their understanding of the 'audit points on municipality and municipal corporation budget'.</p> <p>Encourage each group to discuss amongst its members and each participant to actively contribute few points on this matter.</p> <p>Request each participant to jot down the probable audit points on the municipality and municipal corporation budget.</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.</p>	PowerPoint Slide: Session 5 Audit of ULB Budget & Audit Points
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>	

*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.

- Budget preparation process, calendar, approval and control process discussed in this module is on Cash basis. State Governments as well as municipalities and municipal corporations should develop detailed manual for Budget preparation on the basis of this guideline recommended by the C&AG of India.

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.

Budgeting Process

- Budgets shall reflect the estimated inflows, outflows, surplus / deficit under the various Receipts and Payment heads, Opening and Closing balances. The receipts

and payments shall be classified under four broad heads viz. Revenue Receipts, Revenue Expenditure, Capital Receipts and Capital Expenditure. The receipts and payments shall be estimated for each of the accounting subjects under every Budgeting centre.



Budgeting Calendar

- The budget preparatory process follows a budget calendar. The “budget calendar” provides various details of deadlines and dates by which various officials in the municipalities and municipal corporations need to prepare and place the budget before the concerned authorities.
- 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 State laws or governing Acts shall define the approving authority for approval of the budgets of the municipalities and municipal corporations. 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 Councils.

Budget Revision

- Once a budget has been prepared subsequent revisions to the amount budgeted may arise. The State laws or Act governing the municipalities and municipal corporations may define the circumstances for revision of budgets. Some of the forms in which budget allocations are changed are Re-appropriation, Additional Budget, reduction in Budget and Budget Cut.
- Budget utilisation should be reviewed at quarterly and such other periodic rests as may be determined by State/Act to identify and plan for any budgetary revision well in advance. Any budgetary revision would be in accordance with the provisions laid out in this regard by the State/Act in this regard.

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 lay down by the State/Act in this regard.



*** Position in West Bengal**
[Chapter IX of The West Bengal Municipal Act, 1993 and Chapter VI of The West Bengal Municipal (Finance and Accounting) Rules, 1999]

Preparation of budget estimate

- The departmental heads of the Municipality, under the direction of the Member-in-Charge in the Chairman-in-Council/Mayor, shall prepare their estimated receipts and expenditure of the following year in consultation of the Borough Committees or the Ward Committees, as the case may be, and report the same to the Chairman/Mayor through the Executive Officer or in his absence, the Finance

* This is to be adopted as per State specific scenario

Officer, or in absence of both the Secretary within the 10th day of January each year.

- On receipt of the above reports, the Accounts Department shall, in consideration of the departmental requirements and having regard to the probable financial resources, prepare the Draft Annual Budget Estimate for the following year in Form 1 accompanied by Schedules in Form 1(a) and 1(b) along with an Abstract in Form 1(c) within the 7th day of February each year for consideration.
- The Chairman/Mayor with the help of the Executive Officer or the Finance Officer, or the Secretary and such other officer(s) as he may deem fit and proper, finalise the Draft Annual Budget Estimate and place the same to the Chairman-in-Council/Mayor within the 21st day of February each year for consideration.

Sanction of budget estimate

- After necessary consideration by the Chairman-in-Council/Mayor, the said draft Annual Budget Estimate shall be placed before the Board of Councillors at a meeting specially convened for the purpose within the 10th day of March each year for final approval. The Board of Councillors shall after necessary discussion adopt the said budget estimate with or without any modification within two weeks of its placement.

- In adopting such budget estimate no deficit shall be provided therein.

Preparation and sanction of revised budget estimate

- The budget estimate for the current year shall be reviewed by the 30th day of September each year and a revised budget estimate for the year shall be prepared by 15th day of November each year and adopted by the Board of Councillors within the 31st day of December, each year.
- In preparing and adopting such revised budget estimate the procedures as enunciated in para 1 and 2 above shall be applicable *mutatis mutandis*.

Publication and submission of budget and revised budget

- After the budget estimate or revised budget estimate, as the case may be, is finally adopted, a copy of the same shall be forthwith published in the Notice Board of the Municipal Office for inspection of the members of the public.
- A copy of such estimate along with a copy of the relevant resolution shall be sent to the Director of Local Bodies, West Bengal, and the District Magistrate of the district. In case of municipalities falling within the jurisdiction of Burdwan and Jalpaiguri Divisions, a copy of such budget estimate along with a copy of the resolution shall be sent to the concerned Divisional Office of the Deputy Director of Local Bodies.

Extension of time for adoption of budget and revised budget

- If for any reasons to be recorded in writing budget and revised budget cannot be sanctioned within the stipulated time, the Chairman-in-Council/Mayor shall place the matter before the Board of Councillors to fix up the date for adoption of the same within a reasonable time and a proposal to that effect shall be submitted to the State Government.
- Such delayed annual budget or revised budget shall then be prepared and adopted accordingly in the same manner as prescribed in para 1,2 and 3 above.
- Such delayed budget shall come into force from retrospective effect from the first day of the concerned financial year provided that the proposal for extension of time is duly approved by the State Government.

Alteration of budget and revised budget grants

- At any time during the year the Board of Councillors may, on a recommendation of the Chairman-in-Council/Mayor, alter any budget grant by increasing or decreasing the amount under any head, making any additional provision for meeting any special or unforeseen requirement and transferring the amount or a portion thereof from one head to another. Proposal for such re-appropriation shall be drawn in prescribed form.
- Any such alteration made in the budget grant prior to revision of the annual budget

estimate shall be incorporated in the revised budget and alteration made subsequently shall be reflected in the appropriate column of the annual budget estimate for the next financial year.

- Alteration so made shall be published in the same manner and submitted to the same authorities as prescribed under para 4 above.

Budget format

- Form 1 is a combined budget format meant for original budget estimate revised budget estimate with the following heads:-

(a) budget heads (b) actuals for the year lastly completed (c) actuals for 9/6 months of the current year (d) sanctioned budget estimate/sanctioned revised budget estimate for the current year (e) budget/revised budget estimate for the current year and (f) explanation under columns (1), (2), (3), (4), (5) and (6) respectively both on its receipt and expenditure side.

- Budget heads are broadly divided into three categories of accounts e.g. (A) Revenue Account (B) Capital Account and (C) Extra-Ordinary and Debt Account both in the receipt side as well as in the expenditure side. Each category of account will have respective opening and closing balances, the aggregate of which will be equivalent to the consolidated opening and closing balances of the Municipality. The unspent balance of development grant and

loans as would be available from the Appropriation Register in Form 76 as well as unspent balance of capital receipt from own sources at the close of a particular year will represent the opening balance of (B) Capital Account of the following year. Similarly the Ledger balance for Advance, Deposit and Material Accounts at the close of a particular year will be taken as opening balance of (C) Extra-Ordinary and Debt Account of the following year. The opening balance of the (A) Revenue Account of the year would then be worked out by subtracting the opening balances of (B) Capital Account and (C) Extra-Ordinary and Debt Account from the consolidated opening balance of that year.

- The receipts/expenditure of revenue, capital and extra-ordinary nature would be booked under (A) Revenue, (B) Capital and (C) Extra-Ordinary and Debt Accounts respectively.
- All collections as permissible under statute in force such as property tax, surcharge, tax on advertisement, application fees for trade and profession, licence fees, plan sanction fees, mutation fees, rent, tolls, and other fees and charges etc. shall constitute the revenue receipt.
- The Development Grants and Loans available from the State Government as well as the Development Authorities and Development Loans available from LIC,

HUDCO and Banks shall constitute capital receipt. The Municipalities may also have few of their own sources 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.

- All other receipts which do not fall under any of the categories of revenue or capital nature as in sub-para (4) and (5) above shall constitute Extra-Ordinary and Debt Receipt. Ordinarily recovery of advances either in cash or by way of adjustment, deposit of tax, security deposit in cash or by adjustment, P.F. deductions not deposited and accounted for in the Adjustment Register, value of materials recovered in cash or by adjustment and all contra entries for bank transfer etc. shall be booked under the Extra-Ordinary and Debt head.
- 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.

- All expenditure which is incurred in the acquisition of permanent assets such as land, building, vehicle, machinery, furniture, office equipment etc. are generally to be taken as capital expenditure. Any expenditure made for extending or improving the existing assets are also treated as capital expenditure. The cost of construction and improvement of roads, drains, jetty, water works, sewerage, bridge, culvert, retaining wall, building, market, stadium, burning ghat, park, playground etc. are also few examples of capital expenditure.
- All advance payments made, refund of deposit, deposit adjusted against tax, P.F. deposits paid to treasury, income tax deposits paid to treasury, expenditure incurred for procuring materials for development work and contra entries for bank transfers are to be treated as Extra-Ordinary and Debt expenditure.
- Minor heads of receipts and expenditure under different major heads as provided in Form 1 are not exhaustive. If necessary, new

head under appropriate heading may be provided in the right space of Form 1 to serve the purpose.

- If any capital expenditure is met out of own revenue income of that year, in that case an equivalent would have to be transferred to (B) Capital Account from (A) Revenue Account 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 actuals 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 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? 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 within two weeks after a specially convened meeting of the Board of Councillors? 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 adoption by the Board of Councillors 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

- Did the budget format for original and revised budget estimate contain the prescribed heads viz. (a) budget head actuals for the year lastly completed (b) actuals for 9/6 months of the current year etc. etc.?
- 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?
- Did the unspent balance of development grant and loans as would be available from Appropriation Register (Form 76) as well as unspent balance of capital receipt from own sources at the close of a particular year represent the opening balance of Capital Account of the following year?
- 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 and extra-ordinary nature were booked under

Revenue, Capital and Extra-ordinary and Debt 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?
- 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, Octroi and Cess Receipt
and Audit Points**



**Session at a glance
Instructor's Guide
PowerPoint Slides
(In CD Rom)**

**Participants' Note
Audit Exercise for Session 5 & 6**

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

Given the inputs on the significant features of 'tax, Octroi 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 Octroi 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, Octroi, 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, Octroi, 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 Octroi 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, Octroi 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:

- (Part IV, Chapter-X of The West Bengal Municipal Act, 1993 and The West Bengal Municipal [Finance & Accounting] Rules, 1999)

* This is to be adopted as per State specific scenario

Power to impose Municipal Taxation:

- The Board of Councillors of a municipality shall have the power to levy the following taxes:
 - A property tax on lands and buildings,
 - A tax on advertisements, other than advertisements published in the newspapers,
 - A tax on cart,
 - A tax on carriage,
 - Toll on ferries and bridges.
- The levy, assessment and collection of taxes mentioned above shall be as per rules and the bye-laws made thereunder.
- 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 be comprised of the following:

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

- Fire Cess
- Any other taxes

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

- Property Transfer Charges
- 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.

- Such 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:

$$\left[\frac{\text{Annual value}}{100} + 10 \right] \quad [\% \text{ of the annual value}]$$

- Where the annual value of lands and buildings exceeds Rs.999/-, tax shall be determined in accordance with the following formula:

$$\left[\frac{\text{Annual value}}{1,000} + 22 \right] \quad [\% \text{ of the annual value}]$$

- Provided that the property tax shall not exceed 40% 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.

Levy of Surcharge:

- A surcharge at such rate not less than 20% and not exceeding 50% of the total amount of the property tax imposed on a holding shall be levied if such holding is used wholly or in part for commercial, industrial or such other non-residential purposes as the Board of Councillors, may, from time to time decide and the rate of surcharge shall form part of property tax for the purpose of recovery.
- Where a holding is used by the owner exclusively for his own residential purposes, a rebate, not exceeding 20% of the property tax may be allowed by the Board of Councillors.

Exemption of Central Government Property:

- Lands and Buildings, which are the properties of the Union, shall be exempted from the property tax.
- Provided that the Board of Councillors may levy a service charge on such buildings on the basis of the annual value at such rate

as may be determined by the Central Government from time to time.

Power to reduce rates:

- Whenever from the circumstances of the case, levy of property tax on any holding in the municipal area amounts to excessive hardship to the person liable to pay the same, the Board of Councillors may reduce the amount payable on account of such holding.
- Such reduction or remission shall have effect for one year.



Determination of Annual Valuation:

- The annual value of a holding comprising land or building shall be deemed to be the gross annual rent including service charge at which such land or building might, at the time of assessment, be expected to let from year to year, less an allowance of 10% for the cost of repairs and other expenses necessary to maintain such land or building.
- The annual value of a holding comprising land which is not built upon, shall be deemed to be an amount which may be equal to, but may not exceed, 5% of the estimated market value of such land at the time of assessment.

- If the gross annual rent of any class/classes of lands and buildings can not be easily estimated, the annual value shall be an amount not less than 5% but not exceeding 10%, of the value of the holding by adding the estimated cost of erecting the building at the time of assessment less a reasonable amount to be deducted on account of depreciation to the estimated present market value of the land comprised in the holding.
- The annual value as determined under this Chapter shall be rounded off to the nearest ten rupees.



Periodic Assessment:

- The annual value of a holding comprising land or building situated in a municipal area, which has been determined before shall remain in force until a fresh valuation list is enforced.
- The Chairman-in-Council shall review valuation of all holdings at periodic intervals to ensure that there is a revision of annual valuation of all municipal holdings at the termination of successive period of six years.

Collection of Taxes

- 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 them except under the initials of the Executive Officer or any officer authorized in this behalf.

Receipt Forms:

- When the tax is paid, the Tax Collector or the Collecting Sarkar shall grant a receipt in prescribed form
- The tax receipt form shall be numbered consecutively for the year and shall be bound up in books of 100 duplicate forms each.
- Both the original and duplicate shall bear the same number.
- All the unused tax receipts forms/books shall be kept under personal custody of the

Chairman or a member of the Council nominated by the Chairman in this behalf.

- A Stock Register of the Tax Receipts forms/books shall be maintained by the Municipality/Corporation.
- Receipts forms shall not generally be printed in the local press. If in special cases they are printed in local press, particular care should be taken to see that extra forms may not be printed and used improperly by the collecting staff.

