The Dynamics of Local Governance in India

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Committee on Public Finance and Government Accounting
The Institute of Chartered Accountants of India
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Foreword

The Government of India aims to strengthen governance at the level of urban local bodies (ULBs) to enable affordable and sustainable access to basic services by poor people. This supports the overall goal of sustainable poverty reduction and economic growth in urban areas. One of the objectives of the sustainable reforms program undertaken is to improve the accounting and financial management systems of the ULBs across the country. Many ULBs, especially the smaller municipal councils, find these goals too distant and abstract. They need to be shown the actual path leading to these goals. Therefore, the already existing good practices of progressive ULBs can best illuminate the path for other ULBs in search of clues and directions.

The Publication "The Dynamics of local Governance in India" comprehensively covers the accounting policies, procedures, guidelines designed to ensure correct, complete, and timely recording of transactions and produce accurate and relevant financial reports. I believe that this publication will play a key role in enabling the Departments to achieve the overall benefits of ensuring a transparent, efficient, and informative accounting system.

I am sure the adoption of accrual accounting by Tier 3 Departments of Administrative Set up of the government will improve both the quality and comparability of financial information reported by public sector entities around the world and will make ULB's more self sustaining and vibrant service delivery institutions. The double-based accrual system will facilitate our municipal committees and councils to report unaccounted revenue and also make the expenditures more transparent and thus strengthen the financial system.

I compliment CA Vijay Garg, Chairman, Committee on Public Finance and Government Accounting, CA C S Nanda, Vice- Chairman, CPF&GA, other members and secretariat of the Committee for visualizing and bringing out this publication.

I hope you find this publication insightful.

New Delhi
February , 2015

CA. K. Raghu
President

Preface

India is a rapidly urbanizing country. Urban management has therefore been an ever- growing concern in India. The Constitution (73rd -74th Amendment) Act, 1992 is a path-breaking initiative in the urban governance reform in India which has paved the way for urban local self- governance through putting greater responsibilities on the Urban Local Bodies (ULBs). The Amendment aims at conferring the constitutional status of a third-tier government on the urban local bodies. In order to discharge their increased responsibilities, the ULBs need to be empowered through greater devolution of resources. At the same time, they also need to develop capacities and competencies for handling their responsibilities and resources in an accountable manner.

Panchayats are local self-governments in rural areas through a mandate in the constitution of India. Panchayats are key institutions for promoting good governance as it is at the local level that participation and accountability can be ensured. Panchayats are the key to fostering local development at the grassroots level; plans can be made based on local needs and priorities. As per the Constitution, three tiers of Panchayat are to be constituted, except in the State with population less then 20 lakhs where Panchayats at two tiers may be created (Article 243B). The devolution of powers, responsibilities and resources to Panchayat is considered essential for sustainable decentralization and inclusive development.

The Committee on Public Finance & Government Accounting has prepared a publication on “The Dynamics of Local Governance in India”. The publication contains information and recommendations, input to understanding and information on Accrual Accounting in the tier third of Administrative setup and the success achieved so far.

I would like to convey my sincere thanks to our President, ICAI, C.A. K. Raghu and Hon’ble Vice-President, ICAI, C.A. Manoj Fadnis for their constant support and cooperation to the Committee.

I would also like to thank Dr. Nikhil Saket, Secretary, Committee on Public Finance & Government Accounting and the team of Committee on Public

Finance & Government Accounting for their efforts in bringing out the publication. I am confident that the readers would find this publication immensely useful in expanding their knowledge and understanding the subject.

New Delhi
February, 2015

CA Vijay Garg
Chairman
Committee on Public Finance & Government Accounting

Acknowledgement

To meet the growing challenges, it has become imperative that the Urban Local Bodies (ULB's) are more systematic and organized, structurally stronger and competent to be able to deliver. "The Dynamics of local Governance in India" has been written in simple and lucid style for better understanding and appreciation of study. While the Publication is not an exhaustive document, it is hoped that it would serve as an easy reference guide for different functionaries in handling their Accounts and finances.

First and foremost, I thank all the people for their help directly and indirectly in helping us to complete this publication. My sincere appreciation to all the authors including CA S. Ranga Swamy, Dr. CA Sanjib Kumar Basu, CA. Ashok Rao, and CA. Pankaj Goel for the information compiled in this publication. The Publication is meant purely for academic purposes.

I would also like to thank Dr. Nikhil Saket, Secretary, Committee on Public Finance and Government Accounting and other officials of the committee who have been instrumental in providing the support services for the successful completion of the assignment.

CA Vijay Garg
Chairman
Committee on Public Finance & Government Accounting
ICAI

Contents

Abbreviations

ULB	Urban Local Bodies
NRE	Non Resident External
FCNR	Foreign Currency Non-Resident Deposits
PMGSY	Pradhan Mantri Gram Sadak Yojana
PRIs	Panchayati Raj Institutions
GDP	Gross Domestic Product
NREGS	National Rural Employment Guarantee Scheme
SFC	State Finance Commission
MoPR	Ministry of Panchayati Raj
BoP	Balance of Payments
NRHM	National Rural Health Mission
MPLADS	Member of Parliament Local Area Development Scheme
VCE	Village Computer Entrepreneur
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
CAD	Current Account Deficit
EPZ	Export Processing Zones
SEZ	Special Economic Zones
SMEs	Small and Medium Enterprises
NeGP	National e-Governance Project
PRIA	Panchayati Raj Institution Accounting Software
GRS	Gram Rojgar Sevak
PRIASOFT	Panchayati Raj Institutions Accounting Software
ADCs	Autonomous District Councils
VEC	Village Employment Council
GPMS	Gram Panchayat Management System

AIS	Accounting Information System
NIC	National Informatics Centre
SHG	Self Help Groups
NALA	Non Agricultural Land Tax
MIS	Management information systems
KRA	Key Result Area
KPI	Key Performance Indicator
PFDF	Pooled Finance Development Facility
CRISIL	Credit Research and Information Systems of India Ltd
CARE	Credit Analysis and Research

Surveillance of Financial Management System of ULBs-Need of the Hour

CA Pankaj Goel[1]

Introduction

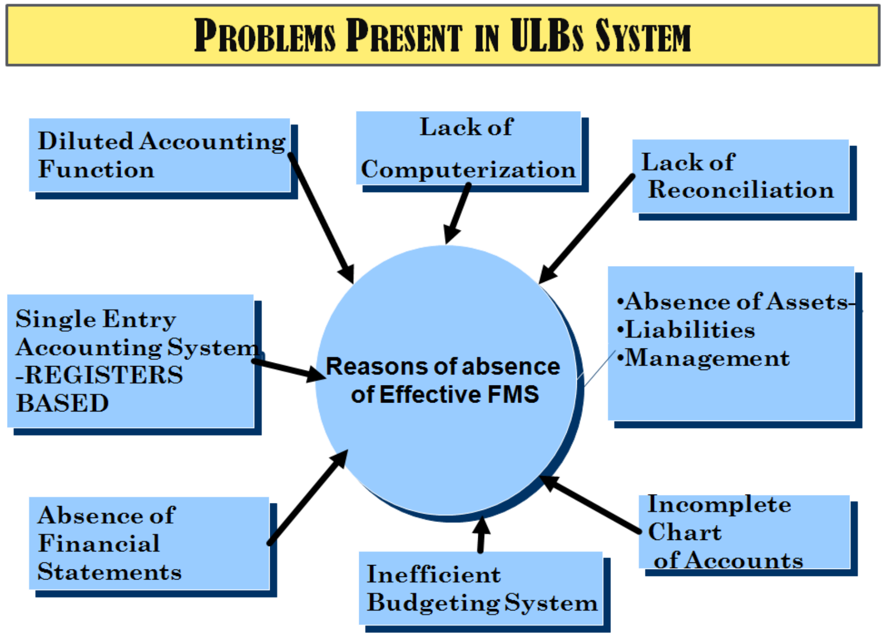
Smart Cars have smart system in terms of engines and accessories, smart cities managed by ULBs should have smart Financial System. However, even after more than 15 years since the inception of these accounting reforms, Accounting reforms have so far been identified with just Standalone Financial Statements without looking into the mechanism involved in preparation of these Financial Statements. Most of the ULBs are taking external professional help to prepare these financial statements and that too at the yearend defeating the objective with which reforms were visualised.

Taking these reforms forward, in order to give an impetus to reforms under Jawahar Lal Nehru National Urban Renewal Mission and in order to leverage this accounting reforms process, the Central Government needs to take steps to get the surveillance of Financial Statements prepared under Accrual Basis, as only then can ULBs achieve the output of Financial Sustainability through mobilisation of revenue, may be, from external market.

Background

ULBs since have been affected by numerous weaknesses in their system as shown below:

[1] The Author is working as Financial Management Specialist, for Ministry of Urban development for Projects Funded By World Bank



Due to above weaknesses, it is felt that financial reforms need to overcome the following problems of ULBs:

(a) Need to know about their financial operations

ULBs were not able to make informed decisions and Financial Position at one point of time cannot be computed. Thus, a sound financial accounting and reporting system should be in place which can answer the following practical questions of the ULB, such as:

- What resources does the ULB own?
- What amount does the ULB owe to others?
- How is the annual performance of the ULB in its various functions?
- What financial decisions can be taken to further improve the performance, position and future service capability of the ULB?

(b) Generate funds from alternate / innovative sources

- ULBs need to improve their credit worthiness in order to be able to access capital markets to fund their capital infrastructure projects
- There is a need to augment the revenues of the ULBs.

(c) Citizen's Right to Information

- Mandatory to make available adequate and appropriate information to the citizens. However, the existing system of accounting does not provide ready information to support RTI Act.

Thus, ULBs were not able to achieve the vision of third Tier of Government as envisaged in 74th amendment.

Thus, three major objectives were to be achieved while designing numerous Financial reforms:

- Maximization of revenue collections
- Improved expenditure management
- Improved asset – liability management

To achieve these objectives, primarily, reforms were targeted among following areas at:

- Accounting and budgeting SYSTEM
- Management ANALYSIS of finance
- COMPUTER based records
- Staff CAPACITY improvement

History of Reforms

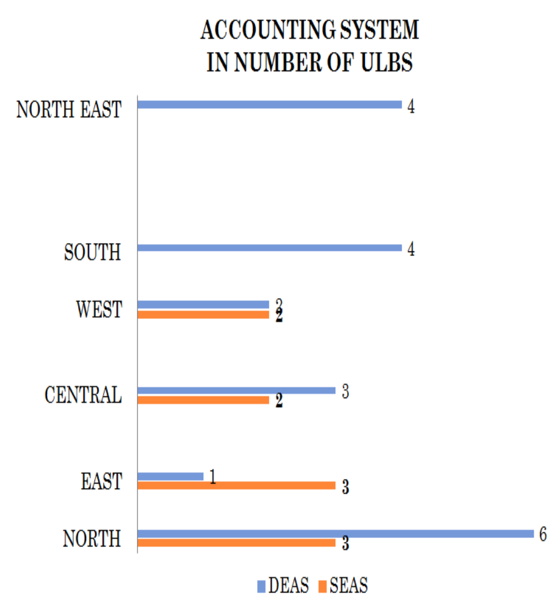
Mumbai and Chennai Municipal Corporations initiated the Double Entry Accrual Based Accounting System in 1981- 1991. Similar reforms were initiated in the State of Gujarat during the period 1990-1995. These reforms initiatives were made under the guidance and support of World Bank Projects. Recognising the need of transparency and accountability in the Local Bodies, the 73rd and 74th Constitutional Amendments incorporated provisions with respect to transforming the Local Bodies and consequently these constitutional amendments paved the way for initiating the accounting reforms in Urban Local Bodies. Tamil Nadu was the first state in India to initiate such extensive accounting reforms on a state-wide scale, to be followed by other ULBs of India.

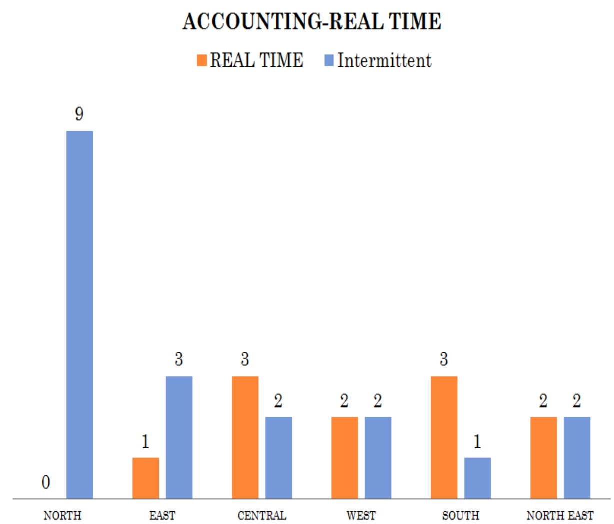
The Eleventh Finance Commission, in the year 2001, recommended the introduction of Double Entry Accrual Accounting System. Following that, *XII and XIII Finance commission* also recommended additional funds for ULBs having accrual based accounting system. *The Model Municipal Law (MML) in*

2003 vide Chapter XII incorporated the provisions relating to Accounts and Audit requiring, inter alia, to prepare Income & Expenditure Account and Balance Sheet and also to prepare Municipal Accounting Manuals. In an effort to provide support to ULBs in implementation of Accrual Based Double Entry Accounting System, Ministry of Urban Development, Government of India developed a National Municipal Accounting System. ***The National Municipal Accounting Manual*** provides a generic framework of municipal accounting and simplified tool kit to the ULBs for recording the accounting entries. ***'National Municipal Assets Valuation Methodology*** Manual' was brought out by the Ministry of Urban Development, Government of India in January 2009 suggesting detailed step-by-step guidance to the municipalities for valuing their fixed assets as envisaged in National Municipal Accounting Manual. Since 2011-till date, Capacity Building for Urban Development-CBUD project funded by The World Bank under Ministry of Urban development(MOUD),DEAAS is to be initiated in more than 20 ULBs .