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 Board of Councillors 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 40% of the annual value of the lands and buildings?
- Was revision of the Property Tax made more than once in five years?
- 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 20% or more than 50% of the total amount of the Property Tax?
- Was the rebate allowed on holdings used exclusively for residential purposes exceeded 20% of the Property Tax?
- Did the Board of Councillors levy a service charge on the buildings owned by the Central Government?
- Was there any case where reduction or remission of Property Tax was allowed more than once in a year?
- 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 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 West Bengal the Chairman-in-Council/Mayor, shall place the Annual Budget Estimate before the _____ at a meeting specially convened for the purpose within the 10th day of March each year for final approval.
3. Municipal budget heads are broadly divided into three categories of accounts e.g. (A) _____ (B) _____ and (C) _____ both in the receipt side as well as in the expenditure side.
4. All collections as permissible under statute in force such as property tax, surcharge, tax on advertisement, application fees for trade and profession, licence fees, plan sanction fees, mutation fees, rent, tolls, and other fees and charges etc. shall constitute the _____. (*Name the budget head*)
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 _____.

Contd. to next page...

Tick (✓) True / False

7. In case of West Bengal, for any reasons to be recorded in writing budget and revised budget cannot be sanctioned within the stipulated time, the Board of Councillors shall place the matter before the Chairman-in-Council/Mayor to fix up the date for adoption of the same within a reasonable time and a proposal to that effect shall be submitted to the State Government **True / False**
8. In case of West Bengal, at any time during the year the Board of Councillors may, on a recommendation of the Chairman-in-Council/Mayor for meeting any special or unforeseen requirement, alter any budget grant by increasing or decreasing the amount under any head, making any additional provision and transferring the amount or a portion thereof from one head to another. **True / False**
9. The unspent balance of development grant and loans as would be available from the Appropriation Register as well as unspent balance of capital receipt from own sources at the close of a particular year will represent the opening balance of Capital Account of the following year. **True / False**
10. In case of West Bengal, where a holding is used by the owner exclusively for his own residential purposes, a rebate, not exceeding 10% of the property tax may be allowed by the Board of Councillors. **True / False**
11. Every item of revenue collection, remission or rebate shall be posted daily in the demand and collection register by the Collecting Sarkar. **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. Board of Councillors
3. (A) Revenue Account, (B) Capital Account, (C) Extra-Ordinary and Debt Account
4. Revenue Receipt Account
5. rounded off to 1.00.
6. Assessor, Demand & Collection Register

True / False

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

(In CD Rom)

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.

Cash book in respect of KMC

- All cash transaction of the Corporation is recorded in one cash book maintained by Chief Accountant in which the transaction of each day is being written up by the close of following day. Money received through the treasurer or other wise, shall be entered in the receipt side of the cash book marked "Dr." from (i) the challans of different departments received directly or along with the Treasurer's daily advice and (ii) from the bank Pass Book or advice under the correct budget head.
- The cheques drawn in favour of the Treasurer for petty cash payment or for payment of establishment shall be posted by contra entry in the Treasure's column on the receipt side of the cash book and credited to a Balance head "Bills payable through Treasurer".

- The credit or disbursement side of the cash book shall be written up by the cash vouchers returned by the Treasurer after payment, the amount of cheques disbursed including those drawn in favour of the Treasurer being debited to Bills payable through Bank, the establishment and other charges which are paid by the Treasurer in cash after encashment of cheques drawn in his favour shall be debited to "Bills payable through Treasurer".

- Each day's transaction entered in different volume of cash book shall be totaled and balanced daily in the last volume.

- The collection of any one day shall be remitted to the Bank as early as possible within the banking hours on the following working day.

Cash Journal

- As soon as bills are passed for payment they shall be journalized by debit to the respective budget head to be charged and by credit to "Bills Payable through Bank".

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 for the year
Balance Sheet	To assess the financial status of the ULBs at the end of the year

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:

$\text{Assets} = \text{Own Funds} + \text{Liabilities}$

- 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
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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

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

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. For KMC Interest element and Penalties, if any, are part of demand. Hence both Interest and Penalties are recognised in the months in which the demand is served.
- 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.

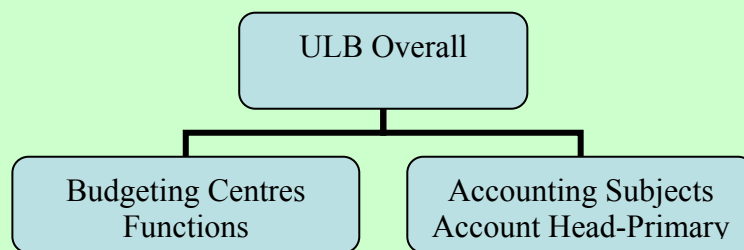
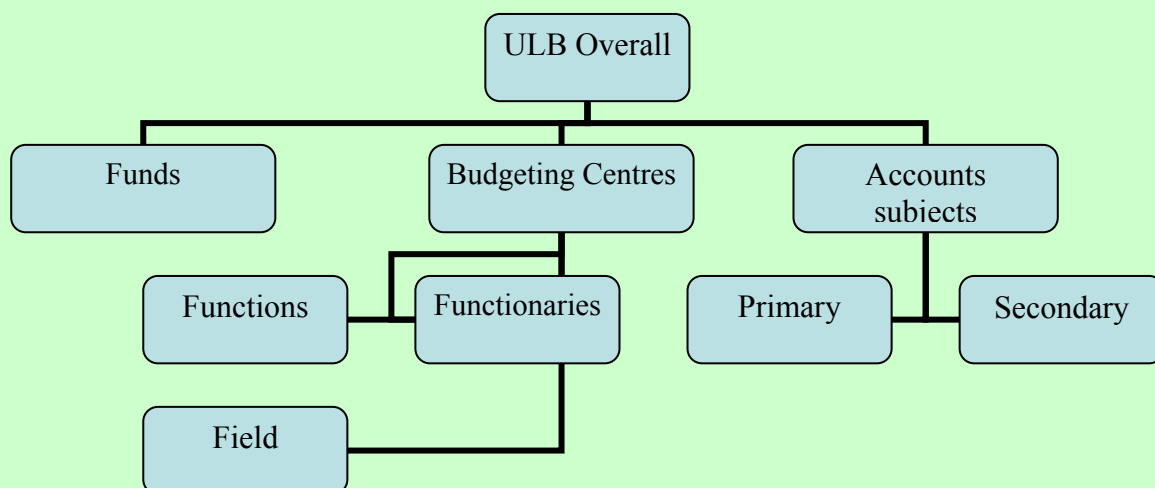
Understanding structure in municipal accounting system

- 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.



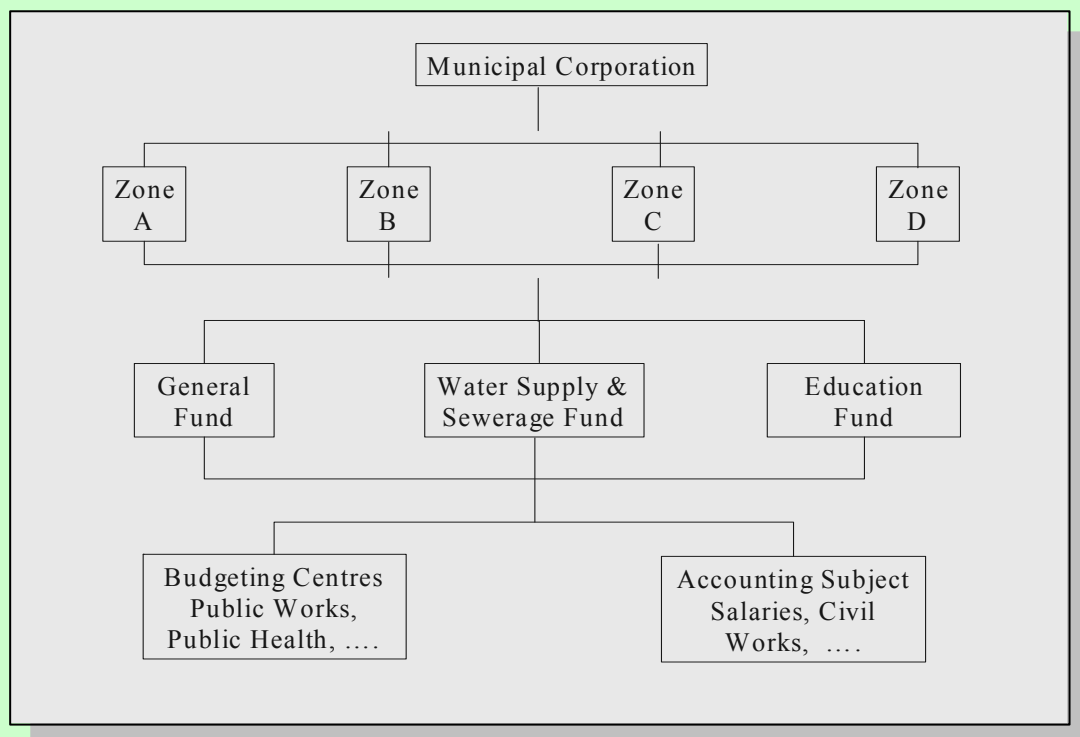
An overview of the codification structure for mandatory information.**An overview of the codification structure for overall structure.**

- 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

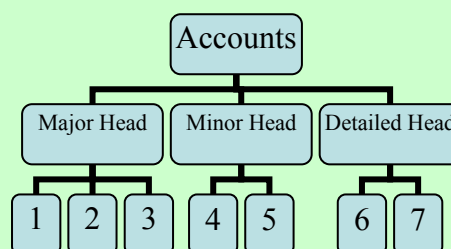
- Accounting subjects can be divided into two levels: Primary and Secondary. Primary account code represents the subject of the income and expenditure.

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.

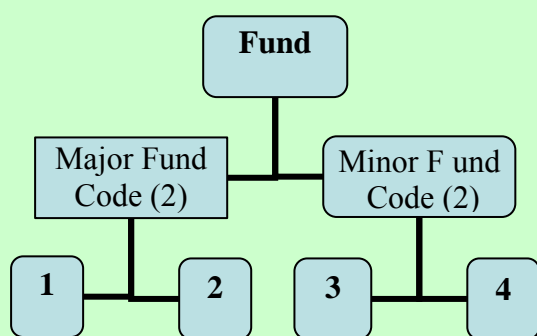
Secondary Account codes:

- 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.
- KMC has separate set of Budget Codes. It maintains two digit code (0 0) for Kolkata Proper and 01 to 03 for three added areas. Next four digits (0 0 0 0) are allotted for department wise heads of account. The last three digits (0 0 0) denote detailed heads of account.

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

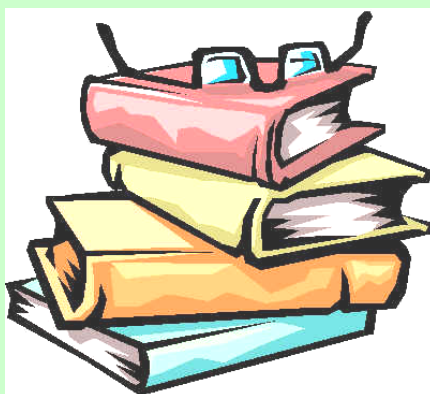
application for providing the services/goods, e.g., Rent Deposit, etc. The accounting for the different transactions in respect of deposits received in respect of Incomes, have been discussed below, using the example of Rent Deposit.

- 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

²³ **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.

²³ 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.

Audit of Services and works

Audit of Services

- The Task Force recommended (7.1.3) that the suggested formats for determining of cost of important utilities and services like water supply, primary schools and hospitals be adopted by ULBs for overall effective financial administration and given as supplementary information to the

accounts for the benefit of the Central and State Governments and other stakeholders / users of the information.

- As such obligatory as well as discretionary services are to be taken up for determination of unit cost. Audit is to ensure objectives and coverage of a particular service with reference to actual need and see final benefits reached to the users. The deficiencies and cost effectiveness of a service, effect thereof to the users and urban environment are to be analysed with reference to the formulation of project and relevant Acts and Rules. Inefficiency in providing obligatory services will have adverse effects on urban people and its environment. Therefore services both of obligatory as well as discretionary nature attract appropriate attention by Audit.

Audit of Developmental Works under ULBs

- The developmental works under ULB are under taken mainly to provide services to the rate payers. Certain commercial projects are also taken up to augment revenue of the local bodies. The resource is arranged from different sources including market loans. The objectives of all such projects are to render services or amenities or indirect benefits to the tax payers. Therefore, all such works are to be audited with reference to their feasibility, detail project report, cost benefit ratio, scope of

realization of cost keeping in view the cost of service but not in a manner as is done in usual work analysis which does not involve CBR. Further the activities of a ULB being service oriented, the unit cost and quantum of out put are the principal guiding factors for the auditor. Accordingly the factors involving audit of works under ULBs are identified and summarized below:

Controlling factors in audit of projects/ works:

- ❖ *The objectives of the project,*
- ❖ *Detailed Project Report (DPR),*
- ❖ *Feasibility,*
- ❖ *Cost of execution- SOR,*
- ❖ *Coverage,*
- ❖ *Unit cost – cost of capital including interest, depreciation, other overhead charges,*
- ❖ *Cost Benefit Ratio(CBR),*
- ❖ *Resource,*
- ❖ *Administrative approval,*
- ❖ *Estimates,*
- ❖ *Technical sanction,*
- ❖ *NIT- coverage, period, and terms and conditions,*
- ❖ *Acceptance of offer,*
- ❖ *Work order,*
- ❖ *Agreement,*
- ❖ *Delay in execution,*
- ❖ *Deviation- revision of estimate, cost overrun, quality of work,*
- ❖ *MBs, MAS, material consumption etc.,*

- ❖ *Actual cost,*
- ❖ *Final CBR, out put – physical and financial,*
- ❖ *Idle / abandoned project / work,*
- ❖ *Actual recovery,*
- ❖ *Loss with reasons- arrangement of funds for subsidy.*

- The factors mentioned are illustrative and not exhaustive. More than fifty per cent of the above factors are not looked into during traditional works audit because of non-involvement of those factors.

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 tables given in next page.

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 entry shown in the next page 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 – Contractors Account	Dr.	44,000		Cash Book, Ledger
450-21-(a)	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 Register of Movable/ Immovable Assets
412-(a)	To Capital Work-in-Progress (specify)	Cr.		1,00,000	

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.

Refund of Security Deposit:

- 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. The accounting entry to be passed is cited below:

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)	From Contractors / Suppliers– Security Deposits	Dr.	5,000		Journal Book, Ledger
180-80-(a)	To Other Income – Miscellaneous Income	Cr.		5,000	

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)	From Contractors /Suppliers– Security Deposits	Dr.	20,000		Cash Book, Ledger
450-21-(a)	To Bank Account*	Cr.		20,000	

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 progress of work and final bill is normally submitted on completion of work. The Contract Completion Certificate shall be

All figures are illustrative 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 works completed as an income for the municipalities and municipal corporations, the entry shown in the next page 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 Material Issued to Contractors	Cr.		5,000	
140-70-(a)	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
(In CD Rom)
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

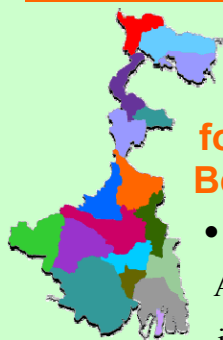
- The pilfered/damaged material in the Stores of the municipalities and municipal corporations may be written-off as per the principle framed by the concerned municipalities and municipal corporations.

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



24 Procedure 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.

²⁴ 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 Authority Fund. In addition, money will be

All figures are illustrative
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)	Advance for Suppliers and contractors – Special Funds	Dr.	10,000		Journal Book, Ledger
350-20-(a)	To TDS – Special Funds	Cr.		500	Special Fund Register
350-10-(a)	To Contractors Advance Control Account – Special Funds	Cr.		9,500	

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)	Advances for suppliers and contractors – Special Funds	Dr.	9,500		Special Fund Cash Book, Ledger,
450-41-(a)	To Designated Bank Account*	Cr.		9,500	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 every work sanctioned by appropriate authority of KMC with limits as under: upto Rs.5 lakh by Commissioner, - upto Rs.1 crore by Mayor-in-Council and above Rs.1.00 crore by Corporation ?
- 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?
- Was any work or supply of goods commenced and liability for expenditure incurred in connection with any work or any purpose without ensuring an estimate of the expenditure proposed in the prescribed form duly sanctioned by proper authority and tenders duly called for and accepted by the proper authority?
- 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 NMAM 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

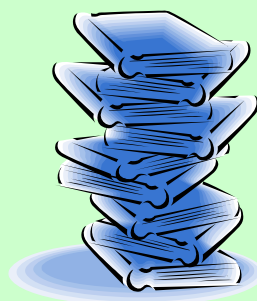
ledger maintained by the Accounts Department?

- 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
(In CD Rom)
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 some schemes including TFC sponsored by Central Government and implemented through municipalities and municipal corporations.	5 min	Lecture
Key Teaching Point 1 Twelfth Finance Commission.	8 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 2 National slum development programme.	12 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 3 Swarna Jayanti Shahari Rozgar Yojana (SJSRY).	15 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 4 Programme for Night Shelter for Urban Shelterless and JNNURM.	15 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 some schemes including TFC 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 TFC 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 National Slum Development Programme. 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 Swarna Jayanti Shahari Rozgar Yojana. 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 Programme for Night Shelter for Urban Shelterless. 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 Jawaharlal Nehru Urban Renewal Mission (JNNURM). 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 some major schemes including TFC 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.

Twelfth Finance Commission

The Twelfth Finance Commission (TFC) recommended grants amounting to Rs. 5,000 crore for Urban Local Bodies in the States during the period 2005-10.

The salient features of the TFC are:

- Public-private partnership to enhance service delivery of solid waste management services in the urban areas.
- States may require municipalities of towns of over 100,000 populations as per 2001 census to prepare comprehensive scheme including composting and waste to energy programmes to be undertaken in the private sector for appropriate funding from the grants recommended by the TFC. TFC has suggested earmarking of at least 50% of grants for this purpose.
- ULBs would continue to need funding support for building data base and maintenance of accounts.
- States may assess the requirement of each ULB in this regard and earmark funds accordingly out of the total allocation.
- ULB grants will be released in two equal instalments in July and January every year. States have to mandatorily transfer the grants released by the Centre to the ULBs within 15 days of the same being credited to the State's account.
- State Finance Secretary would be required to provide a certificate within 15 days of the release of each instalment by Government of India under his signature certifying the dates and amounts of local grants received by the State from the Government of India, and the dates and amounts of grants released to the ULBs.
- State Finance Secretary would also be required to provide a certificate every year

of the percentage of grants spent by the ULBs on schemes of solid waste management.

- Comptroller and Auditor General of India (C&AG) would be expected to audit the release and use of the ULB grants within the time and for the purposes mentioned by the TFC.
- Government of India may take appropriate decision about withholding grants of a State if the C&AG reports that the State has either not transferred the grants to the ULBs or has allowed the grants to be used for purposes other than for which these are being provided or that ULBs have not been able to give priority to spend on the schemes of solid waste management in the urban areas.

Audit Points

- Was there any record to show evidence of public-private partnership to enhance service delivery of solid waste management services in the urban areas?
- Did the ULBs of over 100,000 populations prepare the necessary comprehensive scheme including composting and waste to energy programmes?
- Was at least 50% of grants earmarked for solid waste management?
- Was any fund allocated by the ULB for building database and maintenance of accounts? If so, how far was it utilised?

- 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 the appropriate certificate for utilisation of the funds forthcoming?
- Was there any case of withholding of grants by the Government of India due to adverse report by the C&AG?

National Slum Development Programme (NSDP)

National Slum Development Programme (NSDP) was introduced in the Eighth Five Year Plan during 1996-97 with the specific objective of providing basic amenities to slum dwellers in the field of physical & social amenities, community infrastructure etc. NSDP is a centrally sponsored scheme meant for the improvement of slums.

Salient features:

- Provision of physical amenities like water supply, community baths, widening and paving of existing streets, sewers, community latrines, street lights etc.
- Community infrastructure like provision of community centres to be used for pre-school education, non-formal education, adult education, recreational activities etc.
- Provision of community primary health care centre. After creation of infrastructure facilities the concerned municipalities or municipal corporations will seek the support

of Registered Medical Practitioners /Government Doctors in the State/NGOs) Philanthropic Associations to man these centres.

- Social amenities like pre-school education, non-formal education, adult education, maternity, child health and primary health care etc.
- Provision for shelter including upgradation of houses. Not less than 10% of the allocation to States under this assistance shall be utilised for construction and up gradation of houses for the urban poor.
- States may work out State specific schemes for housing construction/up gradation under this component subject to the provision that the scheme shall not be an entirely subsidy based scheme but the funding shall contain a loan component as well.
- The State scheme shall be first got sanctioned in a State level project committee which shall be set up for this purpose by the State Government concerned and which shall have one representative from the department of Urban Employment and Poverty Alleviation, which is the nodal Department for this scheme in the Government of India.

Allocation of fund:

- Yearly provision under this scheme shall be indicated by the Planning Commission at the beginning of each financial year. Inter

re-allocation between states shall be made on the basis of the slum populations of the states.

Monitoring:

- The urban local body shall report progress under this scheme periodically to the District Urban Development Agency (DUDA) / State Urban Development Agency (SUDA) whereupon the same is monitored by the latter and necessary guidance and instructions are sent to the municipalities and municipal corporations in the state specific manner.

†Progress since inception:

- In 2004-05, allocation under NSDP was enhanced from Rs.363.94 crore to Rs.700 crore by the Planning Commission.
- Upto March 31, 2005, out of the total funds of Rs.3, 089.63 crore released by the Central Government, an amount of Rs.2,130.09 crore has been spent.
- Number of Slum pockets so far covered: 68,129
- Number of slum dwellers so far benefited from this programme: 4.12 crore

†(Source: Prime Minister's Office Press Releases dated: May 13, 2005 on 'One year of UPA Government: Major decisions and initiatives – Urban employment and poverty alleviation'.)

Audit Points

- Could the auditor ensure that the grants under the National Slum Development Programme (NSDP) were actually utilized

by the ULB for the specific purposes for which the grants were sanctioned?

- Did the work of provision of physical amenities under NSDP include water supply, community baths, widening and paving of existing streets, sewers, community latrines, street lights?
- Was the grant under NSDP utilized for development of community centres for pre-school education, non-formal education, adult education, recreational activities etc.?
- Were the community health care centres developed under the NSDP actually manned by Registered Medical Practitioners/ Govt. Doctors? Were there proper registers for the same? If not, was there proper record to show that the ULB made efforts to get support of the Registered Medical Practitioners/ Govt. Doctors in this regard?
- Could the auditor ensure that the fund actually utilized for construction and up-gradation of houses for the urban poor under NSDP was not less than the total amount of the grant?
- Was there proper evidence to show that the State Govt. worked out specific schemes so that the scheme for construction and up-gradation of houses for the urban poor under NSDP did not become an entirely subsidy based scheme? Could the auditor ensure that the funding contained a loan component?
- 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 the ULB report progress under NSDP periodically to the District Urban Development Agency (DUDA) and State Urban Development Agency (SUDA)?
- Were any guidance and instructions on ULB's progress report under NSDP received by the ULB from DUDA and SUDA? If so, were the same complied with?
- Did any portion of the fund provided under NSDP remain unutilized? If so, the reasons therefor should be analysed.
- Did the ULB keep any record of the number of slum pockets covered and slum dwellers benefited from the scheme? Was the same in tune with the projected numbers?

Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

Introduction:

- The Swarna Jayanti Shahari Rozgar Yojana (SJSRY) shall seek to provide gainful employment to the urban unemployed or underemployed poor through encouraging the setting up of self-employment ventures or provision of wage employment. This programme will rely on creation of suitable community structures on the UBSP pattern and delivery of inputs under this programme shall be through the

- The Swarna Jayanti Shahari Rozgar Yojana shall be funded on a 75:25 basis between the Centre and the States.
- The Swarna Jayanti Shahari Rozgar Yojana shall consist of two special schemes, namely-
 - (i) The Urban Self Employment Programme (USEP)
 - (ii) The Urban Wage Employment Programme (UWEP)

Salient Features:

- The Swarna Jayanti Shahari Rozgar Yojana shall rest on a foundation of community empowerment. Rather than relying on the traditional method of top down implementation, this programme shall rely on establishing and promoting community organisations and structures to provide supporting and facilitating mechanism for local development.
- Community organisations like Neighbourhood Groups (NHGs), Neighbourhood Committees (NHCs), and Community Development Societies (CDSs) shall be set up in the target areas.
- The CDSs shall be the focal point for purposes of identification of beneficiaries, preparation of applications, monitoring of recovery, and generally providing whatever other support is necessary to the programme.

The CDSs will also identify viable projects suitable for that particular area.

- These CDSs may also set themselves up as Thrift and Credit societies to encourage community savings, as also other group activities. However, Thrift and Credit societies may be set up separate from the CDSs as well. These bodies will try to link local resource generation efforts with wider institutional finance. It is expected that these bodies will be registered under the Societies Registration Act or other appropriate Acts to provide them direct access to funds under various schemes as also a wider finance and credit base.
- A maximum expenditure at the rate of Rs. 100 per member for the first year, and Rs. 75 per member for each subsequent year will be allowed for activities connected with the CDSs.
- The CDS, being a federation of different community based organisations, shall be the nodal agency for this programme.

The community based organisations include Neighbourhood Groups (NHGs); Neighbourhood Committees (NHCs) and Community Development Society (CDS).

NEIGHBOURHOOD GROUP (NHG)

This is an informal association of women living in mohalla or basti or neighbourhood group of manageable size (preferably 10 to 40 to represent urban poor or slum families), geographic contiguity and homogeneity should be the basis to carve out the boundaries of the NHGs. At least one

woman resident among them who is willing to serve as a volunteer should be selected as a Resident Community Volunteer (RCV) through community consensus or election or any other democratic process. There should be a change or rotation (if need be) of such volunteers at periodical intervals. The responsibilities of other RCVs include:

- (i) to serve as a channel of information and communication among the families in the cluster;
- (ii) to represent the views of the groups in the neighbourhood committees and community development societies and other forums;
- (iii) to support planning, implementation and monitoring of activities at the neighbourhood level;
- (iv) to foster and encourage participation in community improvement; and
- (v) to motivate the community for being members of thrift and credit society; and to contribute to community development fund.

NEIGHBOURHOOD COMMITTEES (NHCs)

A Neighbourhood Committee (NHC) is a more formal association of women from the above neighbourhood groups located in close proximity and as far as feasible within the same electoral ward. The Committee should consist of all the RCVs from the neighbourhood groups as executives (with voting right) of NHC. There can also be provision for honorary membership without

a voting right for Community Organisers (COs), representatives from other sectoral programmes in the community. The Convener/President of the NHC will be selected/elected by the executive members of the NHC. The convener will ensure that the meetings are convened on regular basis. The NHC would be responsible:

- (i) to identify local problems and priorities;
- (ii) to provide suggestions for groups involvement in meeting community needs and goals (miniplans);
- (iii) to support local action with partnership of responsible agencies including community contracts;
- (iv) to provide feedback to agencies of programme effectiveness and out-reach especially for children and women;
- (v) to develop community capacity through training in association with COs, NGOs and other sectoral departments;
- (vi) to develop community based thrift and credit system as well as neighbourhood development fund;
- (vii) to facilitate the recovery of loans from the beneficiaries in time; and
- (viii) to assist/carry out community surveys in accordance with the guidelines.

The NHC may be registered under the Societies Registration Act, or other appropriate Acts if so desired. If registered, these NHC may also apply for grants-in-aid under various schemes.