Snippets of Some Reforms: Present status

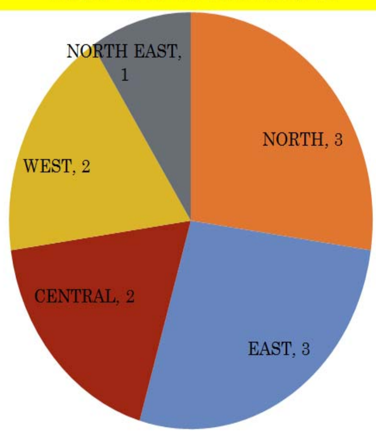
After reforms for more than 2 decades, have ULBs able to find solution to all their Drawbacks? Recently, under CBUD rapid Base Assessment (RBA) study was carried in 30 ULBs and findings on Financial reforms is given below:





Source:RBA,MOUD under CBUD 2013-2014

VALUATION/VERIFICATION OF ASSETS- YET TO INITIATE



Source:RBA,MOUD under CBUD 2013-2014

Table 17: Computerization of financial data and information

Description/ Cities with population	Up to 2 lakh	Between 2-5 lakh	Between 5-10 lakh	Above 10 lakh	Total	% Total
Implemented	3	4	6	4	17	57%
In-progress	2	3	3	3	11	37%
Yet to initiate	2	0	0	0	2	7%
Total	**7**	**7**	**9**	**7**	**30**	**100%**

Table 18: Audit process followed by cities

Description/ Cities with population	Up to 2 lakh	Between 2-5 lakh	Between 5-10 lakh	Above 10 lakh	Total	% total
Pre-audit system	1	2	2	2	7	23%
Post-audit system	5	4	5	5	19	63%
Both	1	1	2	0	4	13%
Total	7	7	9	7	30	100%

The above data indicates:

(a) Accounting is still not done on Accrual based Double entry in many ULBs.

(b) Fund Based Accrual Based Accounting is a long way in many ULBs

(c) Asset register, though maintained but not on real Time basis and not updated.

(d) Verification of Asset not done - Records of several immovable and movable assets not available.

(e) Valuation - What basis of valuation to be adopted? What depreciation rates to be applied was not uniform in each ULB.

(f) Continuous handholding and Training is limited.

(g) Limited /No access to Market and thus dependence on Grants to fund capital Infrastructure projects

(h) Bank reconciliations, loans and advances, payables not reconciled uptodate

(i) High dependency on external consultant and transfer of knowledge is limited making takeover of operations by ULB officials difficult.

(j) Analysis and using of balance sheets and financial statements prepared on double entry accrual basis for decision making is limited.

(k) Capital and revenue expenditures are often mixed up. Thus, Accounting reforms are restricted to Standalone Financial Statements, however. Process is ignored .This underlies need of surveillance.

Objectives of this Surveillance of Financial System

Following objectives may be achieved with the surveillance:

(a) Provide the timely fiduciary assurance to the ULB that the Financial Statements are prepared as per applicable State Municipal Accounting Manual(SMAM), and

(b) The financial reports being submitted are in agreement with the books of account and can be relied upon for taking management decisions

(c) Has ULB achieved the migration to Accrual Based Double Entry Accounting System (ABDEAS)?

(d) Verify the valuation/verification procedures adopted for Fixed Asset Register

(e) Obtain a professional opinion on the accuracy and True and fair view of the Financial Statements

(f) What measures have been initiated to augment the revenues by ULBs.

Steps for Surveillance

Following steps need to be taken at Government level for effective surveillance:

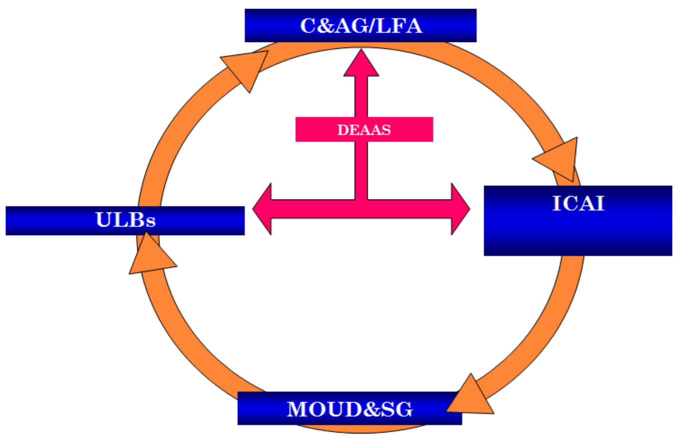
- Prime Step

Qualified external party is to be engaged to examine the financial statements, including related disclosures produced by management, to give their professional opinion on whether they fairly reflect, in all material respects, the ULB's financial performance over a given period(s) (an income statement) and financial position as of a particular date(s) (a balance sheet) in accordance with relevant GAAP and SMAM

- Solutions-Future:Way Forward

I. Coordination between C&AG and Central Government, State Government and ICAI

FIGURE 1: COORDINATED EFFORT



Expectation from CG

– Putting in place **model municipal accounting & financial reporting system manual**

– **Incentive grants** to States and Municipal bodies – suitable changes in URIF, CCF guidelines

– **Model budget code** and matrix code.

– Setting up of government or **municipal accounting standard board.**

– Formation of **Professional association of municipal accountants** and auditors

Expectation from SG

– State governments to revise their municipal account, audit and budget codes.

- Institutional strengthening (capacity building) efforts for municipalities
- Suitable changes in legislation
- Technical assistance, financial assistance for reforms
- Elevation of status of account & audit function, pay scales, recruitment rules

Expectation from ICAI

- Design some Certificate course n Municipal Accounting
- More Workshop at regional level through Study Circle
- Make AS for Local Bodies mandatory in tune with ULB requirements

Expectation from ULBs-

- Synergy between budget and account code
- Change in perception towards accounting function & giving due importance to it.
- Induction of professionally qualified people

II. Setting up Task Force/ Cell:

There is need for setting up of a Task Force/ Cell or designating a nodal agency preferably at Min. of Finance, Govt. of India level for implementation and coordination. It may include representatives of CGA, C&AG, CGDA, Railways, Posts and State Governments.

III. Create Accounting Cell at each ULB

Building adequate database essential for implementation of accrual accounting: This needs to be done by bringing in a broad spectrum of financial information, presently lying outside the reporting framework. These may include required information vis-à-vis data on physical and financial assets; liabilities including accrued liabilities and pension liabilities; information on salaries, subsidies, committed and contingent liabilities, etc.

IV. Assets identification and creating Assets Registers for physical assets

Information of financial Assets in terms of loans, equity and investments by Governments are available. Information on physical assets and current assets needs to be built up by creating an asset register.

V. Identification of liabilities

Information relating to long-term debt is available. This will require mapping the types of current liabilities, which persist in Government, and maintenance of Liability Register.

VI. Laying down accounting policies

There is need to prepare a new Accounting Template of Accounting Policies as a new policy document containing accounting policies is to be followed in the new system. This could evolve over a period of time.

VII. Preparing Chart of Accounts

The existing List of Major and Minor Heads (LMMHs) needs to be recast as Chart of Accounts, which will need to include Object heads of classification to depict accrual transactions. It shall be linked to Budget Codes.

VIII. Devising documentation/ subsidiary ledgers

Necessary documents/ ledgers and other subsidiary books will be required to be in place at the appropriate transaction points such as the PAOs/Treasury/DDOs/CDOs as applicable, for capturing transactions at their point of origin.

IX Organizational arrangements for data / information flow

Making / streamlining arrangements for accounting data flow and defining role and relationships amongst various officials dealing with transactions and accounting will be required.

X Decision on IT system

There is need to assess adequacy of the existing IT system to meet transition needs. It may be noted that the desired accounting reforms require a robust IT system to be in place.

XI Review and Strengthening of ULB Audit

The area of ULB audit remains weak. MoUD may consider constituting a task force and review the existing capacity and suggest strengthening measures for audit in ULBs. It could also advise on moving towards performance and management audits, clear old audit backlogs and training of LFA auditors with reference to the changed financial reporting scenario, double entry accrual accounting and modern audit techniques.

xii. Training needs

Assessment of training needs in terms of capacity-building for managing transition, implementation and management of accrual accounting system is required:

Way Forward

This reform once implemented would ensure efficient financial and accounting system at ULBs. ULbs accounting reform (UAR) is the basic tool required for overall financial and management reforms in educational institutions. This can be achieved through a gradual process of activities that can be broadly categorized into three major phases of financial management:

(i) Phase 1: Basic accounting and budgeting reforms;

(ii) Phase 2: Financial management reforms, through the introduction of management accounting techniques and tools; and

(iii) Phase 3: Implementation of e-governance and integration of all processes with the finance and accounting functions.

However, given above is only an illustrative list and not exhaustive. Journey to reforms has already begun long ago. But we should remember, this is only the beginning, and not the END.

Managing Accounting Reforms in Local Bodies – Key Issues and Approaches for Chartered Accountants

CA Ashok Rao[1]

Executive Summary

Chartered Accountants have been in the thick of action in the migration to accrual based double entry accounting in local bodies in India. Irrespective of the size of the local body in question, some unique characteristics distinguish such accounting reform projects from others.

This article identifies certain common issues encountered in such assignments and attempts to suggest approaches to avoid such issues or mitigate their impact. The issues identified broadly pertain to the mandate (within the local body) for reforms, training and capacity building, change management and sustainability.

These issues have drawn upon the numerous successful and unsuccessful attempts in introducing accounting reforms in local bodies across the country. The article concludes with a brief checklist for professionals in their capacity as implementation consultants to such reform projects. A run through the checklist can help prevent many a trouble that can arise during implementation and help in taking corrective steps when such issues arise.

Background

One of the major reforms that are expected to significantly influence the quality of governance in local bodies is the transition from cash based

[1] CA Ashok Rao, currently the Executive Director has been a Consultant at Management and Governance Consulting, MaGC (formerly NCR Consultants Limited) since 2002. He heads the governance team of MaGC.

system of accounting to accrual based double entry accounting. Mumbai, Tamil Nadu, Karnataka and Gujarat are the early movers in this regard. Even in these states, the accounting reforms were initially undertaken only in the major cities.

The Model Municipal Law (Chapter XII) of 2003, National Municipal Accounting Manual (NMAM) and the JNNURM (which makes modern accounting system one of the prerequisites) are notable milestones in the effort to give these reforms a national character.

The ICAI has also been at the forefront in this regard by forming a Committee for Accounting Standards for Local Bodies that is spearheading the Institute's efforts in this area. The Committee has released a number of accounting standards on the lines of International Public Sector Accounting Standards (IPSAS). It is actively working with the Central and State ministries in conducting awareness and sensitization workshops on municipal accounting across the country.

Every Indian state has undertaken accounting reforms in its Urban Local Bodies (ULB). There are more than 3,700 urban local bodies in the country. The services of CAs have been utilised for accounting reforms in these ULBs. The Central and State governments have now turned their attention to accounting reforms in rural local bodies (Panchayat Raj Institutions) as well. The Model Panchayat Accounting System prescribed by the C&AG is a significant step in this direction. Once the ball gets rolling, the opportunities for accounting professionals are expected to grow immensely.

For implementing accounting reforms in ULBs, different states have tried different implementation models. One common characteristic among all the approaches is the simultaneous computerization of the accounting system along with migration to accrual based accounting. However, no state can claim that the reforms have been completely successful in terms of the expected benefits. This is because the approaches have failed to completely address all the implementation issues. This article examines certain implementation issues that are likely to come up at the local body level and attempts to suggest approaches to overcome these issues.

Sensitisation of the local body staff

In many reform initiatives, the implementation is generally contracted out to an external consultant. This is good since the local body generally does not have the necessary expertise in-house. However, the mistake made here is that the involvement of the local body staff is deferred until the fag end of the project i.e., when training is taken up.

The staff is expected to run the new system after one round of training. In very few cases, a support arrangement with the external consultant is put in place to ensure smooth functioning. It is only during training that the local body staff get to voice their requirements and operational constraints. The local body finds it very difficult to ensure that these requirements are addressed since most of the concept and design work would have already been completed. It becomes difficult to hold the consultants and/or software vendors accountable and ensure delivery at this stage. There is also a lack of internal ownership in such cases and people try to avoid the system rather than adopt it.

This issue can be addressed by organizing a sensitization programme right at the beginning of the reform project. This programme will bring together all the key stakeholders namely the local body Management, the implementation consultants, the software vendors and most important the local body staff. At this programme, it is important to establish that the initiative is ON and has the full backing of the local body Management. The broad phases of the reform project also need to be communicated to the stakeholders.

In addition to the sensitization programme, it is important to periodically circulate interim project outputs (chart of accounts, document formats etc.,) amongst the stakeholders and invite comments and suggestions. This will ensure that the reform project has a buy-in at all levels right from day one and there is stakeholder engagement throughout.

While this approach ensures better stakeholder engagement, it might extend the project duration. However, it is important to plan for sensitization at the project planning phase itself.

The chart of accounts

It would not be wrong to state that the chart of accounts is the most important aspect in a transition from single entry cash based accounting to a double entry accrual based one. It is very important to get this right from day one. The chart of accounts drives the formats of most of the documents and reports forming part of the accounting system. It is also a key ingredient for the software requirement specifications. However, in many cases, the chart of accounts is viewed as just another master in the database and the finalization of the chart of accounts is not given due importance. It is an onerous task to revise the chart of accounts midway through the implementation. It not only affects the project timelines but also creates ambiguity for the local body staff.

This issue has been addressed to some extent by the introduction of the NMAM. Based on the NMAM, many states have brought out their own state level manuals that prescribe the chart of accounts. Still, there is a degree of customization required to be built into the chart of accounts at the local body level. This should be done after studying carefully the existing budget formats and annual accounts under the current system to identify the different types of possible transactions. The new chart of accounts should contain appropriate account heads to capture all types of transactions.

Once the chart of accounts is designed, it is important to circulate it among key stakeholders to obtain their comments. The chart of accounts should be suitably modified to incorporate suggestions received. It is important to map the chart of accounts structure to the reporting requirements and tweak it accordingly. This will ensure that the accounting system captures information to the required level of detail and facilitate reporting.

Importance of budgeting

The budget as a document has much more significance in a local body setup than in a corporate setup. The need for development expenditure being very high across India, there is more often than not, a scarcity of financial resources. The budget has a pseudo legal authority in determining and regulating expenditure. The importance of budget is often undermined in the transition to modern accounting system. As a consequence, it is seen that though accrual accounting is established, all decision making is based on the budget that continues to be cash based. In certain other cases, there is a mismatch between the budget structure and the chart of accounts making budgetary comparison and control virtually a nightmare.

Budgeting needs to be seen as an integral part of accounting. The budgeting process and the budget formats need to be looked into and suitably modified to conform to the changes in the accounting system. The fact that in the initial years budgeting will remain cash based and may not be fully ingrained into accrual accounting, needs to be recognized. The budget format, the budget variance analysis and the software specifications must take care of this inconsistency.

Budget affects a larger group outside the local body that includes the elected representatives, the state government and the public. Hence, before bringing in accrual concepts into budgeting, these external agencies need to be sensitized on the meaning of a budget and how to read a budget that has been prepared applying accrual concepts.

Hardware and infrastructure

Another important aspect that often fails to attract the necessary attention in the initial stages is the hardware and infrastructure arrangements. Although a good project plan is supposed to consider these aspects, in practice procurement & installation of hardware and the supporting infrastructure gets postponed until it becomes critical to procure. In many cases, the hardware procured might not be according to specifications. Typical examples would be lack of necessary servers, insufficient power backup arrangements, and low bandwidth connectivity. These bottlenecks could potentially become obstacles to the success of the initiative.

Hardware procurement and infrastructure arrangements should be done under competent guidance. It should not be left to the judgment of the local body staff or the implementation consultant unless he has the necessary competence. It is normal to encounter unexpected delays in procurement in such projects, and therefore, the procurement process must be initiated well in advance

Training

Proper training is crucial to ensure that the local body staff are able to run the system once the external agents are out of the picture. While every such initiative has a training component, it is often observed that the training is more focused on the software aspects. Accounting reforms entail many changes in the way work is done and it is important to prepare the local body staff for it. Otherwise, they may not accept the new system and try to resist it. Such resistance comes more out of ignorance than intention.

Training should include training on procedural aspects, behavioral and attitudinal training. Training on computer basics to familiarize the staff with computers should precede the technical training. Training requirements must be sufficiently detailed in the Request for Proposals to include all these areas. This will ensure that sufficient time and cost are kept aside for such training. The preliminary training should necessarily be followed up with periodic refresher trainings so that the knowledge gained is retained.

Project ownership

It is often observed that many initiatives fail because the person who started the initiative and championed it gets transferred. Since such reforms are long-term projects, non-continuance of key personnel may prove disastrous for the success of the project. A lot of capacity building and knowledge imparted to such persons also walks away when they get transferred. It is very important that some key personnel are identified at the beginning of the reform project and they are not moved out until the project reaches a reasonable stage of completion. This may not always be possible in a practical setup. A project management group must be created consisting of local body staff, external consultants and other stakeholders. The project management group will ensure that even when individuals move, the knowledge within the group remains. This will ensure continuity of the project.

Support arrangements

Arrangements for support after the implementation is complete need to be in place to ensure that the system runs smoothly in steady state. Many initiatives fail to sustain because of the lack of capacity within the local body staff to address post implementation issues. For example, when there is a failure of a printer or a network failure, arrangements need to be in place to ensure that they are addressed immediately.

Support arrangements need to be planned and budgeted for during the project planning stage itself. These support arrangements may be in the form of handholding for sometime by the implementation consultants, database and system maintenance, infrastructure maintenance etc. These arrangements may be put in place at the state level itself or at the individual local body level depending on the implementation model followed. These arrangements need to be properly documented and service levels monitored for their effectiveness.

Audit

In many states, it is found that although modern accounting systems have been implemented and are running well, the old system continues to run along with it. This is because in these places while accounting has transitioned, the auditors are yet to migrate to the new system. This not only creates duplication of work but also defeats the very objective of transparency and accountability that the modern accounting system is expected to achieve.

The training part of the project must necessarily include training of auditors. Training must be given on the accounting system, financial statements and audit in a computerized setup. In addition to training, necessary legislative changes must be introduced to ensure that the audit of accounts maintained in the new system happens. The audit manual needs to be thoroughly revised to address aspects of auditing accounts under double entry and auditing in a computerized environment.

Sustainability of the new accounting system

Introduction of the accrual based double entry accounting system is often taken up by the local body as a necessary evil thrust down by the state government than out of a genuine desire to reform. Therefore, many such initiatives fail once the initial momentum is gone. This is because people do not attempt to make use of the new system due to lack of awareness and an inherent resistance to change. Lack of usage of outputs of the new system results in the old system creeping in slowly from the back door. In other cases, the new system runs parallel but for all decision making, the outputs of the old system are relied upon.

The reporting module of the new accounting system assumes a major role in establishing its acceptability amongst the local body Management and staff. Reports should be developed taking into account the actual decision making and operational needs of day-to-day local body administration. People at various levels need to be sensitized on the content of the reports and their usage. Once people develop an inclination to make use of the reports for their day-to-day information needs, the focus will be on ensuring that the new system runs smoothly and that accurate data is entered. This becomes the key to sustainability of the new accounting system.

Preliminary checks

The impact of most of the issues discussed above can be mitigated if certain preliminary checks are performed at the project planning stage itself. The following checklist must be run through by the person in-charge of the implementation before embarking upon the reform project. The checklist is only indicative and specific checklists need to be developed by the professional suited for the specific area of work.

1	Is there a clear mandate from the top for implementation of the reforms?
2	If yes, has it been properly documented and communicated to all the players involved?
3	Are the local body staff aware of the project objectives, project outcomes and their role in it at least at a macro level?
4	Is there a project management team in place (working committee, project management cell etc.)?
5	Is there a project governance structure in place with project review mechanism?
6	Does the project plan include clearly defined deliverables for the various stakeholders and project milestones to assess the outcome of the project?
7	Have all the project stakeholders been identified and sensitized about the project and what it means for them?
8	Does the project in-charge have the required mandate and sufficient time and resources at his disposal to undertake the project?
9	Is there a proper hardware procurement plan in place with sufficient lead times built in and does this plan fit into the overall project plan?
10	Is there a proper software development and deployment plan in place and is it consistent with the milestones identified in the overall implementation?
11	Have, in addition to migration of the accounting system, aspects relating to audit under the new system been considered?
12	Have suitable post-project support arrangements been thought of and budgeted for?
13	Does the project plan carry sufficient provision for unforeseen contingencies?
14	Does the implementation agency have sufficient and experienced manpower to implement reforms of this nature with multiple skills such as subject expertise, domain knowledge, and software knowledge?
15	Is there a proper mechanism for acceptance of the project outputs and definition of who is authorized to accept the same?
16	Is the proposed training adequate in terms of coverage, number of rounds and the trainees proposed to be covered?

Role of CAs

The CA community has been actively involved in this local bodies accounting reform process right from the beginning. The Chartered Accountant has been called upon to play multiple roles ranging from conceptualization, implementation, internalization and audit. The technical expertise and skill sets of the CA to undertake such assignments are unquestionable. In addition to accounting knowledge, it is important to build the necessary domain expertise and management skills to execute such reform initiatives successfully. In this article, certain non-technical aspects of the implementation have been discussed. Taking into consideration the issues discussed in this article and planning for the same will go a long way in making the implementation easier.

Conclusion

Accounting reform projects encounter one or more of the issues discussed in this article in varied forms. The approaches suggested herein will have to be adopted based on the actual peculiarities of each implementation. It is important to take cognizance of these issues and formulate approaches to deal with them at the project planning stage itself to avoid surprises later.

The initial implementation exercises in India did not have the benefit of this knowledge and had to address these roadblocks as and when they surfaced. With a number of accounting reform initiatives in local bodies across the country now completed or nearing completion, every project provides insights so that future implementation strategies can be formulated better. There is a need to create a knowledge base of all such initiatives. This knowledge base will act as a valuable resource for subsequent reform initiatives.

Panchayati Raj Institute Accounting and Auditing System – Need of Chartered Accountant Services

CA S. Ranga Swamy[1]

Introduction

Indian Economy was characterized with self-contained village community republics for centuries till the establishment of British Rule (1857). The village communities consisted of the agriculturists, cottage industrialists, village craftsmen, artisan professions, menials and village officials. These communities played a major role in meeting not only the needs of the village economy but were also able to produce and export various products to foreign countries.

Writing in "Young India" on May 28, 1931 Gandhiji, the father of our Nation, made reference to the importance of "Panchayati Raj", i.e., administration by the villagers themselves, a local self-Government of the grassroots in a democracy. Realizing the importance of the Panchayati Raj, our constitution makers incorporated the idea of 'Panchayati Raj Institutions' in the Directive Principles of State Policy (Article 40), that it would be the duty of the State to organize the Village Panchayats and endow them with such authority and powers as may be necessary to enable them to function as units of self Government. The economic model offered by Gandhiji still has the potential to address the rural ailments. Gandhiji wanted the people to lead a simple, healthy and contended life close to nature and protect their traditional culture. Gandhiji wanted to build a self-sustainable village and fought a relentless battle to bridge the caste divide, free villages from illiteracy and poverty.

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Constitutional Status to Panchayati Raj Institutions

The Panchayati Raj System is based on the principle of village self-governance, where the people form their own organization, take decisions and act for their interests collectively. Panchayati Raj Institutions, (PRIs) being closest to the citizens, are best positioned to understand the local issues, identify possible solutions and work for the overall development of rural areas. The self-governing village communities of the past maintained public order, settled local disputes and provided drinking water, sanitation, health care in case of epidemics etc. These village bodies evolved as Panchayats having administrative powers and performed police and judicial functions.

Article 243G of the Constitution of India introduced by the Constitution 73rd Amendment Act, 1992, effective from 24th April 1993, established a three-tier Panchayati Raj system at Village level (Gram Panchayat), Block level (Mandal Praja Parishad/ Taluk Panchayat) and District level (Zilla Parishad/Panchayat). The Constitution envisages a key role for the Panchayati Raj Institutions (PRIs) in development of the rural area and providing basic services such as education, health, transport, power, housing, irrigation, drinking water, sanitation etc., in the country in relation to 29 functions mentioned in the Eleventh Schedule of the Constitution. In compliance of these Constitutional provisions State Governments have passed appropriate legislations to devolve funds, functions and functionaries to the PRIs. The 73rd Amendment is not applicable to (i) the States of Nagaland, Meghalaya and Mizoram, (ii) Hill areas in the State of Manipur for which District Councils exist, and (iii) Panchayat at the District level of Darjeeling Hill Areas (West Bengal) where Gorkha Hill Council exists.

Role of Panchayati Raj in Rural Development

Panchayats have now become an integral part of the national government structure. The main source of income of the Village Panchayat is the Land Cess, the Property Tax levied on Buildings and Non Agricultural Land Tax (NALA) levied on open spaces within the village boundaries. State Finance Commission should be set up once in five years to review the financial position of PRIs and to make suitable recommendations to the State on the distribution of funds among them and to improve their financial position. Rural development is possible only when it is taken as a movement and active participation by Panchayati Raj Institutions (PRI) for not only rural employment generation but also planning for improving the quality of life. The following steps are to be taken by PRI for rural development.

(a) Training to the work force for imparting skills

(b) Conducting counseling programs and seminars for guiding the rural people in optimum use of resources men, material and money

(c) Promotion of education for use of techniques in implementation of latest technology effectively

(d) Imparting marketing skills

(e) Developing credit and finance facilities

(f) Developing infrastructure facilities

(g) Introduction of entrepreneurship programs to the students from primary school level

(h) Social reforms such as eradicating gender, social biases, social menaces etc.

Budget of PRI

'Budget' is a basic plan document to be prepared every year and to be approved by the elected leaders in order to form as the basis of spending by the PRI. No expenditure can be incurred unless there is a budget approval for it. Thus it implies that any expenditure prior to being incurred should be backed by appropriate sanctions in accordance with the procedures laid down by the Rules. No work order can be issued without the budget availability. No payment can be incurred unless backed by a budget sanction. Any expenditure prior to being incurred must be identified to its budget head for allocation of money. However, Panchayats should strive to move from the current practice of 'Incremental Budgeting' wherein budgets are decided based on the previous year's budget and rather move to:

(a) Policy-Oriented Planning Decisions: This can be done by releasing Budget Guidelines which contain the vision and mission of the elected leaders and their annual priorities which can then be programmed for funding.

(b) Zero-Based Budgeting: Under this each activity is to be planned and budgeted assuming no precedence and subject to a system of policy linkage and justification.

(c) **Output Based Budgeting:** Under this, not only is the amount to be spent but the outputs (in terms of physical results For example: 4 km of road) also are identified.

(d) **Participatory Planning Processes:** Under this, the citizens are involved in the planning process and they contribute to the discussion, activities and plans being made.