COMMUNITY DEVELOPMENT SOCIETY (CDS)

The CDS is a formal association of all the neighbourhood development committees at the town level based on common goals and objectives. The CDS may consist of elected/selected representatives of NHCs as executive members (with voting right); and other members with honorary membership (with no voting right) which may include community organisers representatives of NGOs, sectoral department, leading citizens, elected representatives of the area and other resource persons. The Community Development Society (CDS) should be registered under the Societies Registration Act or other appropriate Acts to provide access to grant-in-aid under various scheme and for a wider Financial and credit base. The CDS would be responsible:

- (i) to represent needs of all the communities, especially women and children;*
- (ii) liaise and link-up with agencies and departments to promote action in the community towards fulfilment of their needs;*
- (iii) to identify specific training and arrange for their organisation;*
- (iv) to facilitate community surveys to be carried out to identify the genuine beneficiaries for economic and shelter benefits;*
- (v) to prepare community plans and proposals, mobilising resources from the*

community, town or other sectoral departments;

- (vi) to extend help to Bank in coordination with UPE Cell, for ensuring repayment of loans by the beneficiaries in time; and*
- (vii) to create small community assets in low income areas in consultation with town UPE Cell and Urban Local Body (ULB).*

The Urban Self Employment Programme (USEP):

- This programme will have three distinct parts:-

- (i) Assistance to individual urban poor beneficiaries for setting up gainful self employment ventures.
- (ii) Assistance to groups of urban poor women for setting up gainful self employment ventures. This sub-scheme may be called “The Scheme for Development of Women and Children in the Urban Areas (DWCUA)“.
- (iii) Training of beneficiaries, potential beneficiaries and other persons associated with the urban employment programme for upgradation and acquisition of vocational and entrepreneurial skills.

Coverage:

- (i) The programme will be applicable to all urban towns in India.
- ii) The programme will be implemented on a whole town basis with special emphasis on urban poor clusters.

Target Group:

- (i) The programme shall target the urban poor, defined as those living below the

urban poverty line, as defined from time to time.

(ii) Special attention will be given to women, persons belonging to Scheduled Castes/ Tribes, disabled persons and other such categories as may be indicated by the Government from time to time. The percentage of women beneficiaries under this programme shall not be less than 30%. SCs and STs must be benefited at least to the extent of the proportion of their strength in the local population. A special provision of 3% shall be reserved for the disabled under this programme.

(iii) Educational Qualifications: This scheme shall not apply to beneficiaries educated beyond the IX standard. As regards the wage employment component, there will be no restrictions of educational qualifications. Where the identified activity requires skill training of an appropriate level as may be necessary the same will be provided to the beneficiaries before extending financial support.

(iv) A house-to-house survey for identification of genuine beneficiaries will be done. Non-economic parameters will also be applied to identify the urban poor in addition to the economic criteria of the urban poverty line. (Guidelines may be referred to for details). Community structures like the CDSs will be involved in this task under the guidance of the Town Urban Poverty Eradication Cell/Urban Local

Body. Lists of beneficiaries finalised will be displayed at the Urban Local Body Office as also in the concerned local areas. For ease of operation, if desired, the house-to-house survey and beneficiary identification can be got done by the State nodal agency through any identified body at the ULB/community level specially empowered in this behalf. All other conditions being equal, women beneficiaries belonging to women-headed households shall be ranked higher in priority than other beneficiaries. For purposes of this section, women-headed households shall mean households which are headed by widows, divorcees, single women, or even households where women are the sole earners.

Components of the USEP:

(i) Self-employment through setting up Micro-enterprises and skill development

- This programme encourages under-employed and unemployed urban youth to set up small enterprises relating to servicing, petty business and manufacturing, for which there is a lot of potential in urban areas. Local skills and local crafts are encouraged for this purpose.

- Each town has to develop a compendium of such projects/activities keeping in view cost, marketability, economic viability etc.

- The maximum unit cost will be Rs. 50,000 and the maximum allowable subsidy will be 15% of the project cost, subject to a limit of Rs. 7,500. The beneficiary is

required to contribute 5% of the project cost as margin money. Balance 80% of the unit cost may be obtained from the nationalised bank/gramin bank as loan.

- Skill development through appropriate training is another element of this programme. It is intended to provide training to the urban poor in a variety of service and manufacturing trades as well as in local skills and local crafts so that they can set up self employment ventures or secure salaried employment with enhanced remuneration.
- The unit cost allowed for training will be Rs. 2000 per trainee, including material cost, trainers' fees, other miscellaneous expenses to be incurred by the training institution and the monthly stipend, to be paid to the trainee. The total training period for skill up-gradation may vary from two to six months, subject to a minimum of 300 hours.

(ii) Development of Women and Children in Urban Areas (DWCUA):

- This scheme is distinguished by the special incentive extended to urban poor women who decide to set up self employment ventures in a group as opposed to individual effort. Groups of urban poor women shall take up an economic activity suited to their skill, training, aptitude, and local conditions. Besides generation of income, this group strategy shall strive to empower the urban poor women by making

them independent as also providing a facilitating atmosphere for self-employment.

- To be eligible for subsidy under this scheme, the DWCUA group should consist of at least 10 urban poor women.
- Before starting income generating activity the group members must understand the group strategy, and also recognise the strength and the potential of each member of the group.
- The group shall select an organiser from amongst the members. The group will also select its own activity.

Financial Pattern:

- The DWCUA group society shall be entitled to a subsidy of Rs. 1,25,000 or 50% of the cost of project whichever is less.
- DWCUA group shall be entitled to a lump sum grant of Rs. 25,000 as revolving fund at the rate of Rs.1000 maximum per member. This revolving fund is meant for the use of the group/society for purposes like:-
 - (i) purchases of raw materials and marketing;
 - (ii) infrastructure support for income generation and other group activities;
 - (iii) one time expense on child care activity. Recurring expenses like salary for staff etc. will not be payable;
 - (iv) Expenses not exceeding Rs. 500 to meet travel costs of group members for visit to banks etc;

(v) Where an individual member of a Thrift and Credit society saves at least Rs.500 in a fixed deposit for 12 months with the society, she will be entitled to a subsidy of Rs.30 to be paid on her behalf towards a health/life/accident/any other insurance scheme for herself. Moreover, in cases where the member saves at least Rs. 750 in a fixed deposit in 12 months, she will be entitled to a subsidy of Rs. 60, at the rate of Rs. 30 for the member herself and either Rs. 30 for her husband towards health/life/accident/any other insurance or Rs. 30 for any minor girl child in her family for health/accident insurance. This expense may also be debited to the revolving fund; and

(vi) any other expense allowed by the State as being necessary in the group or society's interest.

Training:

- States may utilise an amount upto a maximum of 5% of their total allocation for training and capacity building of the personnel involved with the implementation of this programme whether State Government employees, ULB employees, CDS workers or any other involved parties.
- States may also consider developing in house training capabilities within State Urban Development Agency (SUDA)s and District Urban Development Agency (DUDA)s by imparting adequate training to and skill development of officials attached

with these institutions to enable them to work as trainers.

Information, Education and Communication Component:

- States may utilise upto 2% of their allocation for activities under the IEC component. Once again, care shall be taken by the State to ensure that full use is made of the material made available by the Department of UEPA and the recognised national institutions in this regard.

Administration and Office Expenses:

- Not more than 5% of the total allocated funds to the state can be utilised for administration and office expenses purposes. Administration and office expenses of ULBs and other structures down the line shall be met from the 5% allowed for this purpose out of the funds placed at their disposal. Any expenditure incurred over and above this limit shall be met out of local resources. A further sum, not exceeding 3% of the allocated amount at the ULB level can be used for strengthening the ULB structure, subject to the proviso that the said ULB should have set up the UPE cell.

The Urban Wage Employment Programme (UWEP):

- This programme shall seek to provide wage employment to beneficiaries living below the poverty line within the jurisdiction of urban local bodies by utilising their labour for construction of socially and

economically useful public assets. This programme shall apply to urban local bodies, the population of which was less than 5 lakhs as per the 1991 Census.

- The material labour ratio for works under this programme shall be maintained at 60:40. The prevailing minimum wage rate, as notified from time to time for each area, shall be paid to beneficiaries under this programme.

Method of Implementation:

- Community Development Societies (CDSs) shall survey and draw up a list of available basic minimum services in their areas. Missing basic minimum services shall be first identified. Other requirements of physical infrastructure shall be listed thereafter.
- States shall delegate the power to issue administrative sanctions either to the ULB or to the respective DUDA.
- In case the ULB is so empowered it will examine the CDSs recommendations and take a final decision on merits. In case the DUDA is so empowered, the ULB will forward the CDSs recommendations along with their own recommendations and technical sanctions to the DUDA for necessary action.
- Works are to be executed through CDSs, under the general control and supervision of the ULBs, as far as possible. ULBs are expected to maintain a close watch over the

quality of construction. Work must be done departmentally and detailed guidelines as regards maintenance of Muster Roll etc. will be issued in this regard by the concerned State Governments.

- In case of cost escalation, or expansion in the nature of the work, or increase in the project estimate for any other reason whatsoever, and if additional funds are not available under this programme, it shall be the basic responsibility of the sanctioning authority/implementing authority i.e. DUDA/ULB to ensure completion of such works by bringing in additional resources from other programmes, if so required.
- The State Government may prescribe guidelines for the implementation of the programmes in the State based on these guidelines. However, care should be taken to ensure that SUDA plays only a facilitating role to promote initiative and flexibility in an overall participatory development process. At the National level; the Department of Urban Employment and Poverty Alleviation shall be the nodal department. The programme shall be monitored and overseen by the UPA Division. A high level monitoring committee headed by Secretary (UEPA) with representatives from different sectoral departments engaged in social sector schemes aimed at the urban poor, State Government representatives etc., shall

monitor the programme on a half-yearly basis.

Audit Points

- Could the auditor ensure that the funds provided under Urban Self Employment Programme (USEP) and Urban Wage Employment Programme (UWEP) under the central scheme Swarna Jayanti Sahari Rozgar Yojana (SJSRY) were actually utilized for scheduled purposes?
- Could the auditor ensure that the State's share of 25% of the scheme was released to the ULBs in time?
- Was there proper record to show that Community organisations like Neighbourhood Groups (NHGs), Neighbourhood Committees (NHCs) and Community Development Societies (CDSs) were duly set up in the targeted areas?
- Could the auditor ensure that the CDSs actually functioned as focal point for purposes of identification of beneficiaries, preparation of applications, monitoring of recoveries etc?
- Was there any case of expenditure of more than Rs. 100 per member for the first year and Rs. 75 for each subsequent year?
- Was there proper record of numbers of individual urban poor beneficiaries? Was it in tune with the grant received under USEP for setting up gainful self-employment?
- Did all the beneficiaries of SJSRY live below the urban poverty line?

- Was the percentage of women beneficiaries under USEP less than 30%? Was special provision of 3% reserved for the disabled persons?

- Was any beneficiary educated beyond IX standard?

- Was the subsidy allowed on the project cost under USEP more than 15% of the cost of the project/ Rs. 7,500, whichever was lower?

- Did the beneficiary contribute 5% of the project cost as margin money?

Night Shelter for Urban Shelterless - Programme:

Introduction:

- The ultimate goal of the National Housing and Habitat Policy 1998 is to ensure that the basic need to Shelter for all is fulfilled in a time bound manner and a better quality of life is provided to all the citizens of the country by harnessing the unused potential in the public, private and the household sectors. It is necessary to provide some kind of shelter to the absolutely shelterless urban population including street children and destitute women in urgent need of shelter to protect themselves against the vagaries of nature all through the year.
- Against this backdrop, there is an urgent need to continue the ongoing 'Shelter and Sanitation Facility for the Footpath Dwellers In Urban Areas', now renamed as "Night

Shelters for Urban Shelterless” with more vigour and will.

Components:

The present scheme has following components:

- i) Construction of community night shelter with community toilets and baths.
- ii) Construction only of community pay and use toilets/baths for homeless.
- The scheme primarily caters to the needs of urban footpath dwellers as assessed by State Governments.
- In the light of experience of working of the scheme and the practical problems faced by implementing agencies, it has become necessary to modify the guidelines of the scheme so as to make it more practicable and viable.

Modified Scheme:

- The modified scheme will now be limited to construction of composite night shelters with toilets and baths for urban shelterless. These would be in the nature of dormitories / halls with plain floors to be used for sleeping at night and for other social purpose during the day time e.g. health care centre, training for self employment, adult education, etc. The remunerative elements and provision for proper maintenance would continue to remain a part of the scheme.
- The implementing agencies like Urban Local Bodies will identify suitable sites for

the projects, based on actual need for night shelter and formulate projects for financial assistance from the Government.

Modality of operations and implementing agencies:

- The projects under this scheme will be formulated, constructed and operated by the municipal bodies or agencies identified by the State Government or local bodies.

Project Appraisal, Survey and identification:

- The project appraisal will be done by a Central Sanctioning Committee under the Chairmanship of Joint Secretary (Housing), Ministry of Urban Development & P.A. and have representatives of HUDCO, Central P.W.D. etc.

Financing Pattern:

- Central Government would provide subsidy for construction of composite night shelters @ 50% of the cost of construction subject to the cost ceiling of Rs. 20,000/- per bed for Night Shelter. Balance would be loan from HUDCO or any other organisation / institution or own contribution of the agency. There will be no ceiling on the amount of loan, if sought by the agency.
- State Governments / implementing agencies are to provide land / site / existing building for renovation and undertake maintenance of the shelters fully. Land / site would be provided by the State Governments or the urban local bodies / other implementing agencies. In case

suitable land needs to be acquired, HUDCO would provide loans for land acquisition.

Project Implementation and Monitoring:

- The project formulation and implementation will be done by public sector undertakings engaged in civil construction work, local bodies as well as NGOs, etc. HUDCO would collect progress reports from these agencies, consolidate them and send them to the Ministry. The State administrative department for local bodies would be the principal coordinating agency at the State level, which will ensure smooth implementation of the programme.
- At the national level, Ministry of Urban Development and Poverty Alleviation would be the nodal authority for laying down guidelines and release of funds to the implementing agencies after the project appraisal by the Sanctioning Committee. The Ministry of Urban Development and Poverty Alleviation will undertake concurrent monitoring in the prescribed performance, which will be submitted by the State Municipal Affairs Department at such interval as prescribed by this Ministry. Periodical inspection of the sanctioned as well as completed projects will be ensured by Ministry of Urban Development and Poverty Alleviation through HUDCO.

Project Accounting:

- The implementing agencies would ensure having separate project account for

each of the project sanctioned under the scheme. Central subsidy would be actually released after verification of the opening of a separate project account and credit of State / agency's share therein as also availability of land / site / infrastructure by the State Government.