Accounting and Auditing concept in Panchayati Raj

The historical records show that ancient Egyptians, the Greeks and the Romans used to get their Public Accounts audited. In India the Government Accounting System is maintained based on single entry system. It does not follow mercantile or accrual concept. It does not have the system of preparing financial statements such as Income & Expenditure Account and Balance Sheet. Hence one cannot ascertain how best the funds have been utilized for the purpose for which the funds have been allotted under various Government Schemes. Also one cannot ascertain the value of Assets created out of such expenditure.

Earlier Accounting System in Panchayati Raj Institution

The earlier system of accounting for both revenue and expenditure was through manual single-entry record-keeping using a host of registers and forms. Transactions were recorded only on actual receipt or payment of amounts i.e. on cash basis. In addition, State accounting rules for PRIs usually prescribe maintenance of several manual records such as Assets Register, Grant Register etc. at every level of PRIs. These shortcomings in the traditional accounting system gave the impetus to use Information Technology as a tool to maintain the accounts of the PRIs in a transparent manner.

Present Accounting System

Now, the Panchayati Raj Institutions (PRIs) are required to maintain accounts on cash basis with double entry method of accounting. The main objective of maintaining the accounts using Information Technology is to keep each transaction of the PRIs in public domain and also to facilitate the post-auditing in a simplified manner.With increasing functions, funds and functionaries being devolved to PRIs, there is a need to strengthen their system and capacity for governance. One of the key aspects of this improvement is in the area of financial accounting, reporting and accountability of PRIs. A simplified 'Model Accounting System for Panchayats' was prepared and approved by the Technical Committee in January 2009. The salient features of this system are:

- Each institution i.e. Zilla Parishad / Block Panchayat / Gram Panchayat is a separate accounting entity.
- The accounts are to be kept on cash basis i.e. recording shall be done only when the amounts are received and paid, not on their becoming due.
- A detailed chart of accounts has been prescribed using a three-tier structure i.e. Functions, Programmes or Schemes and Object.
- The chart of accounts shall be used both for budgeting and accounting to ensure a link between them with proper budgetary control.
- The system prescribes maintenance of Formats with certain additional records in subsidiary formats.
- The system requires preparation of Receipts & Payment Account incorporating both revenue and capital transactions for every financial year ending on 31st March. The Accounts have to be kept in three parts: Part I to record transactions of all receipts and expenditure (separately under revenue nature and capital nature) relating to Panchayat Fund and Part II to record transactions relating to provident funds, loans, deposits and advances etc, with close to balances. Part III (Suspense Accounts) relates to receipts stored in Temporary accounts as they either need to be remitted (such as Tax Deductions) or will be classified into correct accounts later.

Recommendations of Thirteenth Finance Commission

The Thirteenth Finance Commission reviewed the recommendations of earlier commissions and proposed, inter-alia that PRIs should adopt the above "Model Accounting System" for Panchayats prescribed by C&AG and Ministry of Panchayati Raj from 1April 2010. They further specified that of the total grant to PRIs proposed, up to one percent would be a 'performance-based' component which will be available only to those States who comply with the recommendations of the Finance Commission.

PRIASoft

In order to facilitate computerized accounting, the Ministry of Panchayati Raj has developed, in association with National Informatics Centre (NIC), a Panchayati Raj Institutions Accounting Software (PRIASoft) which is a centralized web-based application which allows PRIs at various levels to enter their financial transactions online. It provides Accounting System & Treatments, Accounting Codes and Accounting Formats. It provides a policy base as well as practical guidance to PRIs in implementing an effective accounting and financial management system. The users of the system are State governments, Panchayat functionaries, Elected leaders of PRIs for decision making purposes, Local Fund Auditors and C&AG, National Informatics Center (NIC), National Government etc.

Structure of Accounting Code

The structure of accounting codes brings out the 3-tier structure of the coding system. The first four-digit classification in the simplified system is the major head representing functions enumerated in the 11th Schedule of the Constitution such as education, health, transport, power, housing, irrigation, drinking water, sanitation etc. The second three-digit classification is the minor head of program / unit followed by a subhead of 2 more digits representing the scheme of expenditure such as PMGSY, NREGS, Mid Day Meal etc. The third tier two-digit (00 to 99), is the object head which represents the object item of expenditure salaries, travel etc. For example a composite code “2210-101-15-26” can be described as “Health & Sanitation (Major Head)- Primary Health Centre (Minor Head) NRHM Program-Maintenance Expenditure (Object Head)”. The Panchayat may operate other major heads of accounts to record transactions of each additional function devolved subsequently to the Panchayats by the State Government. The State Government may inform operation of the new major heads to the Accountant General of the respective States.

Records / Documents maintenance

The State Panchayati Acts and the Finance & Accounts Rules or orders issued under the State Acts lay down accounting procedures to be followed by the PRIs in regard to their financial transactions and the forms of original / subsidiary books of accounts required to be maintained by them, the forms of accounts statements and returns to be rendered by them periodically. A representative list of books of accounts and statements of accounts required to be maintained by PRIs, as per Manual of Instructions for Audit of Panchayati Raj Institutions and the returns to be submitted to other authorities is given below:

Cash Book

The Cash Book is a Ledger for cash (and its equivalent i.e. Bank / Post Office / Treasury) accounts. All money received shall be immediately, without reservation, entered in the Cash Book. Any cheques received shall be entered in the cash book once they are sent for collection to the Bank / PO / Treasury. The receipts shall be classified in the column provided according to budget heads. Similarly the payments side of Cash book shall be posted from the details of vouchers and of the cheques drawn. The amount of each cheque shall be entered as soon as the cheque is signed. All Vouchers shall be verified and approved before payment is released. Each entry in the cash book should be made on the basis of a voucher that is authorized by an officer.

Journal Book & Ledger

A 'journal' is a book of Original or Primary entry wherein each voucher is sequentially recorded and posted in the 'Ledger'.

Subsidiary Records

In order to maintain details that may not be available at the Ledger level (for example, in case of Employee Advance, to maintain employee-wise details of amount due and collection), the additional records known as ‘Subsidiary Records’ may be maintained. These records could either be in the form of ‘Subsidiary Ledgers’ i.e., in the format of ledgers where the total is posted to the main ledger, or as records in the form of Registers from which consolidated entry is passed in the main ledger.

Financial Statements

The good practices from International Public Sector Accounting Standard (IPSAS) on ‘Financial Reporting under the Cash Basis of Accounting’ are to be incorporated to the extent feasible in preparation of the following Financial Statements of PRIs:

(a) Receipts and Payments Account including comparison with budgets

(b) Income & Expenditure Account

(c) Statement of Assets & Liabilities

(d) Accounting Policies and Notes to Accounts

Accounting Policies

Financial Statements should consist of the Accounting Policies & Notes to Accounts. For better understanding a sample audit report on accounting policies is give below:

"Sample Audit Report on Accounting Policies"-

(a) Basis of Accounting: The financial statements are prepared on a going concern and under cash basis of accounting. The method of accounting is the double entry system.

(b) Recognition of Revenue: House Tax, other Taxes, Water Charges and all revenues are recognised in the period in which they are collected. Assigned revenues like Stamp Duty on transfer of immovable properties are accounted during the year on actual receipt.

(c) Recognition of Expenditure: All revenue expenditures are treated as expenditures in the period in which they are paid.

(d) Capital Assets*:* All Capital Assets are carried at cost. The cost of capital assets include cost incurred in acquiring or installing or constructing the asset, interest on borrowings directly attributable to acquisition or construction of qualifying assets up to the date of commissioning and other incidental and indirect expenses incurred up to that date. Any Capital, Asset, which has been acquired free of cost or in respect of which no payment has been made is recorded at nominal value of Re. 1/-. No depreciation is charged on Fixed Assets. When any asset is sold, the difference between sale price and book value is treated as Revenue. Income (if sale price is higher than book value) or Revenue Expense (if sale price is lower than book value) and credited / charged to Income & Expenditure Account in the year of sale.

(e) Grants*:* General Grants (such as Salary Grants, Untied Grants) which are of revenue nature, are recognized as income on receipt. Specific Grants which are to be used for specific purposes are treated as liability till the payment is made from it. The payment is either charged as a revenue expenditure or, where allowed, as a capital expenditure. In either case, the grant corresponding to the value of the expenditure incurred and / or capital asset acquired will be transferred to the income account.

(f) **Employee Retirement Benefits:** All employee retirement benefits are recorded as and when paid.

(g) **Investments***:* All cash investments in Fixed Deposits are recorded at Cost.

Notes to Accounts

The Notes to Accounts shall disclose Contingent Liabilities and other information which shall make the financial statements meaningful and representative of the PRI financial situation. It shall also contain the detailed explanation on items that are material to the presentation and proper understanding of financial statements. The main purpose of giving the notes to accounts is to enable any reader of the accounts to understand the context in which the accounts have been prepared. Examples of information to be included in 'Notes to Accounts' includes:

- Any specific accounting treatment which is not in consonance with the accounting policies described above.
- The amount of Tax and other Incomes Receivable by the PRI unit.
- The amount of Bills Payable by the PRI unit.
- Any event occurring after the date of financial statements but which has a bearing on the information conveyed by them.
- Other Disclosures - any other information that would make the readers appreciate and interpret the financial statements in a better way.
- Statement of Contingent Liabilities: The following shall be disclosed by the Panchayats in the 'Statement on Contingent Liabilities' as part of its 'Notes to Accounts'.

    (a) Amount of Capital Contracts remaining to be executed and not provided for.

    (b) Amount of claim in respect of suits filed against the Panchayat for which the Panchayat may be liable, in case the Panchayat loses suits.

    (c) Claim against the Panchayat not acknowledged as debts.

    (d) Other money for which the Panchayat is contingently liable.

(i) *Additional Statements*

The following statements are to be prepared annually and most of these can be generated through support of computer system:

(a) Statement of Capital Expenditure (scheme-wise) showing expenditure for the year and progressive expenditure up to the end of the year.

(b) Bank/Treasury Reconciliation, Register of Movable Property, Register of Immovable Property, Register of Demand, Collection & Balance, Inventory Register, Consolidated Abstract, Register of Receivables, Register of Bills for payment, Measurement Book, Daily Collection Register, Register of Grants, Register of Deductions, Register of Deposits and Register of Investments .

(ii) *Vouchers*

In general there are four types of vouchers:

A. Receipt Vouchers

(a) Direct Receipt- such as taxes, non-taxes, grants, capital receipts received from state government etc.

(b) Transfer Receipt- i.e. money transferred to them by other PRIs.

(c) Advance Receipt- For receipt of advance from any agency for certain works.

(d) Receipt Voucher (Refund of Advance)- i.e. any amount received back from advance paid earlier.

(e) Receipt Voucher (Cancellation of Cheque)

(f) Receipt Voucher (Refund of Excess Payment)

(g) Receipt Voucher (Refund of Opening Balance Advance)

B. Payment Vouchers

Payment Voucher should be prepared before preparing any cheque. Payment can be made only against original bills and claims. Duplicate copy of bill or claim should not be entertained. All supporting documents should be attached with the Payment Vouchers as classified below:

(a) Payment Voucher (Expenditure)- i.e. incurred either revenue expenditure relating to the operations of the Panchayat such as salary, travel etc. or capital expenditure for purchase of office equipment, construction of building etc. Further, some of these expenditures may pertain to 'schemes' in which case they shall be recorded against the scheme funds only.

(b) Payment Voucher (Transfer- For Funds transfer to other Panchayat(s)

(c) Payment Voucher (Advance)- For advance to other Panchayat(s), Line Departments, Agencies or Employees.

(d) Payment Voucher (Receipt Cancellation)- for cancellation of any receipt.

C. Contra Voucher

A Contra Voucher is used to record any transactions which relates exclusively to the cash and its equivalent accounts such as bank/ treasury / post office. For example, withdrawal of cash from bank or treasury, deposit of cash to treasury etc.

D. Journal Voucher (JV)

A Journal Voucher is used to record any book adjustment from one Account Head to another Account Head. Common cases where Journal Entries are needed are:

(a) *JV (Receipt Rectification)*- i.e., where a receipt is recorded to the wrong head of account for example, to 'House Tax' instead of 'NALA Tax'

(b) JV (Payment Rectification)- i.e., where a payment is recorded to the wrong head of account for example to 'Salaries' instead to 'Travel Expenses'.

(c) JV (Advance Rectification)

(d) JV (Advance Adjustments)

(e) JV (Deductions)- such as TDS from salaries or contractors. When the amount is remitted to bank, it will be done through a payment voucher.

Accounting of Grants

Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. The 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. The computer system will facilitate maintenance of records such as Grant Register, statement of scheme-wise spend, profile of spend, utilization levels etc. All grants received by the Panchayats can be classified into 'General' or 'Specific' Grants or 'Capital' Grants.

(a) *General Grants:* These are grants given to meet the general cost of operations of the Panchayats and normally do not have any conditions attached to their use. Examples, include Devolution Grant under the State Finance Commission (SFC), Salary Grant, etc.

(b) *Specific Grants:* These are grants received for a specific scheme or for meeting specific costs of a program. There are conditions attached to the utilization of such grants which usually require maintenance of separate bank account, periodic submission of utilization certificates etc. Examples, of such grants include National Rural Employment Guarantee Scheme (NREGS), MP Local Area Development Scheme (MPLADS) etc.

(c) *'Capital' Grants:* Sometimes, the conditionality attached to the grant may require that it be used only for creation of capital assets. Such grants are termed 'Capital' Grants but in accordance with the distinction above, shall be treated as Specific Grants as the restriction on utilization is subordinate to it being a specific grant.

Accounting of Capital and revenue expenditure

Since measurement of income for a given period involves matching of cost with revenue, the distinction between capital and revenue expenditure becomes important. Capital, by and large, represents cost, the benefit of which does not expire during the period covered by accounting year, but lasts for a longer income period. The important point to be seen in this connection is that the distinction between Capital and Revenue expenditure as laid down in the accounts rules is followed correctly and consistently.