Audit Points

- Could the auditor ensure that the scheme was taken in hand by the ULB?
- Was there any register to record the total number of shelter-less urban population including street children and destitute women?
- Did the ULB identify suitable sites for the project? Were such sites based on actual need for night shelter?
- Was there any record to show construction of community night shelters with community toilets and baths?
- Could the auditor ensure that the scheme primarily catered to the needs of urban footpath dwellers?
- Could the auditor ensure that the constructions were in the nature of dormitories/halls with plain floors?
- Was the cost ceiling of Rs.20,000 per bed for night shelter maintained in each and every case?
- Was 50% share of the scheme borne by the Central Government?

- Could the auditor ensure that periodical inspections of the projects were made by the prescribed authorities?
- Did the implementing agencies maintain separate project account for each of the sanctioned projects?
- Did such account clearly show agency's share?

Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

Objectives of the Mission

The objectives of the JNNURM are:

- Focused attention to integrated development of infrastructure services in cities covered under the Mission;
- Establishment of linkages between asset-creation and asset-management.
- Scale-up delivery of civic amenities and provision of utilities with emphasis on universal access to the urban poor;
- Special focus on urban renewal programme for the old city areas to reduce congestion; and
- Provision of basic services to the urban poor including security of tenure at affordable prices, improved housing, water supply and sanitation, and ensuring delivery of other existing universal services of the government for education, health and social security.

Scope of the Mission

The Mission shall comprise two Sub-Missions, namely:

- **Sub-Mission for Urban Infrastructure and Governance:** This will be administered by the Ministry of Urban Development through the Sub- Mission Directorate for Urban Infrastructure and Governance. The main thrust of the Sub-Mission will be on infrastructure projects relating to water supply and sanitation, sewerage, solid waste management, road network, urban transport and redevelopment of old city areas
- **Sub-Mission for Basic Services to the Urban Poor:** This will be administered by the Ministry of Urban Employment and Poverty Alleviation through the Sub-Mission Directorate for Basic Services to the Urban Poor.

Strategy of the Mission

The objectives of the Mission shall be met through the adoption of the following strategy:

- **Preparing City Development Plan:** Every city will be expected to formulate a City Development Plan (CDP) indicating policies, programmes and strategies, and financing plans.
- **Preparing Projects:** The CDP would facilitate identification of projects. The Urban Local Bodies (ULBs) / parastatal agencies are to prepare Detailed Project Reports (DPRs) for undertaking projects in the identified spheres.
- **Release and Leveraging of Funds:** Funds from the Central and State

Government will flow directly to the nodal agency designated by the State, as grants-in-aid. The funds for identified projects across cities would be disbursed to the ULB/Parastatal agency through the designated State Level Nodal Agency (SLNA) as soft loan or grant-cum-loan or grant.

Duration of the Mission

- The duration of the Mission would be seven years beginning from the year 2005-2006.

Urban Sector Investment Requirement

- It is estimated that over a seven-year period starting from 2005-2006, a total investments of Rs. 1,20,536 crores would be required for 63 identified cities and towns in the country. This includes investment in basic infrastructure and services requiring an annual funding of Rs. 17,219 crores.

URBAN SECTOR INVESTMENT REQUIREMENT			
			Rs.(crore)
Category	No. of Cities	Investment Requirement (over 7 years starting 2005-06)	Annual Funds Requirement
Cities with over 4 million population	7	57,143	8163.3
Cities with 1-4 million population	28	57,143	8613.3
Selected cities with less than 1 million population	28	6,250	892.9
Total	63	1,20,536	17219.5

Expected Outcomes of the JNNURM

On completion of the Mission period, it is expected that ULBs and parastatal agencies will have achieved the following:

- Modern and transparent budgeting, accounting, financial management systems, designed and adopted for all urban service and governance functions
- City-wide framework for planning and governance will be established and become operational
- All urban residents will be able to obtain access to a basic level of urban services

- Financially self-sustaining agencies for urban governance and service delivery will be established, through reforms to major revenue instruments
- Local services and governance will be conducted in a manner that is transparent and accountable to citizens
- E-governance applications will be introduced in core functions of ULBs/Parastatal resulting in reduced cost and time of service delivery processes.

Financial Assistance under JNNURM

- The Government of India has proposed substantial assistance through the JNNURM

over the seven-year period. During this period, funds shall be provided for proposals that would meet the Mission's requirements.

- Assistance under JNNURM is additional central assistance, which would be provided as grant (100 per cent central grant) to the implementing agencies.

Mandatory Reforms

Mandatory Reforms at the Level of ULBs, and Parastatal Agencies

- Adoption of modern accrual-based double entry system of accounting in ULBs and parastatal agencies.
- Introduction of a system of e-governance using IT applications
- Reform of property tax with GIS
- Internal earmarking, within local bodies, budgets for basic services to the urban poor.
- Provision of basic services to the urban poor including security of tenure at affordable prices, improved housing, water supply and sanitation.

Mandatory Reforms at the Level of States

- Implementation of decentralisation measures as envisaged in 74th Constitutional Amendment Act. The State should ensure meaningful association and engagement of ULBs in planning the function of parastatal agencies.
- Repeal of Urban Land Ceiling and Regulation Act (ULCRA).
- Reform of Rent Control Laws.

- Rationalisation of Stamp Duty to bring it down to not more than 5 per cent within next seven years.

- Enactment of the Community Participation Law to institutionalise citizen's participation and introduce the concept of the Area Sabha in urban areas.

Institutional Arrangement

For Policy Oversight:

- Formation of National Steering Group (NSG) at the national level.

For Mission Operationalisation

- Formation of Sub-Mission Directorates (SMD) at the national level.
- Formation of two Central Sanctioning and Monitoring Committees (CSMC):
 - CSMC for Urban Infrastructure and Governance;
 - CSMC for Basic Services to the Urban Poor
- State-Level Steering Committee (SLSC)
- State Level Nodal Agency (SLNA)

Sanction and Disbursement of Assistance

Funding Pattern: Eligible cities proposing projects for investment support shall be eligible for Central assistance not exceeding as shown in the next page:

(a) Projects under appraisal by Sub-Mission Directorate for Urban Infrastructure and Governance

Category	Population (2001 census)	No. of Cities	Funding Pattern (%)		
			Grant		ULB / Parastatal Share / Loans from Bank
			Central Govt.	State Govt.	
A	>4 million	7	35	15	50
B	1-4 million	28	50	20	30
C	Selected Cities/UAs<1 million	28			
	For NE States & J&K		90	10	0
	Others		80	10	10

(b) Projects under appraisal by the Sub-Mission Directorate for Basic Services to the Urban Poor

Category	Population (2001 census)	No. of Cities	Funding Pattern (%)	
			Grant	State / ULB / Parastatal Share
			Central Govt.	
A	>4 million	7	50	50
B	1-4 million	28	50	50
C	For NE States & J&K		90	10
	Others Selected Cities/UAs<1 million	28	80	20

Sanction and Disbursement of Funds: The MoUD and MoUEPA shall be the repository of funds targeted for the JNNURM scheme. On approval and sanction of assistance by the CSMC, funds shall be released by the MoUD and MoUEPA. The funds would be released as far as possible in four instalments by the MoUD and MoUEPA as Additional Central Assistance (100 per cent grant in respect of Central share) to the State Government or its designated State-level agencies. The first instalment of 25 per cent will be released upon signing of a Memorandum of Agreement (MoA) by the State Government, ULB or parastatal agency. The balance amount of assistance shall be released as far as possible in three instalments upon receipt of Utilisation Certificates to the extent of 70% of the Central fund and also that of the State/ULB/parastatal agency share and subject to achievement of milestones agreed for implementation of mandatory and optional reforms at the State and ULB/Parastatal agency level as envisaged in the MoA.

Monitoring Framework

- The MoUD/MoUEPA would periodically monitor the schemes through designated representatives.
- SLNA would send quarterly progress report to the MoUD/MoUEPA

- Upon completion of the Project the SLNA through the State Government shall submit a completion report of activities undertaken as a part of JNNURM (4) The CSMC may meet as often as required to sanction, review and monitor the progress of projects sanctioned under the Mission (5) Monitoring of progress and implementation of reforms would be outsourced to specialized/ technical agencies.

Overview of the Project Development Cycle

- The project development cycle for a project or a group of infrastructure projects proposed to be undertaken with assistance from JNNURM shall include the process from the point of origin of the project concept up to the point of achieving financial closure. Briefly the project development cycle comprises the following:
 - Identification of urban infrastructure/ basic services to urban poor projects and their prioritisation.
 - Project scoping.
 - Preparation of a detailed project report.
 - Finalisation of the arrangements for implementation.
 - Sanction of JNNURM assistance.
 - Achievement of financial closure.
 - Execution of a Memorandum of understanding (MoA) and other agreements for implementation.

Identification of Projects in the Urban Sector

The ULB shall identify the infrastructure needs of the city. The delineation of such infrastructure requirements shall be done through a process that sets forth the stage for participatory development.

- **Preparation of a strategy/plan:** The ULB shall map out a city-level development plan through such a process. The consultative process shall include the involvement of citizens.
- **Delineation of needs and priorities with public involvement:** Citizens may be informed about the existing status of infrastructure, the broad investment requirements for augmentation and new development, and consulted on the prioritisation of projects. A public consultation shall include a broad assessment of municipal resources, possible or likely impact on the municipal budget, and the proposal for reforms to support development. Such an assessment shall take due cognisance of the existing infrastructure and its usefulness over the planning horizon in the long term.
- **Prioritisation of infrastructure and investment requirements:** The willingness to accept reforms and impact on the municipal budget are expected to lead to prioritisation.
- **Documenting the CDP:** The summary of assessment of broad infrastructure

requirements and their phasing shall be documented in the CDP.

Project Preparation and Detailing

Project preparation shall comprise all steps to be taken by the ULB for detailing the project identified in the CDP.

Guidelines for Project Preparation

- Project preparation is envisaged as a step-wise process during which an identified project is detailed in specific terms and readied as a project that can be implemented. Towards this end, the entire project preparation and detailing exercise needs to be undertaken to ensure that it can be implemented by evolving an option based on its:
 - technical feasibility
 - financial sustainability
 - commercial viability
 - environmental compatibility
 - social and political acceptability
 - legal and regulatory feasibility
- The objective of project preparation, therefore, is to structure a project with the target grant assistance from JNNURM. In doing so, it is also envisaged that the grant from JNNURM is leveraged to attract private investment and private sector participation. This can be done by ensuring durable long-term use of the assets created, efficient service delivery and management

of resources through a framework that allows cost recovery.

- To meet this objective, an integrated process of project preparation is envisaged which would lead to successful disbursement from JNNURM and project implementation.

Technical Assistance for Project Preparation

- Advisory support available under the JNNURM could be used for this purpose. This assistance could be used in a packaged manner for the entire guidance and advisory support required for managing the process and ensuring documentation that would effect readiness for project implementation.

Finalising the Arrangements for Implementation

- This phase starts when the project has been sufficiently detailed and structured for implementation.
- **ULB Approval:** For accessing JNNURM assistance, all necessary decisions required to implement the project shall be based on approvals. The process of ULB approval takes two stages:
 - **In-principle approval:** The ULB shall obtain necessary approval to be taken for proceeding with the project for implementation in a public financed mode or with private sector involvement on completion of CDP at the pre-feasibility report stage.

- **Approval for implementation:** The proposal shall be approved by the ULB for implementation with regard to:

- its proposed plan for implementation and institutional arrangements for the same;
- its commitment for funds to be invested in the project;
- the reforms it proposes to undertake to support infrastructure development as required for availing of JNNURM assistance, including the project-specific reforms proposed for financial viability and sustainability; and any changes in the legal and constitutional framework governing the ULB.

- **Resolutions:** The above approvals shall be documented in the form of appropriate council resolutions.
- **State government approval:** The ULB shall obtain the necessary State government approval. In case of State government approval to back the project, evidence of appropriate approvals (government order, policy, cabinet approval, enactment of laws and amendments etc.) should be provided along with the project documents to demonstrate its commitment to provide investment support to the project as well as its commitment to reforms.
- **Other arrangements for implementation:** The ULB shall take the

following necessary steps to ensure implementation:

- Provision of land required for the project and its availability on pre-decided and approved terms and set aside necessary funds for the same.
- Statutory approvals required from other agencies or government bodies and obtain such approvals and permissions, NOCs and clearances on a project-specific basis.

Audit Points

- Could the auditor assess the establishment of linkages between asset creation and asset management, which was one of the objectives of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM)?
- Were there any recorded parameters to gauge the extent of reduction of congestion in the urban area under JNNURM?
- Could the auditor gauge tangible improvement in the provision of basic services to the urban poor under JNNURM viz. improved housing, water supply and sanitation, education health and social security?
- Did the ULB prepare a City Development Plan (CDP) indicating policies, programmes, strategies and financial plans as required under the conditions of JNNURM? If so, were

Detailed Project Reports (DPRs) prepared for undertaking the development works?

- JNNURM is a seven-year scheme starting from 2005-06. Could the auditor assess the actual utilization of the annual grant, vis-à-vis, indices of gradual achievement of the objectives and performance of the ULBs?
- Could the auditor verify the extent of performance of the ULBs in undertaking mandatory reforms as prescribed in JNNURM viz. adoption of modern accrual-based double entry system of accounting, reform of property tax, introduction of a system of E-governance using IT applications, etc.?

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.
- Urban development projects and schemes lay major emphasis on developing the quality and material conditions of life of the slum residents through formation of women's self-help groups (SHGs). Members of the SHGs are required to mobilize local women to launch small-scale savings and credit groups for their self-reliance and material well being. Vocational training

courses are also implemented with a view to equipping the SHGs with self-employment and employment generation programmes and opportunities for livelihood enhancement. Such dynamic women's groups are utilized for networking and outreach of different poverty alleviation schemes sponsored by the State and Central Governments.