Audit of Accounts of PRIs

The audit in PRIs generally includes the following:

(a) Statutory Audit

(b) Financial Statements Audit

(c) Other Audits

(a) Statutory Audit

The Statutory Audit is primarily focused on verifying the propriety of transactions undertaken by the PRI and the manner in which its affairs are conducted. Irregularities if any, including non-compliance with relevant statues etc., are to be reported by such an auditor. The statutory auditor will include, in his report, a statement of:

(i) Every payment which appears to him to be contrary to law.

(ii) The amount of any deficiency or loss which appears to have been caused by the gross negligence or misconduct of any person.

(iii) The amount of any sum which ought to have been but is not brought into account by any person.

(iv) Any material impropriety or irregularity which he may observe in the accounts other than those mentioned in the 3 clauses above.

Though different states have different audit rules/guideline, the main points which the auditor has to cover in his report are:

- Whether grants or borrowings are utilised for the purpose of the grant or loan.
- List of loans availed and whether necessary provisions have been made for repayment of principal and interest.
- Whether all advances and investments are fully secured.
- Result of the verification of stock, and whether any losses have occurred, and whether the system of stores accounts requires to be improved etc.

(b) The Financial Statements Audit

The audit of these financial statements shall be carried out primarily to establish whether they represent a 'true and fair' view of the affairs of the PRI during the period. Such an audit is referred to as a 'Financial Statements Audit'. It shall be carried out by an auditor appointed by the State Governments under the relevant State Rules. Points the Auditor has to cover in his report are:

(i) Whether Advances and loans given to employees and interest thereon are being regularly recovered

(ii) Whether there exists an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets.

(iii) Whether the PRI is regular in depositing statutory dues including tax deducted at source, works contract tax, cess payable to the government etc., and if not, the nature and cause of such delay and the amount not deposited.

(iv) Whether the PRI is regular in remittance of pension and leave encashment contributions or any other amounts which the PRI is liable to remit towards the retirement dues of its employees, including employees on deputation.

(v) Whether any personal expenses have been charged to the PRIs accounts, if so, the details thereof.

(vi) Whether the Bank Reconciliation statements have been properly prepared for all the bank, treasury and post office accounts of the PRI.

(vii) Whether the year-end reconciliation procedures prescribed have been carried out.

(c) Other Audits

In addition to the statutory and financial statements audit, the Government may additionally require certain PRIs to get their accounts audited in the following forms:

(a) *Internal Audit* – Regular internal audit to be conducted by the internal staff of the PRI or professional agency on a regular basis.

(b) *Special Audit* – An investigative or audit in depth with a specific objective of verifying or checking some specific type of transaction(s) or activities. This may be conducted at the discretion of the Local Fund Auditor or State Government, if it appears to him to be necessary in any case.

Audit Report on PRI Accounts

The Auditor has to give the Report covering the following major areas:

(a) *Transactions under Plan and Non-Plan:* Transactions are to be examined to ensure that there is no mixing up of plan and non-plan in any inflow or outflow and if there be any mix-up, suitable comments should be made in the Audit Report.

- If plan and non-plan transactions are not separately depicted in accounts, a separate schedule for bifurcation of revenue and capital and plan and non-plan may be insisted upon by audit.
- If the PRI is not able to exhibit such important data distinctly and correctly under major activities / heads of accounts, it should be commented upon in the Audit Report.

(b) *Departmental Reconciliation:* It should be verified that departmental figures of receipts and expenditure relating to different offices under the jurisdiction of each PRI / DRDA are regularly reconciled by the designated controlling officers with those of the accounts of the PRI / DRDA concerned and misclassifications, etc., coming to notice are rectified promptly in accordance with the procedures prescribed in this behalf.

(c) *Treasury Reconciliation:* In the States where PRIs are authorized to draw funds from Government Treasuries by presentation of bills and cheques, the treasury officer is required to forward Schedules of Receipts and Lists of Payments as in the case of Government departments to the PRIs every month. If Minus Balances have been shown in the accounts, they require careful probe in audit. They sometimes foretell serious irregularities. Reasons for each minus balance should be examined in detail and commented upon. Reconciliation procedure consist of Bank Reconciliation, Reconciliation of Deposits, Reconciliation of receivables & collections, Reconciliation of Advances / Loans / payables, Reconciliation of balances with Government and other agencies and Reconciliation of Ledgers with Subsidiary Ledgers.

(d) *Suspense heads:* The extent of transactions and outstanding balances under suspense heads and their relevance to the accuracy in accounts may be examined carefully and commented upon in the Audit Reports, because Suspense Accounts dilute the accuracy of accounts.

(e) *Unspent Grants:* It is necessary that the PRIs draw a distinction between annual maintenance /revenue grants and grants for specific / capital purposes. The unspent grants refundable / repayable to Government / other Agencies, as may be required under the conditions stipulated in the grants, are to be distinctly shown as returnable in the accounts. Non-depiction of such unspent balances in the accounts should be commented upon in the Audit Report. One of the main difficulties in ascertaining utilization of grants / loans for purposes for which the grants / loans are given to PRIs is non-production of utilization certificates to the Ministry / Department / Government. While on one hand, the accounts are purported to have accommodated such expenditure on revenue and capital heads and are certified by audit, on the other hand, audit also lists out cases of non-receipt of utilization certificates. This is like absence of physical verification certificate for assets exhibited in the accounts certified. Therefore, a distinct comment should be made in the Audit Report that the assets / expenditure as exhibited in the current and previous years accounts are not supported by utilization certificates which are yet to be furnished to the Government by the PRI. It has to be verified that, grant pertaining to State Plan / Non-Plan Schemes are not kept in bank accounts and prior approval of the government should be taken for utilization of such unspent grants. It should also be seen that grants in respect of Centrally Sponsored Schemes are operated through separate bank account strictly in accordance with the guidelines issued for the implementation of the schemes.

(f) *Assets:* These should be carefully checked and certification and physical verification of assets insisted upon. Cases of non-availability of such certificates should be commented upon in the Audit Report. Whether a statement in the prescribed form showing the fixed assets held by the PRI at the end of the financial year is sent to State Government along with the annual statement of accounts should be seen and its correctness verified.

Requirements of Internal Control

In particular, the system of Internal Control over the following aspects would need to be noted:-

(i) Sanctions to expenditure and watch over progress of expenditure *vis-a-vis* budget.

(ii) Realization of receipts and avoidance of loss due to negligence, delayed action, etc.

(iii) Accounting of cash receipts and payments

(iv) Purchase, accountal, issue, utilization and physical existence of stores and stock

(v) Execution of construction programs

(vi) Creation of Assets, their maintenance and verification of their existence etc.

(vii) Disbursement of grants, subsidy, scholarships, etc., and their utilization by the recipients.

(viii) Utilization of Government assistance for specified purposes.

Requirement of Mercantile or Accrual basis of Accounting in PRIs

In case of Cash basis of Accounting, the entries are to be made only when cash is actually paid or received. No entry is to be made in case of dues. However in the case of Accrual System, accounting entries are to be made on the basis of amounts that become due for payment or receipt. Under this system the amount of income whether it is received or not, but earned or accrued during the period forms the part of the total income of that period. Similarly the amount of expenditure whether it is paid or not, but incurred or accrued during the period forms the part of the total expenditure of that period. This basis of accounting gives a complete picture of the financial transactions of the PRI as it makes a record of all transactions relating to a period and discloses correct Income & Expenditure for a particular period and exhibits true financial position of the PRI as on that date. It facilitates monitoring of the receivables & payables through accounting system itself regularly and it is a controlling measure for taking action against the defaulters of taxes / receivables. Hence it is advisable to adopt the accrual basis of accounting system in the place of cash basis accounting system.

Chartered Accountant's Services in Panchayat Raj Accounting and Auditing

In test check of records of 47 ZPs, 185 JPs and 1035 GPs, during the year 2011-12, it was observed that, none of the PRIs at different levels kept the accounts in the prescribed formats. Para 10.121 of the recommendations of Thirteenth Finance Commission envisages that State Government must put in place an audit system for all local bodies (all tiers of PRIs). Annual Technical Inspection Report on Local Bodies for the year ended 31 March 2012 commented as given below:

- Budget and Annual Accounts were not prepared by the PRIs in prescribed formats. (Paragraph 1.5.1)
- Details of receipts and expenditure of PRIs were not compiled at the PRD level. (Paragraph 1.8)
- The State Government did not devolve the funds according to recommendations of Third SFC. (Paragraph 1.9)
- Active pursuance was not made by DLFA for settlement of outstanding Paras of PAG`s Audit Inspection Reports. (Paragraph 1.11)
- Utilization of grants transferred to the PRIs was not ensured. (Paragraph 1.12)

In this regard it is advisable to the Government to utilize the services of the Chartered Accountants who can provide services in proper Accounting and Audit of Expenditure of Panchayati Raj Institutions and physical verification of Assets created through such expenditure. They can contribute to the rural development by providing the following services:

(a) *As Consultant*

- for establishment of double entry accounting system in local bodies
- for maintenance of proper accounting records
- for preparation of financial statements
- for reconciliation of various bank accounts of the Government and ensuring that all collections are properly deposited into the bank and all payments are accounted in the books of accounts.

(b) *As Statutory Auditor*

- for examination of accounts, records and documents of such village body
- for conducting Audit of Accounts and Financial Statements
- for preparation and certification of true and fair view of the financial statements prepared from such accounting records and to detect frauds and errors.

- for audit of the funds spent through various Government Schemes for development of rural sector and for welfare of rural people.
- for conducting physical verification of various assets created out of Budget allocations by the Government for development of rural sector.

(c) *As Internal Auditor*

- for checking of accounting transactions, records and documents through internal checks and internal controls.
- to act as check against collusion and fraud.
- to focus on systems, procedures and methods.

(d) *As an Employee*

Act as an officer in a suitable position in case opportunity is provided through direct recruitment at District level or Mandal level or Panchayat level. For example as Mandal Revenue Officer at Block level (Mandal Parishad).

(e) *Computer Services*

The Chartered Accountant can provide services in installation of computer systems for accounting and other areas such as issue of certificates, collection of taxes, disbursement of old age pensions, maintenance of records of development works / welfare schemes etc., in the village administration offices.

(f) *Conducting Entrepreneurship Development Programs*

Entrepreneurship development programs can be conducted by the Chartered Accountants for the Students belonging to rural area. This will go a long way in helping the rural community to gain experience in vital aspects of entrepreneurship like project preparation, business opportunities, working capital management and export opportunities.

Conclusion

Since 72.2% of India's population is living in 5,93,731 inhabited villages out of a total of 6,38,596 villages, and 59% of rural population depends on agriculture & allied activities, the role of PRIs is critical in the overall growth of Indian Economy. As Accounting has not been fully institutionalized and PRIs have limited functional devolution, it is essential to strengthen them by initiating and implementing the proper accounting procedures & systems.

Further, it is required to establish the internal control systems in PRIs to arrest the frauds and misappropriation of funds. Suitable Accounting Standards can also be designed for transparency and uniformity of accounts in PRIs. Being a professionally qualified accountant having integrity, technical excellence, knowledge, analytical skills and leadership with consistency of purpose, the Chartered Accountant plays a critical role in accounting and auditing of PRIs.

E-Panchayats: A Vision for ICT Enabled Rural India

Dr. (CA) Sanjib Kumar Basu[1]

Introduction

The concept of digital divide is becoming more complex as access to computers and its usage changes over time. Initially, the high cost of computers created a divide between people who could afford them as well as who had access to all the advantages of the computer and those who could not. The falling cost of computers, combined with initiatives in many countries to create community access points has meant that more and more people are gaining access to computers. To make full use of the technology available, both technological literacy and ability to run a computer in terms of technical and financial aspects must be considered.

Many advances in Information Technology have been made, creating a new world of possibilities. The challenge is to figure out how to use this technology- both existing and emerging, for the good of people, and how to assure its access and use in the most democratic way possible. Realizing the importance of information technology, our Prime Minister Shri Narendra Modi has very correctly said that- IT+IT=IT, or Indian talent + information technology =India tomorrow.

E-Panchayat -The Ministry of Panchayati Raj (MoPR) is implementing e-Panchayat as minimum mandatory programme to address all core aspects of Panchayat's functioning-

- Planning
- Monitoring
- Implementation

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- Budgeting
- Accounting
- Social audit etc

Under e-Panchayat, 11 core common software applications were planned which include PRIASoft, PlanPlus etc. MoPR is also providing trained faculty to provide trainings on all applications.

Lack of internet connectivity, power, hardware and scarce trained manpower at the gram Panchayat level are the contributing factors in the slow progress of computerization of Panchayats.

As a result National e-Governance Project has necessitated the State Governments to prepare-

- E-Governance roadmap clearly defining the e-Governance vision and strategies to achieve the developmental agenda of the State and provide good governance to the citizens leveraging ICT as an enabler tool.
- Capacity Building Roadmap lays down the plan for developing institutional mechanisms, acquiring technological expertise and sets plan for training of activities which require specialized skills.

Each State should plan at developing a well organized and futuristic IT structure to bring about positive changes in all walks of life resulting in-

- ➢ Ease and convenience in transactions
- ➢ Augmenting employment opportunities to the educated youth
- ➢ Ushering high economic growth in a definite time-frame.

E-Panchayats: Ideas and Initiatives

Technically speaking, e-Panchayat system is web-based and n-tiered with functions like an Application Service Provider enabling Panchayat level digital services for all stakeholders. The stakeholders are citizens, elected representatives, Gram Panchayat officials, the governments and the knowledge workers. But it should not be merely perceived as an ICT enabled system of governance that provides public services on demand. It promotes virtues of good governance and deepens democratic values in society. It creates an environment in which people feel empowered, establishes a system that ensures people can easily avail their fundamental rights to information, and broadens the scope of local government.

The process of e-governance has already been started and the Government of India has decided to open one lakh common services centers across the country under National e-Governance Project in order to make all Government services accessible to the common man in his locality, and ensure efficiency, transparency and reliability of such services at affordable costs to meet the basic needs of the common man. Now the Government of India has initiated the process to equip all Gram Panchayats with computers, or provide access to computers with broadband connectivity. All Panchayats at all levels need to be equipped with computing hardware and connectivity over the next few years. The approach would be to first use the kiosks being set up under the National e-Governance Project's Common Services Centres initiative. For the remaining Panchayats, it is proposed to engage independent service providers who would be selected on the basis of a bidding process. It has also been planned to equip all Panchayats with necessary software and skills to handle e-Governance for better delivery of services to citizens. The other major component of ePanchayats would be that of capacity building of functionaries of Panchayati Raj Institutions. The infrastructure that is proposed to be created through e-PRI would be utilised for training of elected representatives about their responsibilities and for giving them functional knowledge of the schemes that are implemented through the Panchayats or their statutory committees.

Several state governments have also taken initiatives to set up e-Panchayats to facilitate the development process and provide easy access to information to citizens. States such as Gujarat, Andhra Pradesh, Himachal Pradesh, Tamil Nadu, Kerala, Karnataka, Haryana, Goa and West Bengal have set up Panchayat portals to provide information regarding development schemes such as National Rural Employment Guarantee Act, organizational/departmental set up, developmental policies, annual reports, notification, evaluation reports of development programmes, status of development schemes, revenues etc. The common feature of the portals is that they give information in local languages like Hindi, Gujarati, Kannada, Bengali etc. and about issues concerning the local people. These portals also act as a platform for users to know whom they have to approach for the processing of their applications and resolution of grievances. These portals are generally inter-linked with other state government departments that make them more service oriented.

Role of ICT as a tool of governance

After more than a decade and half, there is a growing realization that the system of Panchayati Raj needs to be re-energized and strengthened to address persistent development challenges more effectively and also to be responsive to emerging problems such as climate change, water scarcity, natural disasters, etc. Globalization and the information revolution have changed the nature of local policy through increasing competition and awareness among the villagers. The technology that is most transformative in today's society is Information and Communication Technology (ICT). Information and Communication Technology does not impact physical objects directly; instead, it moves and processes information. ICTs enable decisions to be taken, assemble data, store information, and pass messages around efficiently. Because ICTs' focus is on information, they have a different layer of significance in society. ICTs produce content or information that has meaning or at least an interpretation and can inform all sorts of decision. Therefore, ICTs have the potential to transform the system of governance.

Realizing the transformative potential of ICT, the Government of India and various state governments have initiated the process of applying ICT measures to reform rural local governance for improving the delivery of public services through greater transparency and accountability. The then President of India, Smt. Pratibha Patil in her address to both the Houses of Parliament on 4th June 2009, mentioned the government agenda for expanding broadband coverage to connect every Panchayat to a broadband network in the next few years. She also stated that the scheme for Common Service Centers or e-kiosks under the National e-Governance Project (NeGP) would be suitably repositioned to become a network of Panchayat-level Common Services Centers to citizens in rural areas.

Computerisation of Gram Panchayat Accounting as a Part of the Project

Before the introduction of computerized system in Gram Panchayat accounting, the manual systems were inaccurate and inconsistent because they were associated with errors since data was collected, analysed, journalized and financial statements were prepared manually by people not proficient in accounts.

Computerized accounting system is defined as the application of computer based software used to input, process, store and output accounting information. It assists in carrying out routine transactions and increases the accuracy of reports.

Realizing the prospects of ICT, the Government of India has launched a National e-Governance Project (NeGP), an ambitious plan of applying ICT measures to improve rural local governance for better delivery of public services through greater transparency and accountability.

PRIASoft- Accounting Software of the Panchayats

According to the 13th Finance Commission recommendations adoption of PRIASoft (Panchayati Raj Institution Accounting Software) has been made compulsory to facilitate better financial management of PRIs by bringing about transparency and accountability in the maintenance of accounts thereby leading to better credibility and ultimately strengthening of PRIs.

PRIASoft was basically designed for maintenance of books of accounts of the Panchayat bodies under the double entry system of accounting. PRIASoft is a web-based e-governance application which monitors funds at 3-tier PRIs under different account heads, on a month end basis. It prompts to select appropriate account heads from the 3-tier classification at the time of recording receipts and expenditure. Once the receipts and expenditure entries are captured by the system, reports are automatically generated in the revised formats as prescribed by the CAG.

The 13th Finance Commission also recommended that an additional grant (over and above the basic grant) is to be given to only those states which have adopted ICT and PRIASoft. Thus, richer states are getting a lion's share of funds whereas poor states (which are lagging behind in ICT) are getting lesser funds.

A few states like West Bengal and Karnataka have developed their own software for maintenance of accounts while others like Jharkhand, Assam, Andaman & Nicobar Islands are not able to adopt ICT due to lack of infrastructural facilities.

Major Findings on Field Visits

A total of six gram panchayats in each state were visited and all the visits were completed in the months from January to August in 2013. The major findings of the field visits are:

Gujarat

In the state of Gujarat, six gram panchayats were visited in the districts of Gandhinagar, Mehsana and Ahmadabad. All the gram panchayats have at least one computer in working condition which is usually used for ROR (Land registration software) or the e-gram software. Each gram panchayat has a Talati-cum-Mantri who is responsible for making and maintaining accounts while the VCE (Village Computer Entrepreneur) is in charge of all the computer related works. The accounts in all the gram panchayats are maintained manually in Gujarati and this accounting information would be communicated to the users either in the Gram Sabha or in the panchayat meeting, which after being accepted would be signed by the Sarpanch (elected member) and the Talati-cum-Mantri. A copy of these accounts is then sent to the Taluka level where online data entry is done and the accounts are prepared in the required formats and these accounts at the Taluka level are then sent to the Zillla Panchayat level.

In most of the gram panchayats, the electricity supply is regular (power cuts/load shedding is very rare) and there is no provision for generators/UPS. All the gram panchayats have GSWAN connectivity with private internet connection providers. The Talati-cum-Mantris receive a formal training from the SIRD before joining the job for a period of three months where they are taught how to write accounts, how to implement rules and regulations, how to write the minutes of a meeting, how to prepare a budget etc. In short, they are taught about 55 laws, 32 village forms and 18 revenue forms. They also have to clear an examination for being appointed as Talati and thereafter they are offered a 15 day refreshment training course once every two years. The Talati-cum-Mantri is the only employee in the gram panchayat whose salary comes from the State Government. The computer is password protected with the password known only to the VCE (Village Computer Entrepreneur). Regular back-up is taken in most of the gram panchayats.

Odisha

In Odisha, six gram panchayats were visited in the districts of Mayurbhanj and Angul. In a Gram Panchayat, total numbers of employees is usually three including Executive Officer, Gram Rojgar Sevak (GRS) and Peon. In all the Gram Panchayats, there is only one computer meant for all purposes. Accounts are not maintained online in the Gram Panchayats.

Electricity supply is more or less normal, with a 2-3 hour power-cut being a common feature in the summer months. There is no provision for any generators in case of load shedding. All the accounts are maintained in the offline mode as no accounting software is installed in the computers. Nobody in the gram panchayats has any idea of SWAN and there is no net connection. Computer is used only for official work. As no confidential information is kept including accounting information in the computer, it is not password protected.

The executive officer is just required to maintain the cash book and related documents. Accounts are maintained by the Block office. In fact, the Government of India has started its pilot project for the implementation of gram panchayat accounting system through PRIASOFT (Panchayati Raj Institutions Accounting Software- accounting software developed for this purpose) in Odisha, particularly in the Block named Angul. There was a good interaction with the officials of DRDA, who are in charge of the implementation of PAMIS accounting software for the district itself and they explained in detail about the implementation of accounting software in different districts in Odisha. In fact, this state had started maintaining their books of accounts in the PRIs by following PRIASOFT. They found a lot of difficulties in maintaining accounts under PRIASOFT. Two of the noteworthy problems they have told about the detailed information they have to incorporate in the voucher recording entry which is found cumbersome for them as compared to their PAMIS software and also there is no facility for editing the transactions at all levels of accounting.

Meghalaya

No information regarding the accounting system could be collected from the state of Meghalaya because the panchayat system does not exist there. Meghalaya has had a local government system in the form of autonomous district councils (ADCs) since the Constitution of India came into force.

The ADCs were constituted under the Sixth Schedule of the Constitution; they differ greatly from the three tier panchayat system that exists in the other parts of the country. Before independence, the tribal areas were kept isolated from the rest of the country and outside the purview of laws enacted by the provincial legislature. The committee under the chairmanship of Gopinath Bardoloi recognized the need to safeguard and promote the rights and interests of the tribes while at the same time prepare them to assimilate within the national mainstream. The committee proposed granting a mechanism of local self government for tribal areas in the form of ADCs which was accepted and incorporated in the Sixth Schedule. At present, there are ten autonomous district/territorial councils constituted under the Schedule; three being in Meghalaya. The Dorbar Shnong is the nodal agency that undertakes the development projects in the villages. Every village has a Village Employment Council (VEC) with an identified area and boundaries. The Village Employment Council consists of every male and female heads of all households in the village. The VEC elects a secretary from among its members. The village headman/Sirdar assumes the position of chairmanship of the VEC. Most of the VECs in the entire state still practice manual mode of maintaining MGNREGS accounts. Double-entry system of book keeping is practised by the VEC to some extent. The members of the VEC are usually given a one-day training programme by the Meghalaya Rural Development Society on the model of how the scheme is to be implemented and on the system in which accounts are to be maintained.

West Bengal

In West Bengal, six gram panchayats were visited in the district of Nadia, Birbhum and Coonch Behar. The responsibility of maintaining accounting records in gram panchayats usually vests with the secretary of the gram panchayat. In fact, the efficiency of the gram panchayat secretary varies widely of those maintaining the accounts using computers & doing Gram Panchayat Management System (GPMS) themselves and those who are maintaining the accounts manually & do not know about GPMS at all. GPMS is the Gram Panchayat Management System- the accounting software used in maintaining accounts in the gram panchayats and it is available only in English version. Most of the books of accounts are maintained up-to-date but in some cases there are a few differences between the books of accounts maintained using accounting software and those maintained manually.

Most of the gram panchayat pradhans can readBengali, while a few can also read English. However there are some gram panchayat Pradhans who cannot read even Bengali. The GPMS operator is the Secretary, the Panchayat Karmee or the Sahayak where most of them have not received any form of training while some have received training for three days at the district level. Internet facility is available in all gram panchayats with the connection provider being either BSNL or Tata. Regular back-up is taken in all the gram panchayats and all of them are willing to go online.

Problems Identified

The first and the most important drawback of gram panchayat accounting is that in quite a few states the accounts are maintained manually. Accounts need to be maintained online so as to ensure transparency at the bottom-most tier of the panchayat. As a principle, public officials and civil servants have a duty to act visibly, predictably and understandably to promote participation and accountability. The next problem is that different states use different accounting software.

It becomes a major problem for the Central Government to know exactly what amounts have been incurred under certain heads like education, health etc. This indigenous software makes the inter-state comparison very difficult. A major problem is that in some states accounts are maintained manually, while others are maintaining their accounts using accounting software.

But the problem lies in the fact that these states are maintaining different accounting software and there is no uniformity in the principles of accounting followed by the states. For example in Karnataka, Panchatantra is used, in Odisha PAMIS is used and in West Bengal GPMS is used, while the Central Government wants PRIASOFT to be the uniform accounting software applicable in all states. Capacity-building needs to be fulfilled if it is desired to maintain accounts in a computerized form. Officials at the gram panchayat level need to be efficient in handling accounting software to maintain their day-to-day accounts in computers. At present, the panchayat officials have some computer knowledge in general; but if accounts are to be maintained in computerized form, not only the panchayat officials but also the elected representatives need to be given training. This training should be made compulsory for all employees and elected representatives. Another drawback of the accounting system used in the gram panchayats is that all accounting information is not linked with the accounting system.

Thus, there is an urgent need to install an Accounting Information System (AIS) that will collect, store and process all the accounting information which can be used by the decision makers. An accounting information system is generally a computer-based method for tracking accounting activity in conjunction with information technology resources. The resulting statistical reports can be used internally by the management or externally by other interested parties including policy makers, villagers and other stakeholders. An accounting information system, thus, should combine traditional accounting practices with modern information technology resources. A big advantage of computer-based accounting information system is that it automates and streamlines reporting. Most of the gram panchayats use single- entry system of accounting, particularly, when accounts are maintained manually, where the financial data available is usually inadequate for effective decision making. The single entry system is unscientific and unsystematic; moreover it lacks arithmetical accuracy. Thus it should be replaced by double-entry system of accounting where the chances of frauds and errors can also be minimized to a large extent.

Prospects

On the basis of the Twelve Finance Commission recommendations, the Central Government had given the necessary guidelines for the adoption of different software in providing public delivery services including preparation of BPL Survey List and maintenance of books of accounts of the Panchayati Raj Institutions. In the Thirteenth Finance Commission recommendations, adoption of different softwares including the software named ‘PRIASOFT’ has been made compulsory. This software is designed mainly for the maintenance of books of accounts of the panchayat bodies under double-entry system of accounting. Different states have already developed their own software for the maintenance of accounts of the Panchayat Raj Institutions and progressed substantially in this area. Some of the states are also taking initiatives to develop their own software not only for the maintenance of accounts but also for other public delivery services with the help of the National Informatics Centre (NIC). However, there are a numbers of states, which have not yet developed any software, and, in fact, these states are not at all in a position to adopt any sort of information and communication technology for the public service delivery at this stage. This is due to the fact that either the infrastructural facilities of these states are very poor to come up to the requirement for the adoption of the technology, or the documentation process they are following is so defective that it is difficult to covert it to the form required for the application of information and communication technology.