- Swarna Jayanti Shahari Rozar Yojana (SJSRY) is a Central Government funded scheme which seeks to provide gainful employment to the urban unemployed or underemployed poor. This scheme, *inter-alia*, provides for formation of community organizations like Neighbourhood Groups (NHGs) and Neighbourhood Communities (NHCs). NHG is an informal association of women living in a slum to support planning, implementation and monitoring of activities at the neighbourhood level and to foster and encourage participation in community improvement. NHC is a more formal association of women and it may be registered under the Societies Registration Act and may apply for grants-in-aid under various schemes. NHC would be responsible: (i) to identify local problems and priorities, (ii) to provide suggestions of groups involvement in meeting community needs and goals, (iii) to facilitate the recovery of loans from the beneficiaries in time etc.

- The percentage of women beneficiaries under the scheme Urban Self Employment Programme (USEP) shall not be less than 30%. Again, the sub-scheme "Development of Women and Children in the Urban Areas" (DWCUA) under USEP is wholly dedicated to uplift poor women and children and it provides assistance to groups of urban poor women for setting up gainful self-employment ventures. This scheme is specially distinguished by the special incentive extended to urban poor women who decide to set up self-employment ventures in a group as opposed to individual effort. Besides generation of income, this group strategy shall strive to empower urban poor women by making them independent. A DWCUA group society shall be entitled to a subsidy of Rs. 1.25 lakh or 50% of the cost of the project, whichever is less.

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?

- Were required numbers of women's self help groups (SHGs) formed?
- Did the SHGs actually mobilise local women to launch small scale savings and credit groups for their self reliance?
- Were proper vocational training courses implemented to equip the SHGs with self employment/employment generation programmes?
- Were SHGs utilised for different poverty alleviation schemes?
- Were adequate numbers of women's Neighbourhood Groups (NHGs) and Neighbourhood Communities (NHCs) formed in the slum areas of ULB to support planning, implementation and monitoring of activities?
- Were NHCs entrusted with the task of facilitating recovery of loans from the beneficiaries?
- Could the auditor ensure that the percentage of women beneficiaries under USEP was not less than 30%?
- Was the sub-scheme DWCUA under USEP wholly dedicated to uplift poor women and children in the urban area?
- Could the auditor ensure that a DWCUA group actually received a subsidy of Rs.1.25 lakh or 50% of the cost of the project whichever was less?



Session: 9

Session Title: **IT Audit**



Session at a glance
Instructor's Guide
PowerPoint Slides
(In CD Rom)
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 the Eleventh and Twelfth Finance Commission (EFC & TFC)

- 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.

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 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

- Assurance that every entity using IT for accounting is subjected to IT Audit to provide assurance that data entry, processing and outputs are reliable.
- Assurance that whenever data pertaining to financial results of an entity is processed by IT, its reliability is assessed.
- Identification and assessment of reliability of all such IT applications that provide data for incorporation in the Financial Statements.

Performance Audit of IT systems

- System designs
- Procurement
- Achievement of intended objectives
- Management of the System.

Assessment of Systems under Development

- This arises out of the need to avoid expensive redesigning of systems especially software, due to auditor's observations after the systems is operational.
- 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

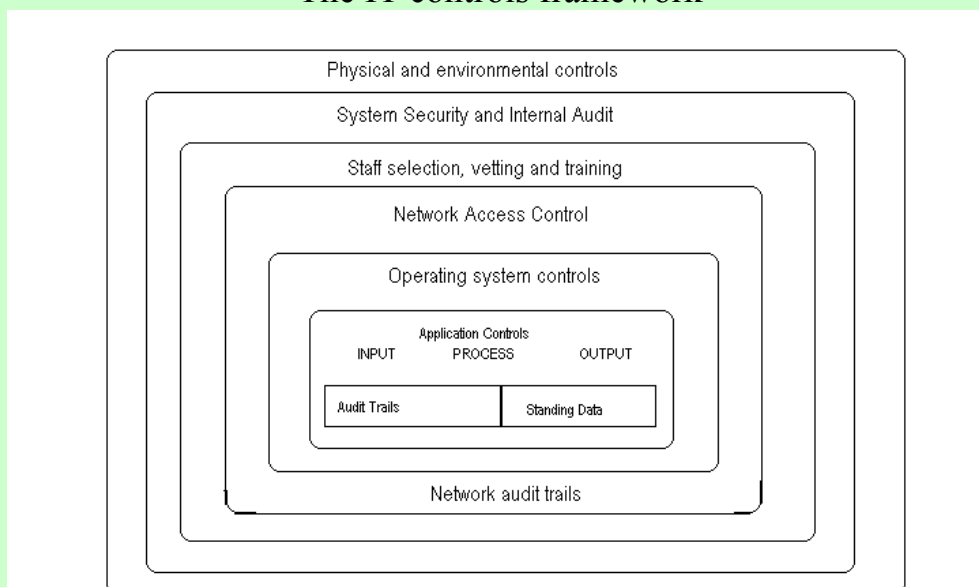
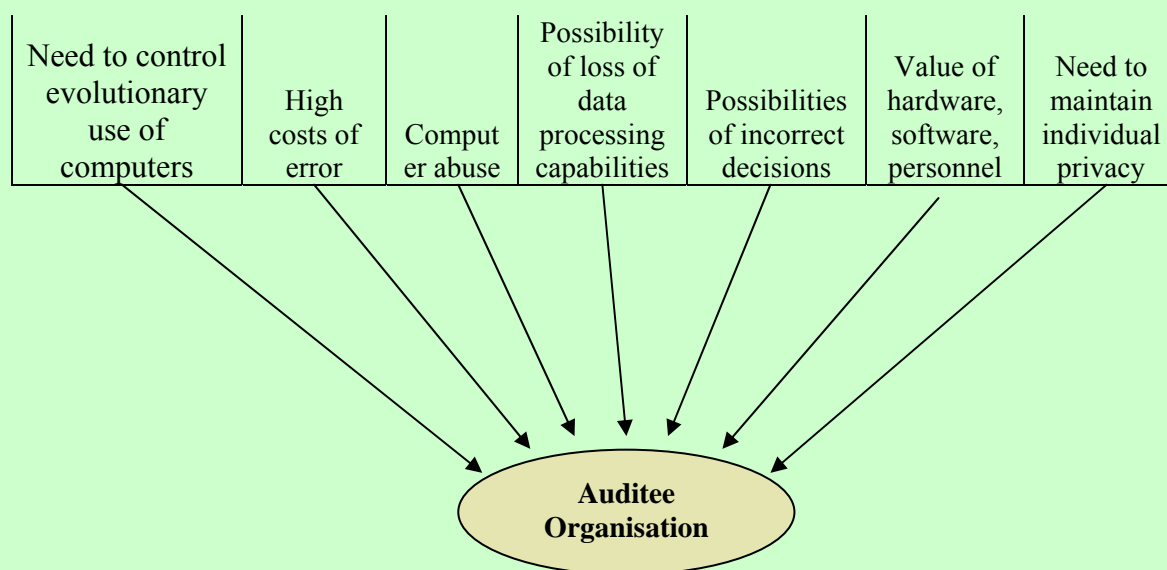


Diagram 2



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
(In CD Rom)
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.

[†] Internal Audit of Kolkata Municipal Corporation

* This is to be adopted as per State specific scenario

[†] This is to be adopted as per State specific

(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;
 - furnish to the Municipal Commissioner such information as he may from time to time require concerning the progress of the audit.

scenario

- 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?

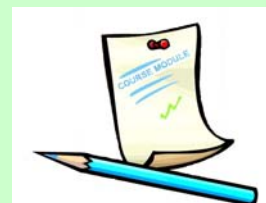
- Was there any record of undertaking physical verification of stores and stocks of the Corporation?
- Could the auditor ensure that the Chief Municipal Auditor checked the inventory of the properties of the Corporation including its holdings of lands and buildings?
- In case of other Municipalities 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:

**Duties and powers of auditor
&
Auditing Standards**



Session at a glance
Instructor's Guide
PowerPoint Slides
(In CD Rom)
Participants' Note

Session: 11**Session at a glance****Session Title:** Duties and powers of auditor & Auditing Standards.**Learning Objectives:**

Given the inputs of provision of statutory audits, duties and powers of auditors, powers of auditor to disallow, surcharge/charge, auditing standards, reporting standards 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 their duties and powers, 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 discuss statutory audit for *Kolkata Municipal Corporation, duties and powers of the auditors to disallow, surcharge and charge, statutory audit for other municipalities, 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.	5 min	Lecture
Key Teaching Point		
Key Teaching Point 1 Statutory audit for †Kolkata Municipal Corporation, reports and information to be furnished by the auditors, reference of reports of municipal accounts committee, powers of auditor to disallow, surcharge and charge alongwith statutory audit for other municipalities of West Bengal.	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

* This is to be adopted as per State specific scenario

† This is to be adopted as per State specific scenario

Session: 11

Instructor's Guide

Session Title: Duties and powers of auditor & Auditing Standards.

	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 statutory audit for *Kolkata Municipal Corporation, duties and powers of the auditors to disallow, surcharge and charge, statutory audit for other municipalities, 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.</p>	
<p>Learning Objective: Given the inputs of provision of statutory audits, duties and powers of auditors, powers of auditor to disallow, surcharge/charge, auditing standards, reporting standards and certification of annual accounts of ULBs as prescribed by C&AG of India 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.</p>	
<p>Basic Concept: Ask the participants about their understanding of statutory audit for †Kolkata Municipal Corporation, report and information to be furnished by the auditors, reference of reports to the municipal accounts committee, powers of auditor to disallow, surcharge/charge, provision of statutory audit for other municipalities and municipal corporations of West Bengal. 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 duties and powers of an auditor, auditing standard, reporting standard, certification of annual accounts of ULBs and audit of financial statements vis-à-vis audit certificate. Obtain responses from participants and recognise them point-wise by noting on the white board. Show PowerPoint slide and discuss.</p>	PowerPoint Slide: Session 11 Duties, Powers and auditing standards
<p>Request any participant to summarise the session. Thank the participants for their active participation and bring the session to a close.</p>	

* This is to be adopted as per State specific scenario

† This is to be adopted as per State specific scenario

Session Title:

Duties and powers of auditor & 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 provision of statutory audit for municipalities and municipal corporations, duties and powers of the auditors to disallow, surcharge and charge, statutory audit for other municipalities, 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 statutory audits, duties and powers of auditors, powers of auditor to disallow, surcharge/charge, auditing standards, reporting standards 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 their duties and powers, auditing standards, reporting

standards which will help them to focus on audit issues at the practical job scenario.

Statutory Audit for * Kolkata Municipal Corporation (Chapter XI of The Kolkata Municipal Corporation Act, 1980)

Appointment and powers of auditors –

- The annual accounts of the preceding financial year of the Corporation shall be audited, at the end of the next financial year, by the State Government, or by the Auditor appointed by the State Government in this behalf.
- The Municipal Commissioner shall submit accounts to the auditors as required by them:
- Provided that the Municipal Commissioner shall not be bound to submit accounts of expenditure in connection with any anti-corruption work but shall, if so required by the auditors, furnish certificate, under his signature, of all such expenditure.
- The auditors so appointed may--
 - by written summons require the production before them or before any officer subordinate to them of any document which they may consider necessary for the proper conduct of audit;

* This is to be adopted as per State specific scenario

- by written summons require any person accountable for or having the custody or control of any such documents to appear in person before them or any officer subordinate to them; and
- require any person so appearing before them or before any officer subordinate to them to make and sign a declaration with respect to such document or to answer any question or to prepare and submit any statement.
- The provisions of sub-section above shall not apply to the accounts of expenditure incurred in connection with anti-corruption work.

Report and information to be furnished by the auditors

- The State Government or the auditors appointed by the State Government shall –
 - forward to the Mayor-in-Council information on any material impropriety or irregularity which may be observed in the expenditure, or in the recovery of money due to the Corporation, or in the accounts of the Corporation;
 - forward to the Mayor-in-Council information on any loss or waste of money or other property owned by or vested in the Corporation which has been caused by neglect or misconduct and may forward the names of the persons who in their opinion, are directly

or indirectly responsible for such loss or waste;

- furnish to the Mayor-in-Council such information concerning the progress of audit as the Mayor-in-Council may from time to time require;
- as soon as may be after the completion of audit deliver to the Mayor-in-Council a report on the accounts of the Corporation and submit a duplicate copy thereof to the Corporation;
- in consultation with the Mayor-in-Council conduct a special audit of receipt or expenditure of the Corporation, and transmit a report on the same to the Mayor-in-Council.

Mayor-in-Council to remedy defects and report to the State Government-

- The mayor-in-Council shall forthwith remedy any defects or irregularities pointed out by the State Government or the auditors and shall report to the Corporation and the State Government the action taken by it:
 - Provided that if there is a difference of opinion between the Mayor-in-Council and the auditors, the Mayor-in-Council, or if the Mayor-in-Council does not remedy any defect or irregularity, the auditors, shall refer the matter to the State Government within such time and in such manner as the State Government may prescribe, and it shall be within the

competence of the State Government to pass such orders thereon as it thinks fit.

Reference of reports to the Municipal Accounts Committee-

- The Corporation shall refer all reports received from the auditors to the Municipal Accounts Committee for its examination and report.
- The report of the Municipal Accounts Committee shall be discussed at a meeting of the Corporation for such decision as the Government may think fit:
 - Provided that if no such report is received from the Municipal Accounts Committee, the Corporation shall be competent to discuss the auditor's reports for such decision as it thinks fit.
- The Corporation shall publish the auditor's reports together with the report of the Municipal Accounts Committee, if any, and the decision of the Corporation thereon in accordance with such rules as the State Government may prescribe.

Powers of the auditors to disallow, surcharge and charge—

- The auditors shall, after giving the person concerned an opportunity to submit an explanation and after considering such explanation, if any, disallow every item of accounts contrary to the provisions of the Act, and surcharge the amount of any illegal payment on the person making or authorizing such payment, and charge against any person responsible therefor the

amount of any deficiency or loss incurred by the negligence or misconduct of such person or any amount which ought to have been, but was not brought into account by such person, and shall, in every such case, certify the amount due from such person.

- The auditors shall record the reasons for every disallowance, surcharge or charge and shall serve in the manner prescribed a certificate of the amount due, and a copy of such reasons shall incorporate such cases of disallowance, surcharge or charge in their report to the Mayor-in-Council, the Corporation and the State Government.