PRIASOFT is a web-based e-governance application which is a government-to-citizen as well as a government-to-government system. It addresses the monitoring of funds at three-tier Panchayati Raj Institutions (PRIs) under different account heads, on a month- end basis. The future plan is to bring it from month- end basis of data capturing to the daily voucher level. It also contains the database of all Self Help Groups (SHG), and monitors the financial health of each SHG through bank savings, advance and stock position. PRIASOFT has two modules, namely, PRI Accounts and SHG Accounts. The PRI account is maintained under three layers of account heads: major account, sub account and minor account for all three-tier PRIs. The major account takes care of all the rural development schemes. The sub account manages accounts, bank, cash and advance at the district, block and village panchayat levels. The minor head manages inflow and outflow of fund at all the three levels. The SHG accounts provide financial status of SHGs. It has enforced financial transparency in PRI administration and provides detailed monthly financial position of each PRI by generating financial reports at state/ district/block level for different rural developmental schemes. The Central Government has clearly specified in its guidelines for the implementation of the Thirteenth Finance Commission Recommendation that basic grant can be given to all the panchayat bodies, but additional grant can be given only to those panchayat bodies that are adopting the software promoted by the Central Government including the accounting software ‘PRIASOFT’ for the maintenance of accounts of rural local bodies. The 13th Finance Commission also recommended that an additional grant (over and above the basic grant) is to be given only to those states that have adopted ICT and PRIASOFT.

The Central Government is thinking about the implementation of national accounting system for all the rural local bodies of different states of India with a common accounting codification system. In order to achieve this objective of the Central Government, one of the pre-conditions that has to be satisfied is the uniformity of accounting practices followed by all the tiers of the panchayat bodies in all the states.

Suggestions and Recommendations

The establishment of the e-panchayat system in every village across the country is an elaborate process. A workable system of e-panchayat warrants financial resources, computer applications, skilled human resource and political will. The primary technological factors that can impede the reach of e-Panchayat are the lack of infrastructure and trained human resources.

Despite India being called the information technology capital of the world, its computer and Internet penetration is among the lowest in the world. More than half of the rural households are still not connected to electricity. Human resource is another challenge, which can be a factor not only at the implementation level but also at the user level. Most gram panchayat representatives and villagers are not computer-literate. English is still an alien language in rural areas. Application of ICT is a political issue because it has the potential to transform the socio-political dynamics of national and local polity. Therefore, its deployment largely depends on how the political elite of the nation takes it. Despite the genuine problems of infrastructure and other prerequisites for e-panchayat in rural India, prospects do not seem all that grim. Governments at both the central and state levels have the vision and strategies to bridge the digital divide and provide supporting infrastructure in rural areas to enhance the capacity of panchayats. In the emerging knowledge society and information revolution, panchayats should not be left in isolation. They should be provided with adequate technological resources in order to be able to play a meaningful role in the course of development.

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Changing Paradigms of Current Account Deficit in India

Prepared by Committee Secretariat

Abstract

When a country has a current account deficit, it becomes a 'debtor' to the whole world. It 'owes' liabilities of foreign exchange according to its deficit. To cover this debt, the Government has to attract overseas investors who bring capital to invest in India. India has been persistently experiencing Current Account Deficit for the past few years. The deficit has widened in recent years as a percentage of GDP and has become a concern for government, policymakers, economists and global investors. Regulating a sustainable current account deficit demands a systematic exchange rate regime and appropriate savings and investment policies. Also, it is necessary to control large bilateral deficits through export promotion and policy dialogue. India needs to keep its current account deficit in check by promoting exports and stabilising exchange rate to realise the good economic prospects. ICAI can join hands with the government by taking suitable initiatives and assist the government at all levels by providing them suggestions for efficient financial management in the economy so that the problem of current account deficit could be tackled.

Introduction

A current account deficit is not necessarily a problem, as it is perceived; after all, imports are good too, sustaining our standard of living and is partly a reflection of the demand for intermediate goods our economy needs to carry on the process of production in order to stay efficient. India has been persistently experiencing Current Account Deficit for the past few years. The deficit has widened in recent years as a percentage of GDP and has become a concern for government, policymakers, economists and global investors.

In India, Balance of Payments transactions are classified as (i) current account (ii) capital account and (iii) finance account transactions. Current

Account incorporates “goods” transactions (including non-official gold imports, general merchandise, etc.), “services”, “primary income” (including compensation of employees, investment income etc.) and “secondary income” (including personal transfers and remittances etc.). Capital Account comprises official transactions affecting economy’s gold reserves (i.e. the gold owned by monetary authorities and held as a reserve asset), special drawing rights and financial claims etc. Financial Account involves unrequited transfers like external commercial borrowings, direct investments, portfolio investment etc.

Current Account in India is reported by the Reserve Bank of India. A current account impacts the net foreign reserves of a country. It is the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). Current Account transactions are sometimes also classified as “visible transactions” (including non-official gold imports, merchandise goods etc.) usually presenting “trade balance” of an economy at a given point of time and “invisible transactions” (including “income” and “services”). Since 1993, the rupee has become fully convertible on current account and India accepted the status and obligations of Article VIII with the IMF. Article VIII provides the legal basis for the member countries' obligations to maintain currency convertibility and exchange regimes free of restrictions or discriminatory practices. It promotes the process of globalization and integration of the economy with the world economy, which is the primary objective of the government and the RBI. However, conventionally the IMF emphasises certain pre- conditions for the introduction and successful maintenance of convertibility for the economy.

Current account deficit

When a country has a current account deficit, it becomes a ‘debtor’ to the whole world. It ‘owes’ liabilities of foreign exchange according to its deficit. To cover this debt, the Government has to attract overseas investors who bring capital to invest in India. This can be in the form of investment in real assets like factories, airports, roads etc. They can also give financial assets like equity, debt, treasury bills, bank deposits etc. It triggers the process of capital formation and is especially beneficial for developing economies. The inflows are part of the capital account which complement the current account by financing its deficit. This dependence on foreign resources cannot be good for the economy's health, as the flight of the resources out of the country can harm the economy's fundamentals. This occurs because of a systemic risk which is brought about by the reversal of capital. If unchecked, the economy can experience crisis ahead.

Implications of CAD

Running a current account deficit essentially means that the country is indebted to other countries that have contributed to its imports. The country can pay back this debt by decreasing its foreign assets which primarily includes foreign currency reserves that it holds. In the short-run, a current account deficit is mostly advantageous. Foreign investors willingly bring capital into a country to drive economic growth beyond what it could manage on its own. However, in the long run, a current account deficit can destroy economic vitality. Foreign investors may begin to suspect whether economic growth can provide an adequate return on their investment. And, thus, demand could weaken for the country's assets. Consequently, yields will rise and the value of national currency would gradually decline relative to other currencies. This would automatically lower the value of the assets in the foreign investors' currency, which is now holding stronger position with respect to domestic currency. This further depresses the demand for the country's goods which could lead to a point at which investors will dump the assets at any price.

Current Scenerio: Position of the CAD

Rising exports and moderation in gold imports pulled down India's current account deficit to $4.2 billion (0.9% of GDP) in the December-ending quarter of 2013-14. CAD narrowed to $31.1 billion (2.3 per cent of GDP) in April-December 2013. In the first half (April-September) of 2013-14, CAD narrowed to $26.9 billion (3.1 per cent of GDP) from $37.9 billion (4.5 per cent of GDP) in the first half of 2012-13. Current Account in India averaged -1.63 USD Billion from 1949 until 2013, reaching the highest at 7.36 USD Billion in the first quarter of 2004 and a record low of -31.86 USD Billion in the fourth quarter of 2012.

Current Account Balance as percentage of GDP (Actual and Projections by IMF)							
	2008	2009	2010	2011	2012	2013	2014
U.S.A.	-4.7	-2.7	-3.0	-3.1	-3.0	2.9	-3.0
Germany	6.2	6.0	6.2	6.2	7.0	6.1	5.7
France	-1.7	-1.3	-1.6	-2.0	-2.4	-1.3	-1.4
Japan	3.3	2.9	3.7	2.0	1.0	1.2	1.9
China	9.3	4.9	4.0	2.8	2.6	2.6	2.9
India	-2.4	-2.1	-3.2	-3.4	-5.1	-5.0	-4.6
South Africa	-7.2	-4.0	-2.8	-3.4	-6.3	-6.4	-6.5
Turkey	-5.7	-2.2	-6.2	-9.7	-5.9	-6.8	-7.3
Russia	6.2	4.1	4.6	5.2	4.0	2.5	1.6

(Note: The current account figures are IMF staff estimates and projections. For India, the figures are based on RBI data for previous years and projections of the Council for calendar years.)

Source: World Economic Outlook, IMF, April 2013-Publisher and Database

For the calendar year 2014, CAD as % of GDP in India is expected to touch 3.7% according to IMF estimates. It is expected to do much better than some emerging economies such as South Africa and Turkey. India has also recorded among the fastest improvement in its Current Account Deficit as % of GDP. The exact number could be different from IMF estimates. For the financial year ending March 2014, India's CAD could touch 1.9% of GDP, according to estimates by State Bank of India.

While presenting Vote-on-Account, 2014, Finance Minister P Chidambaram had predicted that India's current account deficit (CAD) would be contained at $45 billion in the financial year 2014-15, well below the record high level of 2012-13. Recently, he has commented that the CAD was brought down significantly to $32 billion in 2013-14 as against $88 billion during 2012-13 and fiscal deficit contained well within the target. He further said that the CAD in 2012-13 was at 4.7% of GDP and in 2013-14 it would be only 1.7%.

Recently, Mr. C. Rangarajan, Chairman, Prime Minister’s Economic Advisory

Council, estimated that India's Current Account Deficit is likely to be around 2% of gross domestic product (GDP) in the coming few years. As the inflation is showing signs of decline, and the gold prices also not rising, gold as an asset is losing attraction. There are also other factors contributing to improvement in exports.

India's growth structure has been predominantly dependent on oil, over two-thirds of which is imported. Such situation may not change much over the next few decades. This is because despite price increase and volatility, oil import is a necessity owing to shortfall in domestic coal production which has resulted in increased dependence on imports.

The second major cause of widening CAD is being attributed to gold imports. The government has tried to suppress such imports by imposing higher taxes. Gold and Silver imports contracted by 40% to $33.46 billion in 2013-14, or just 7% of total import bill, against 11% in the fiscal 2012-13, after the government put in place steps to check their runaway imports. It is believed that the import of gold would come down because of stabilization in its prices and natural factors like inflation coming down. According to an HSBC report recently, inflation in India may remain sticky in the financial year 2014-15 as a possible El Nino effect on the monsoon is likely to push up food prices.

Balance of Payments					
(Unit: US$ Billion or % GDP where % indicated)					
	2009-10	2010-11 (PR)	2011-12 (PR)	2012-13 (P)	2013-14 (Proj.)
Current Account Balance	-38.2 -2.8%	-48.1 -2.8%	-78.2 -4.2%	-88.2 -4.8%	-70.0 -3.8%
Capital Account Balance	51.6 3.9%	63.7 3.7%	67.8 3.6%	89.4 4.9%	61.4 3.4%

(Source: Economic Outlook 2013-14)

Remedies to check the problem

It is time the government comes out with a clear and concise trade policy with a roadmap for strengthening India's global trade. Managing a sustainable current account deficit necessitates a conducive exchange rate regime and appropriate savings and investment policies. Besides, it is necessary to manage huge bilateral deficits through export promotion and policy dialogue. India needs to keep its current account deficit in check by promoting exports and stabilising exchange rate to realise the good economic prospects.

The government should formulate policies towards improving trade with partner countries and establishing new relationships with developing countries in Asia, Africa and Latin America which would also help promote exports to these regions.

Improvement in the infrastructure of existing Export Processing Zones and Special Economic Zones, simplification of procedures for interacting with government agencies, enhancing trade finance, facilitating small and medium enterprises (SMEs) to access global markets etc, are other areas which need immediate concern.

Challenges before the Government to contain Current Account Deficit

In recent years, the foremost challenge to the Indian economy has been the growing current account deficit. The RBI has taken a number of measures to increase the interest rate at the short end and this has contained the depreciation of the rupee to some extent. However, it is believed that more has to be done to reduce volatility in the currency market, to stabilise the rupee and to contain the CAD. Efforts should be undertaken to curtail discrepancies in the successful implementation of fiscal consolidation. Measures could be promoted to enhance the capital inflows into India by liberalising ECB guidelines, raising additional funds through ECBs and trade finance by PSU oil companies, liberalising NRE/FCNR deposit schemes and by raising quasi-sovereign bonds to finance long term infrastructure through Public sector Financial Institutions.

The large and growing demand for gold in India is putting a burden on India's current account balance. In the absence of adequate production of Domestic gold, the resultant gold imports directly contribute to the widening of the current account deficit. Indian population, bound by social customs necessitating purchase of gold for specific occasions, irrespective of the price, there will be always be a definite demand for gold imports. Emergence of a new class of investors who compulsorily invest in gold for real returns also adds to the demand and thereby to imports. In short, the current trend in quantum of gold imports appears to be making India's external sector unsafe because of rising trade and current account deficits which, in the absence of adequate foreign capital flows, can affect maintenance of foreign exchange reserves in the economy.

How can ICAI help in curbing Current Account Deficit?