Rights of appeal to a Civil Court or to the State Government—

- Any person from whom any sum has been certified by the auditors to be due may, within one month either-
 - apply to a Civil Court of competent jurisdiction to set aside or modify such disallowance, surcharge or charge and the Court may confirm, set aside or modify the same, or
 - appeal to the State Government and the State Government shall pass such order as it thinks fit. The decisions of the State Government shall be final.

Effect of non-payment of certified amount –

- Where a person from whom an amount is certified to be due is a member of the Corporation or of a committee thereof or is an officer or employee of the Corporation

and where such person has not paid such amount within three months from the date of such certificate, the said person shall be deemed to have vacated his seat or to have been dismissed from the service of the Corporation, as the case may be, with effect from the date of an order to be made by the State Government in this behalf and shall not be eligible for re-election or reappointment, as the case may be, until the aforesaid amount has been paid by him.

Statutory Audit for [†] other Municipalities and Corporations
[Sections 86 to 90 of The West Bengal Municipal Act, 1993 and Chapter V of The West Bengal Municipal (Finance and Accounting) Rules, 1999]

Appointment and power of the Auditor –

- Audit of the Annual Accounts of each Municipality or Corporation shall be conducted by the Auditor appointed by the State Government, unless otherwise directed by the State Government.
- The Chairman-in-Council/Mayor shall submit such further accounts to the Auditor as may be required by him.
- The Auditor so appointed may –
 - require by written notice, the production before him or any officer subordinate to him of any document

[†] This is to be adopted as per State specific scenario

which he considers necessary for the proper conduct of the audit,

- require by written notice any person accountable for or having the custody or control of any document, cash or article, to appear in person before him or before any officer subordinate to him,
- require any person so appearing before him to make or sign a declaration with respect to such document, cash or article, or to answer any question or prepare and submit any statement, and
- cause physical verification of any stock of articles in course of examination of accounts.

Powers of the auditors to disallow, surcharge and charge—

- The Auditor may, after giving the person concerned an opportunity of being heard, disallow any item of accounts contrary to the provisions of the Act, and surcharge the amount of any illegal payment on the person making or authorizing it, and charge against any person responsible therefore the amount of any deficiency or loss incurred by the negligence or misconduct of such person or any amount which ought to have been, but is not, brought into accounts by such person, and shall, in every such case, certify the amount due from such person:
 - Provided that any person aggrieved by an order of payment of certified sums may appeal to the State Government

whose decision on such appeal shall be final.

- Any person who willfully neglects or refuses to comply with the requisition made by the Auditor shall, on conviction by a Court, be punishable with fine which may extend to one hundred rupees in respect of each item included in the requisition.

Function and duty of the Auditor

- In auditing the accounts the Auditor shall see:

- that they have been kept and are presented in proper form,
- that the particular items of receipts and expenditure are stated in sufficient detail,
- that the payments are supported by adequate vouchers and authority,
- that all sums received or which ought to have been received are brought into account, and
- also that the receipt and expenditure are in all cases such as are authorized by law.

Audit report

- As soon as practicable after the completion of audit, but not later than three months thereafter, the Auditor shall prepare the report on the accounts audited and examined, and shall send the report to the Chairman/Mayor and a copy thereof to the Director of Local Bodies or such other officers as the State Government may direct.

- The auditor shall include in his 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.

Action on the Audit report

- The Chairman/mayor shall, soon after the receipt of the audit report from the Examiner of Local Accounts, West Bengal, forward the same to the Municipal Accounts Committee for their examination and scrutiny.
- The said Committee after its necessary examination and scrutiny shall forward their para-wise findings to the Chairman/Mayor within a fortnight.
- The Chairman/ Mayor shall place such audit report along with the findings of the Municipal Accounts Committee within a week before the Chairman-in-Council to consider the objections and findings of the auditor read with the findings of the Municipal Accounts Committee and to

decide upon the actions to be taken in regard thereto.

- The Chairman/Mayor shall cause for immediate implementation of those decisions. All illegal or unauthorized payments pointed out by the auditor shall be recovered without delay apart from remedying any defect or irregularities that may be pointed out by the auditor.

Submission of report to the Director of Local Bodies

- The Chairman/Mayor shall, within three months of the date of receipt of the audit report, submit para-wise replies on the notes of audit on the accounts of the Municipality/Corporation incorporating therein the findings of the Municipal Accounts Committee and the particulars of action taken by the Chairman-in-Council thereon along with the decisions of the Board of Councillors on the points of dispute to the Directorate of Local Bodies, West Bengal, with a copy to the concerned District Magistrate.

Action by the Municipality / Corporation and the Director of Local Bodies

- In case of difference of opinion between the Chairman-in-Council and the auditor on any issue of the audit report, the Chairman/Mayor would forthwith refer the same to the Board of Councillors for their decision on the points of dispute as raised. The Board of Councillors will take their

decisions as deemed fit and proper within a month from the date of receipt thereof. If the difference still persists, the matter would have to be referred immediately to the Director of Local Bodies, West Bengal for decisions.

Action by the Director of Local Bodies, West Bengal

- The Director of Local Bodies shall, on receipt of replies, forward the same within a month from the date of its receipt to the Examiner of Local Accounts, West Bengal, along with his comments thereon in duplicate and a copy thereof to the Government identifying the areas where Government decisions are called for.

Action by the State Government

- The decision of the State Government in the matter referred to sub para above shall be binding on the Municipality/Corporation.

Preparation and submission of audit report

- The Chairman of the Municipality shall, cause to present the audited accounts with necessary audit certificate to the State Government within the 30th day of November of the year succeeding the year to which the accounts relate.

Power of the State Government to enforce an order upon audit report

- If any order made by the State Government is not complied with, it shall be lawful for the State Government to take such step as it thinks fit to secure the compliance

of the order and direct that all expenses therefore shall be defrayed from the Municipal Fund.

Special audit

- In addition to the audit of annual accounts, the State Government may, if it thinks fit, appoint an Auditor to conduct special audit pertaining to a specified item or series of items requiring thorough examination, and the procedure relating to audit shall also apply *mutatis mutandis* to such special audit.

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.
- A separate Audit Report on the Annual Accounts (Balance Sheet) is to be prepared in prescribed format incorporating audit comment whenever applicable.

Form of separate Audit report on Annual Accounts (BS).**AUDIT REPORT ON THE ANNUAL ACCOUNTS OF _____ (name of the unit) FOR
THE YEAR ENDED 31 MARCH _____****1. INTRODUCTION**

(Setting up of ULB, Administrative Charge and audit mandate in separate sub paras)

The important audit comments on the Accounts are described in the succeeding paragraphs.

COMMENTS ON ACCOUNTS**2. BALANCE SHEET**

LIABILITIES: Deficiencies noticed against various heads may be commented in short sub-paras.

ASSETS: Deficiencies noticed against various heads may be commented in short sub-paras.

3. INCOME & EXPENDITURE ACCOUNT

EXPENDITURE: Deficiencies noticed against various heads may be commented in short sub-paras.

INCOME: Deficiencies noticed against various heads may be commented in short sub-paras.

Excess of Income/ Expenditure over Expenditure/ Income:

4. RECEIPT & PAYMENT ACCOUNT**RECEIPTS****PAYMENTS****5. GENERAL****ACCOUNTING POLICIES & NOTES TO ACCOUNTS**

Brief comments about deficiencies noticed in accounting policies, notes on accounts suitable disclosures not given on matters concerning accounts may be included.

6. EFFECT OF AUDIT COMMENTS ON ACCOUNTS

The net impact of the comments given in preceding paras is that assets as on _____ were understated/ overstated by Rs. _____ lakh, liabilities understated/ overstated by for the year was understated/ overstated by Rs. _____ lakh.

7. Lack of response (If replies to draft SAR are not received within the stipulated period.)

Examiner of Local Accounts

Place:

Dated:

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*).

*The position in West Bengal

- The statutory provisions contained in the relevant Municipal/Corporation Acts and the rules framed there under do not expressly provide for the certification of accounts by statutory Audit.
- However, keeping in view the guidelines issued by the Comptroller and Auditor General of India as pointed out above under the heading “Audit of Financial Statements, vis-à-vis, Audit Certificate”, an audit certificate on the annual financial statements of the Municipalities and Corporations is also issued by the office of the Examiner of Local Accounts, West Bengal after completion of the audit of the respective annual financial statements and Balance Sheet. It is desirable that the State Government may incorporate a statutory provision for the certification on the annual accounts of the Municipalities and Corporations by making suitable amendment in the respective Act/Rules with a view to providing greater transparency in the maintenance of accounts. However, the present format of audit certificate as used by the Office of the Examiner of Local Accounts, West Bengal is given below:

* This is to be adopted as per State specific scenario

AUDIT CERTIFICATE

I have examined the Receipt and Payments Accounts and the Income and Expenditure Account for the year ending 31st march, _____ and the Balance Sheet as on 31st march, _____ of the _____. I have obtained all the information and explanations other than those mentioned in the Report. Subject to the comments in the appended Report, I certify, as a result of audit, that in my opinion these Accounts and Balance Sheet exhibit a true and fair view of the state of affairs of the _____ according to the best of information and explanations given to me and as shown in the books of the organisation.

Place: _____

Dated: ____ ____

(Sd/-)

*Examiner of Local Accounts, West Bengal
Local Audit Department.*

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 or area (in the case of performance 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 in which Audit Inspection Report is being issued by office of the Accountant General/Local Bodies Audit, West Bengal 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 ACCOUNTS OF _____ MUNICIPALITY
FOR THE PERIOD FROM _____ TO _____**

1. Introduction

The Corporation _____ /Municipality was established in _____ under _____ Act, _____. The audit of the accounts of the Corporation / Municipality covering the period from _____ to _____ was conducted by Shri _____ AAO/SO during _____ to _____ Shri _____ AO/Sr. AO supervised the audit from _____ to _____.

2. Administration

The present body of the Corporation / Municipality has taken charge in _____. The incumbency in the key administrative and executive area of the local government was as under:

Shri _____, Mayor / Chairman From _____ to _____
Shri _____, Commissioner / Executive Officer From _____ to _____

3. Review of outstanding audit paras

Sl.No.	IR No.	Para No.	Brief of the para	Present Position

4. Status as on 31st March

4.1 Population _____ (Census _____) **4.2** Area _____

4.3 Area of parks and gardens _____ **4.4** Street Lighting _____

4.5 Water Supply

(a) Treated water : Capacity created per day _____ Actual supply per day _____

(b) Deep tube well: Estimated coverage per tube well _____ No. of tube well installed _____

No of tube well defunct _____ Date from which defunct _____

No. of arsenic affected tube well _____ Remedial action taken for _____

4.6 Drainage _____ **4.7** Sewerage _____ **4.8** Street lighting _____

(Instructions: Where data / information are not available write not available supported by reasons furnished by the ULB).

* This is to be adopted as per State specific scenario

5. Finance

5.1. Budgetary provisions and expenditure for the last three years

Year	200 --0	200 --0	200 --0	Total	(Instructions: To be supported by annual financial statement indicating heads of accounts and signed by authority)
Final/Revised Budget					
Actual expenditure(gross)					
Savings(+) Excess(-)					

(Instructions: Comments may be offered on the basis of preparation, rationality, excess / substantial savings under different heads of accounts, inadequate / nil appropriation, expenditure on new service, etc. with detail figures).

5.2. (a) Volume of transactions

Opening balance

Receipts

Total

Net expenditure

Closing balance

5.2(b) Bank reconciliation

(Instructions: Simply write "Reconciled and balances tallied" if reconciliation done satisfactorily. Report the difference in balances where they differ. In case, no reconciliation was done, mention in the IR).

5.3 Receipts for the last three years

Year	200 -- 0		200 -- 0		200 -- 0	
(a) Own source	Budget estimates	Actual	Budget estimates	Actual	Budget estimates	Actual
Property tax						
Water charge						
Others						
(b) Administrative grant						
(c) Schemes						
(d) Loan						
State						
Central						
Others						

(Instructions: Analysis of unrealistic estimates and non-implementation of schemes/projects due to inability in arranging estimated funds may be brought out here).

5.4 Position of revenue realisation

	Demand			Realisation			Closing Balance		
	Arrear	Current demand	Total	Arrear	Current demand	Total	Arrear	Current demand	Total
Property tax									
Water charge									
Others									

5.5 Debt Service / loan position as on 31st March

	Opening Balance		Addition		Repayment		Outstanding	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
State								
Central								
Others								

5.6 Investment as on 31st March

	Opening Balance	Addition	Dis-investment	Closing balance
State				
Central				
Others				

6. Comments on Accounts (Balance Sheet)**6.1. Comments on Accounts (Balance Sheet)**

(Instructions: If Balance Sheet has not been prepared, make comments specifying the position of arrears of accounts with reference to provisions of relevant Act and reasons for delay. Where Balance Sheet / Balance Sheets of previous year(s) is / are furnished, please comment separately for each year. The copy of the balance sheet is to be appended to the draft IR).

7. Position of ongoing works (as per proforma)**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.

7. Position of ongoing works

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

Session: 12

Session Title: **Environment Management & Social Audit**



Session at a glance
Instructor's Guide
PowerPoint Slides
(In CD Rom)
Participants' Note

Session: 12**Session at a glance**

Session Title: Environment management 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, 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.

	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, 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		
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, measures taken in India for protection of urban environment.	35 min	Interactive Lecture, and PowerPoint slide show
Key Teaching Point 2 Conceptualisation of social audit, role of Jansunwai, findings and impact of Jansunwai.	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 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, 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, 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 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, 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, 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 urbanisation

- 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 forecast ibid shows growth of mega cities having population more than 10 million to reach 26 numbers by 2010, out of which 21 cities will be in the developing countries (14 in Asia, 5 in Latin America and 2 in Africa). The number of cities having population between 5 to 10 million is projected to be 33 by the year 2010, out of which 21 in the developing countries (United Nations, World Urbanization Projects, New York, 1993).

- 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

- In India, the urban population, which was barely 22 millions at the turn of the last century, has reached nearly 300 millions. Growth of population during the past decade indicated higher growth in metro cities. There are six mega cities with population above 4 millions, and 23 metropolitan cities in the country. 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.

Urban waste and industrial pollutants

- Given its sheer volume, sewage is a major threat to local urban waters. It also poses a significant risk to health from such sewage-borne pathogens as the cholera bacterium, hepatitis viruses, salmonella and the like. Most of the world’s sewage is still disposed of untreated. In developing

countries, 90 percent or more is released without treatment of any kind usually to a water body – a river, a lake or an ocean. Even in the developed countries, only a portion of the sewage receives treatment. As a result, fisheries are increasingly being damaged or destroyed by the volume of urban sewage. Major declines in fish catches have been documented in rivers and estuaries around cities in India, China, Venezuela and Senegal. For the urban population that relies on these rivers as a source of drinking water and food, this poses severe health risks:

- Industry, in the developing world, is usually concentrated in urban centres, resulting in grave water pollution problems in most large cities. Major sources of water pollution include chemical-intensive industries such as tanneries, metal plating operations, pulp mills and refineries. Typical contaminants include organochlorines like polychlorinated biphenyls and dioxins, pesticides, grease and oil from automobiles and shipping traffic, acids and caustics, heavy metals like cadmium and lead, sewage sludge, and a long list of synthetic organic compounds.

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.

Social Audit

Basic Concept

- The National Right to Information (NRTI) came into force in India, the world's biggest democracy, on October 12, 2005. The 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.
- 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.

Salient Features of Right To Information (RTI) Act, 2005

The RTI Act, 2005 received the assent of the President on the 15th June, 2005 and was published in the Gazette of India dated, June

21, 2005. The salient features are discussed below:

- The act provides the right to the citizens to secure access to information under the control of public authorities in order to promote transparency and accountability;
- It extends of the whole of India except the state of Jammu and Kashmir;
- Some of the provisions of the act shall come into force at once, while the rest shall take effect on the 120th day of its enactment;
- The act provides for constitution of a Central Information Commission and State Information Commissions;
- 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;
- RTI means the right to information accessible under this act which is held by or under the control of any public authority and includes the right to
 - Inspection of work, documents, records;
 - taking notes, extracts or certified copies of documents or records;
 - taking certified samples of material;
 - obtaining information in the form of diskettes, floppies, tapes, video cassettes

or in any other electronic mode or through printouts where such information is stored in a computer or in any other device;

- Every public authority shall maintain all its records duly catalogued and indexed and publish the same;
- Every public authority shall designate a Public Information Officer;
- A person desiring to obtain any information shall make a request in writing or through electronic means in English, Hindi or the official language of the area;
- The designated Public Information Officer shall provide the information on payment of prescribed fee or reject the request within 30 days of the receipt of request;
- If a request is rejected the Public Information officer shall communicate the reasons for such rejection to the person making the request;
- The act expressly gives details of issues which are exempt from disclosure of information and the public authority shall have no obligation to give any citizen any information of such issues. Some instances are given below:-
 - a) Information, disclosure of which would prejudicially affect the sovereignty and integrity of India, the security, strategic, scientific or economic interests of the State,

relation with foreign State or lead to incitement of an offence;

- Information which has been expressly forbidden to be published by any court of law or tribunal or the disclosure of which may constitute contempt of court;

-provided that the information which cannot be denied to the Parliament or a State Legislature cannot be denied to any person.

The Role of Jansunwai

- The findings of a social audit may be 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*. The reports on works as per the official records are read out to the people in the meeting and the people publicly testify the veracity of such reports. Thus the proceedings take shape in a completely transparent manner. Hence, social audit and *jansunwais* are a big relief towards real participatory democracy. The origin of such social audit and *jansunwais* can be traced from an agitation for minimum wages by the Majdoor Kishan Shakti Sangathan (MKSS) or the Organisation for Empowerment of Workers and Peasants in the rural Rajasthan in the late 1980, although it took full shape after 1994. The pioneer in work of MKSS in rural Rajasthan has triggered off similar initiative by “*Parivartan*” an NGO in the

urban Delhi areas. Sundarnagari and New Seemapuri are two re-settlement colonies in Delhi inhabited by lower income groups. Using Delhi RTI Act, Parivartan obtained, in August, 2002, copies of all the civil works done by the MCD in Sundarnagari and New Seemapuri in the previous two financial years. Parivartan workers visited 18 blocks in these two colonies and told the people in different street corner meetings about the details of works claimed to have been done by the MCD in the respective blocks and the amounts spent on each one of them. The people were shocked to know that a number of works were half done and the claimed quality was far from being materialized. This gave a fair idea of the gap between what was declared in writing and what actually had happened. A public hearing (*jansunwai*) was organized in Sundarnagari on 14th December, 2002 by Parivartan along-with the National Campaign for Peoples' Right to Information (NCPRI) and MKSS of Rajasthan to discuss publicly the works audited. This public hearing was attended by almost 1,000 people including local residents of the area, journalists and eminent personalities like justice P.B.Sawant, Aruna Roy, Pravas Joshi, Arundhuti Roy etc.

Findings of Jansunwai

- A verification of the expenses as recorded in the account books revealed that

- 29 hand pumps with electric motors were supposed to be installed under ten contracts. The residents of this area, however, reported that only 14 hand pumps had actually been put. Electric motors were not installed in a single case. Loss on account of missing hand pumps and missing motors was estimated at Rs.7.86 lakhs.
- Whenever a new street is made, new iron gratings are also put on the drains going across the street. Out of a total of 253 iron gratings weighing 27,557 kg, for which payments have been made, only 30 iron gratings weighing 3,136 Kgs were actually put, according to the residents. The loss on account of this is roughly estimated at Rs.7.31 lakhs.
- Whenever a new street is made, the drains on both sides of the street are also supposed to be demolished and remade afresh. However, this is rarely done. Either no work is done on the drains or at best, the level of the existing drains is raised by just one brick. Out of a total of 35 cases examined, payment has been made by MCD for construction of fresh drains in all these cases. However, fresh drains were not made even in a single case. In 19 cases, the level was raised by one brick while in the rest of the cases; no work was done at all on the drains. Loss on account of this has been roughly estimated at Rs.13.85 lakhs.

- The thickness of cement concrete layer in the streets should be 10 cm. according to the bills. However, the thickness, in most of the cases was found to be 5 cm, as found after digging. This is the most expensive item in such contracts. Loss on this account has been roughly estimated at Rs. 8.34 lakhs.
- There are some roads and streets, which exist only on paper. The residents of these areas informed that these streets/roads have not been made at all. In some cases, measurements have been shown in excess of the actual work done. Loss on account of missing roads and streets is roughly estimated at Rs. 12.92 lakhs.
- In two instances, it was discovered that payments have been made twice for the same work i.e. the work was done once but the bills were raised twice for the same work.
- Two layers of stone aggregate are supposed to be put before bitumen mix is laid in the construction of premix roads. However, out of 8 cases of road construction, in 6 cases only one layer of stone aggregate was put and in the other two cases, not even a single layer was put.
- A layer of red bajri is supposed to be put in the construction of roads. This has never been done in any of the roads.

The impact of Jansunwai:

- In fact it triggered the series of debates and discussions in the community. People discussed in amazement the amount spent on ghost works and work half done. Thus this public audit acted as a booster on the psyche and morale of the people of the Sundarnagari and Seemapuri. For the first time they realised that the public authorities could be held accountable in such a transparent manner. There was a demand for a public platform for the people to raise their voice collectively. Soon after jansunwai Mohalla Samitis (Local Area Committees) were formed in Sundarnagari for each block. The Samitis went on monitoring, the execution of any civil work in their block until they were satisfied. Some such instances are given below:

- A road was to be relaid in F1 block of Sundarnagari. The work began in January 2003. The people stopped the work and demanded to know the details of the contract. Next day, the Assistant Engineer visited the area and read out the contents of the contract to the people. People were informed that 58 drums of bitumen, two truckloads of red sand and two truckloads of stone aggregate were supposed to be used. So, the people ensured that this much of material was actually used. The road has since been made. The quality of the road

is far better than most of the roads made in Sundarnagari till now.

- A street was being made in E-57 Block. The people saw that ordinary sand was being used instead of red coarse sand. The cement was supposed to be put in the ratio of 1:2 (one part cement, two parts coarse sand). However, it was being put in the ratio of 1:20. The people immediately stopped the work. The contractor and the Junior Engineer were summoned by the people on the spot. Both of them profusely apologized to the public and offered to get the entire material replaced with proper material. But the people wanted strict action against the Junior Engineer. About 30 people went and met the Executive Engineer and demanded that JE be suspended immediately. EXEN also apologized and requested people to forgive the JE. EXEN and offered that he would get the entire work done properly again. But the people would not budge. At this, the JE literally started crying badly and fell at the feet of the people. At this stage, people melted. They offered to forgive if the JE was transferred out, the copies of the contract would be given to the public and the work would now take place under the supervision of the people. All this was immediately agreed to by the EXEN. Subsequently, the entire material was

replaced and the work took place under the supervision of the people. The JE was also transferred subsequently.

- The work of repair of streets started in February 2003 in 'O' Block of Sundarnagari. The people of this area came to know that within a few months, the work of laying of sewers would start, when all these streets would again be broken up. Then why were the streets being made now and would be broken up within a few months time, thus wasting public money? The people stopped the work till the work of sewers was not completed. The EXEN had to budge before public pressure.

- The work of laying of sewers was being done in 'M' Block of Sundarnagari. However, the people saw that substandard material was being used. They stopped the work and demanded copy of the contract, so that the work could take place under their supervision. The copy of the contract was provided to the public, the substandard material replaced and the work has been completed since then.

- There are several such examples in Sundarnagari and New Seemapuri. It was also seen during the process of social audit that number of such works had been executed, which had no utility for the community. It is important that public actively participate in deciding

which works should be carried out in their area and they also monitor the execution of these works. It will go a long way in ensuring proper utilization of funds.

- After jansunwai some sites were jointly inspected by a team of Parivartan workers and MCD engineers. The officials realised that the public could now scrutinize the records any time and so it would not be easy for them to misappropriate or swindle. The officials were also scared because the detailed report of social audit was presented to the government.

Jansunwai, vis-à-vis, Social Audit-some points to ponder

- However, 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
(In CD Rom)
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:

(ii) Under-utilisation of funds by State Government

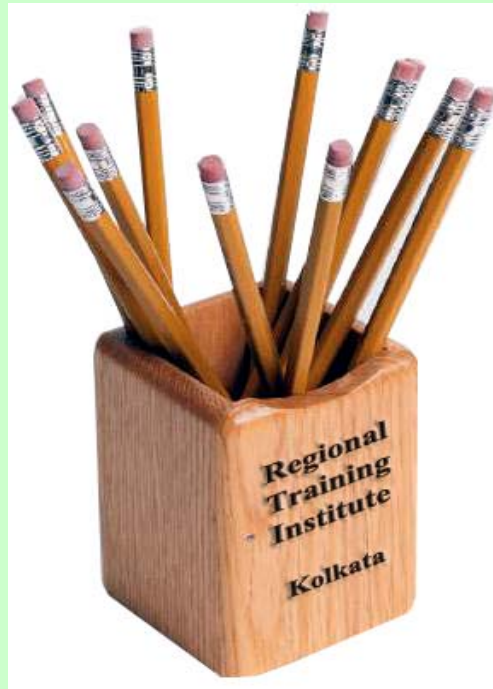
Out of Rs. 108.71 crore allocated by Government of India during 1996-97 to 2003-04, only Rs. 94.18 crore were released to the State and Rs. 14.53 crore were withheld (2000-04) due to under-utilisation

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.

(iii) 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.



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. 5 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?
- Was at least 50% of the grants-in-aid provided to the ULB earmarked for the scheme of solid waste management through public-private partnership?

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, Octroi 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 40% of the annual value of the lands and buildings?
- Was there any case where reduction or remission of Property Tax was allowed more than once in a year?
- 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

<p>from the contractor before making the final payment;</p> <ul style="list-style-type: none">▪ 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. <ul style="list-style-type: none">• 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. <p>Municipal Schemes</p> <ul style="list-style-type: none">• Could the auditor ensure that the grants under the National Slum Development Programme (NSDP) were actually utilized by the ULB for the specific purposes for which the grants were sanctioned?	<ul style="list-style-type: none">• Could the auditor ensure that the fund actually utilized for construction and up-gradation of houses for the urban poor under NSDP was not less than the total amount of the grant?• 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 the ULB report progress under NSDP periodically to the District Urban Development Agency (DUDA) and State Urban Development Agency (SUDA)?• Did any portion of the fund provided under NSDP remain unutilized? If so, the reasons therefore should be analysed.• Did the ULB keep any record of the number of slum pockets covered and slum dwellers benefited from the scheme? Was the same in tune with the projected numbers?• Could the auditor ensure that the State's share of 25% of the scheme was released to the ULB in time?• Was there proper record to show that Community organisations like Neighbourhood Groups (NHGs), Neighbourhood Committees (NHCs) and Community Development Societies (CDSs) were duly set up in the targeted areas?
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- Was there any case of expenditure of more than Rs. 100 per member for the first year and Rs. 75 for each subsequent year?
- Did all the beneficiaries of SJSRY live below the urban poverty line?
- Was the percentage of women beneficiaries under USEP less than 30%? Was special provision of 3% reserved for the disabled persons?
- Was any beneficiary educated beyond IX standard?
- Was the subsidy allowed on the project cost under USEP more than 15% of the cost of the project/ Rs. 7,500, whichever was lower?
- Could the auditor assess the establishment of linkages between asset creation and asset management, which was one of the objectives of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM)?
- Were there any recorded parameters to gauge the extent of reduction of congestion in the urban area under JNNURM?
- Could the auditor gauge tangible improvement in the provision of basic services to the urban poor under JNNURM viz. improved housing, water supply and sanitation, education health and social security?
- Did the ULB prepare a City Development Plan (CDP) indicating policies, programmes, strategies and

financial plans as required under the conditions of JNNURM?

- JNNURM is a seven-year scheme starting from 2005-06. Could the auditor assess the actual utilization of the annual grant, vis-à-vis, indices of gradual achievement of the objectives and performance of the ULB?
- Could the auditor verify the extent of performance of the ULB in undertaking mandatory reforms as prescribed in JNNURM viz. adoption of modern accrual-based double entry system of accounting, reform of property tax, introduction of a system of E-governance using IT applications, etc.?

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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