"*Perfection is not a destination, it is a journey that never ends"* so rightly quoted fact it is. ICAI embarked on a similar journey on 1ST July, 1949 which will complete 65 glorious years of excellence on 1st July, 2014. The Indian Accountancy profession is an integral part of success story of Indian Economy which has crossed many milestones in its journey. Chartered Accountants are the backbone of Indian Financial System. With mounting pressures, fast track changes and escalating expectations, much more is desired from today's CA's. ICAI, being the world's second largest accounting body, recognized for producing such professionals with world class competencies in accounting, finance, taxation, assurance and business advisory services, can very well join hands with the Government through its developmental and regulatory role in the economy.

ICAI can take suitable initiatives in assisting the government at all levels by providing them suggestions for efficient financial management in the economy so that the problem of current account deficit could be trackled. ICAI can join hands with governance in supporting better coordinated prudential rules and regulations. It could work toward provoking the System to take a holistic view of the proposed measures and of existing prudential regimes, in order to avoid excessive requirements and the risk of overlooking cumulative effects. ICAI could suggest measures at harnessing the opportunities and addressing the challenges presented in the economy at this juncture.

ANNEXURE

State-wise Number of Rural Local Bodies at Different Tiers According to 12th and 13th Finance Commission of India

(2005-2010 and 2010-2015)

States	Levels of Rural Local Bodies*	FC-XII (2005-2010)	FC-XIII (2010-2015)
Andhra Pradesh	Gram Panchayats	21943	21809
	Mandal Parishads	1096	1097
	Zilla Parishads	22	22
	Total	23061	22928
Arunachal Pradesh	Gram Panchayats	1747	1751
	Anchal Samities	150	150
	Zilla Prishads	15	16
	Total	1912	1917
Assam	Goan (Village) Panchayats	2487	2202
	Anchalic (Block) Panchayats	203	185
	Zilla Parishads	20	20
	Autonomous councils	-	4
	Total	2710	2411
Bihar	Village Panchayats	8471	8463
	Panchayat Samities	531	531
	Zilla Parishads	38	38
	Total	9040	9032
Chhattisgarh	Gram Panchayats	9139	9820
	Janpad Panchayats	146	146
	Zilla Panchayats	16	16
	Total	9301	9982
Goa	Village Panchayats	189	189
	Zilla Panchayats	2	2
	Total	191	191

States	Levels of Rural Local Bodies*	FC-XII (2005-2010)	FC-XIII (2010-2015)
Gujarat	Village Panchayats	13781	13738
	Taluka Panchayats	224	224
	District Panchayats	25	26
	Total	14030	13988
Haryana	Gram Panchayats	6032	6187
	Panchayat Samities	114	119
	Zilla Parishads	19	19
	Total	6165	6325
Himachal Pradesh*	Gram Panchayats	3037	3243
	Panchayats Samities	75	75
	Zilla Panchayts	12	12
	Total	3124	3330
Jammu and Kashmir	Halqa Panchayats	2700	4139
	Block Panchayats	134	0
	District Panchayats	14	0
	Total	2848	4139
Jharkhand*	Gram Panchayats	3765	4562
	Panchayats Samities	211	212
	Zilla Panchayts	22	24
	Total	3998	4798
Karnataka	Gram Panchayats	5659	5652
	Taluka Panchayats	175	176
	Zilla Panchayats	27	29
	Total	5861	5857
Kerala	Village Panchayats	991	999
	Block Panchayats	152	152

States	Levels of Rural Local Bodies*	FC-XII (2005-2010)	FC-XIII (2010-2015)
	District Panchayats	14	14
	Total	**1157**	**1165**
	Village Panchayats	22029	23040
Madhya Pradesh	Block Panchayats	313	313
	District Panchayats	45	48
	Total	**22387**	**23401**
	Village Panchayats	28553	27916
Maharashtra	Panchayat Samities	349	351
	Zilla Parishads	33	33
	Total	**28935**	**28300**
	Gram Panchayats	166	165
Manipur	Zilla Panchayats	4	4
	Autonomous District Councils	6	6
	Total	**176**	**175**
Meghalaya	Autonomous District Councils	3	3
	Total	3	3
Mizoram	Village Councils	737	707
	Total	737	707
Nagaland	Village Councils	1286	1110
	Total	**1286**	**1110**
	Gram Panchayats	6234	6234
Odisha	Panchayat Samities	314	314
	Zilla Parishads	30	30
	Total	**6578**	**6578**
	Gram Panchayats	12449	12447
Punjab	Panchayat Samities	140	141
	Zilla Parishads	17	20

States	Levels of Rural Local Bodies*	FC-XII (2005-2010)	FC-XIII (2010-2015)
	Total	12606	12608
	Gram Pachayats	9189	9184
Rajasthan	Panchayat Samities	237	237
	Zilla Parishads	32	32
	Total	9458	9453
	Gram Pachayats	166	163
Sikkim	Zilla Panchayats	4	4
	Total	170	167
	Village Panchayats	12618	12618
Tamil Nadu	Panchayats Unions	385	385
	District Panchayats	28	29
	Total	13031	13032
	Gram Panchayats	540	513
	Panchayat Samities	23	23
Tripura	Zilla Panchayats	4	4
	Autonomus District Councils	-	1
	Total	567	541
	Gram Panchayats	52029	52000
Uttar Pradesh	Kshetra Panchayats	809	820
	Zilla Panchayats	70	70
	Total	52908	52890
	Gram Panchayats	7055	7227
Uttarakhand	Intermediate Panchayats	673	95
	District Panchayats	-	13
	Total	7728	7335
	Gram Panchayats	3358	3354
West Bengal	Panchayat Samities	341	341

States	Levels of Rural Local Bodies*	FC-XII (2005-2010)	FC-XIII (2010-2015)
	Zilla Parishads	18	18
	Total	3717	3713
India	Gram/Village Panchayats (Including Village Councils Boards)	236350	239432
	Panchayat Samities	6795	6087
	Zilla Panchayats	531	543
	Autonomus District Councils	19	14
	Total	243685	246076

State-wise Number of Rural Local Bodies at Different Tiers According to 12th and 13th Finance Commission of India

States	Levels of Urban Local Bodies	FC-XII (2005-2010)	FC-XIII (2010-2015)
Andhra Pradesh	Municipal Corporations	7	15
	Municipalities	109	103
	Nagar Panchayat	1	6
	Total	117	124
Arunachal Pradesh	Municipal Corporations	1	1
Assam	Municipalities	28	29
	Town Panchayats	54	59
	Total	83	89
Bihar	Municipal Corporations	5	11
	Municipal Councils	37	43
	Nagar Panchayats	117	84
	Total	159	138
Chhattisgarh	Municipal Corporations	10	10
	Municipalities	28	28
	Town Panchayats	71	124
	Total	109	162
Goa	Municipal Corporations	-	1
	Municipal Councils		13
	Total	13	14
Gujarat	Municipal Corporations	7	7
	Municipalities	142	159
	NAC	-	2
	Total	149	168
Haryana	Municipal Corporations	1	1
	Municipal Councils	21	24
	Municipal Committees	46	51
	Total	68	76
Himachal Pradesh	Municipal Corporations	1	1
	Municipal Councils	20	20
	Nagar Panchayats	28	28

States	Levels of Urban Local Bodies	FC-XII (2005-2010)	FC-XIII (2010-2015)
	Total	49	49
Jammu and Kashmir	Municipal Corporations	2	2
	Municipal Committees	6	80
	Municipal Councils	61	-
	Total	69	82
Jharkhand	Municipal Corporations	1	2
	Municipalities/MC	20	15
	Town Panchayats/NAC	22	22
	Total	43	39
Karnataka	Municipal/City Corporations	6	8
	Municipal/City Councils	123	138
	Town Panchayats	93	73
	Total	222	219
Kerala	Municipal Corporations	5	5
	Municipalities	53	53
	Total	58	58
Madhya Pradesh	Municipal Corporations	14	14
	Municipalities	86	88
	Nagar Panchayats	236	236
	Total	336	338
Maharashtra	Municipal Corporations	16	22
	Municipal Councils	228	222
	Nagar Panchayat	-	5
	Total	244	249
Manipur	Municipal Councils	9	10
	Nagar Panchayats	18	18
	Small Town Committees	1	-
	Total	28	28
Meghalaya	Municipalities	6	6
	Total	6	6
Mizoram	Municipalities	0	1

States	Levels of Urban Local Bodies	FC-XII (2005-2010)	FC-XIII (2010-2015)
	Total	0	1
Nagaland	Municipal Councils	-	3
	Town Councils	9	16
	Total	9	19
Odisha	Municipal Corporations	2	3
	Municipalities	33	36
	Notified Area Councils	68	64
	Total	103	103
Punjab	Municipal Corporations	4	5
	Municipalities	98	97
	Nagar Panchayats	32	33
	Total	134	135
Rajasthan	Municipal Corporations	3	3
	Municipal Councils	11	11
	Municipal Boards	169	169
	Total	183	183
Sikkim	Municipal Corporation	0	1
	Municipal Councils	0	2
	Nagar Panchayats	0	9
	Total	0	12
Tamil Nadu	Municipal Corporations	6	8
	Municipalities	102	150
	Town Panchayats	611	561
	Total	719	719
Tripura	Municipal Councils	1	1
	Nagar Panchayats	12	12
	Total	13	13
Uttar Pradesh	Nagar Nigam	11	12

States	Levels of Urban Local Bodies	FC-XII (2005-2010)	FC-XIII (2010-2015)
	Nagar Palika Parishads	195	194
	Nagar Panchayats	417	422
	Total	623	628
Uttarakhand	Nagar Nigam	1	1
	Nagar Palika Parishads	31	31
	Nagar Panchayats	31	31
	Total	63	63
West Bengal	Municipal Corporations	6	6
	Municipalities	114	118
	Notified Area Authority	3	3
	Total	123	127
India	Total No. of Municipal Corporations	109	139
	Total No. of Municipalities	1432	1595
	Total No. of Nagar Panchayats	2182	2108
	Total	3723	3842

Abbr. : MC : Municipal Committee.NAC : Notified Area Committee / Notified Area Council.

Note : * : Data do not exist.

Source : Finance Commission of India and Indiastat.com .

Annexure

Selected State-wise Grants Released for Urban Local Bodies (ULBs) under Twelfth and Thirteenth Central Finance Commission's Recommendations in India (2007-2008 to 2011-2012)

States	12th Finance Commission			13th Finance Commission		Total
	2007-08	2008-09	2009-10	2010-11	2011-12	
Andhra Pradesh	3740	14960	7480	17649	11186	55015
Arunachal Pradesh	60	0	30	148	23	261
Assam	1100	0	2200	1179	3614	8093
Bihar	2840	1420	5680	3389	14685	28014
Chhattisgarh	880	880	4400	3835	4028	14023
Goa	0	480	0	381	58	919
Gujarat	8280	12420	8280	11975	16274	57229
Haryana	1820	910	2730	4052	5439	14951
Himachal Pradesh	160	160	160	761	1035	2276
Jammu & Kashmir	0	0	760	1879	1336	3975
Jharkhand	0	1444	0	1823	4391	7658
Karnataka	3230	9690	6460	18546	34914	72840
Kerala	2980	1490	4470	6681	11336	26957
Madhya Pradesh	3610	10830	7220	13742	14457	49859
Maharashtra	7910	7910	39550	29227	56049	140646
Manipur	90	90	360	753	58	1351
Meghalaya	0	400	0	737	1002	2139
Mizoram	0	400	0	864	1175	2439
Nagaland	60	240	120	357	855	1632
Odisha	0	5200	2080	4565	6205	18050
Punjab	3420	5130	3420	5777	4151	21898
Rajasthan	2200	8800	4400	11118	20931	47449
Sikkim	0	0	0	12	14	26
Tamil Nadu	5720	17160	11440	22084	29387	85791
Tripura	0	0	320	515	700	1535
Uttar Pradesh	15510	10340	10340	27492	16882	80564
Uttarakhand	0	0	0	1751	2380	4131
West Bengal	7860	11790	7860	14860	10578	52948
India	71470	122144	129760	206152	273143	802669

Source: Lok Sabha Unstarred Question No. 3077, dated on 24.04.2012. Indiastat.com

Selected State-wise Performance Based Grants Released for Urban Local Bodies (ULBs) under 13th Central Finance Commission's Recommendations in India
(2010-2015)

States	(₹ in Crore)
Andhra Pradesh	663.4669
Arunachal Pradesh	28.37873
Assam	170.0042
Bihar	527.6084
Chhattisgarh	193.8766
Goa	15.95969
Gujarat	337.5138
Haryana	141.2499
Himachal Pradesh	59.3593
Jammu and Kashmir	104.2342
Jharkhand	180.3579
Karnataka	603.2224
Ke rala	248.4883
Madhya Pradesh	520.7149
Maharashtra	805.6556
Manipur	27.94957
Meghalaya	36.5061
Mizoram	27.43993
Nagaland	35.46001
Odisha	286.6574
Punjab	162.8424
Rajasthan	476.5911
Sikkim	17.3813
Tamil Nadu	506.5792
Tripura	32.40218
Uttar Pradesh	1182.975
Uttarakhand	72.52939
West Bengal	534.797
India	8000.20

Source Rajya Sabha Unstarred Question No. 929, dated on 21.03.2012 and indiastat.com.

Annexure

State-wise Grants Released to Urban Bodies Bodies
(As per Recommendation of Finance Commission) in Northern India
(2000-2001 to 2003-2004 and 2005-2006 to 2009-2010-Upto 06.11.2009)

(₹ in Lakh)

States	2000-01	2001-02	2002-03	2003-04	2005-06	2006-07	2007-08	2008-09	2009-10
Punjab	547.26 994.16	547.27	1641.79	-	1710.00	3420.00	3420.00 2200.00	5130.00	1710.00
Rajasthan		2982.48	994.16	1988.32	4400.00	2200.00		8800.00	2200.00
Haryana	366.40	1099.20	732.80	366.40	1820.00	1820.00	1820.00	910.00	1820.00
Himachal Pradesh	38.92	38.92	116.76	77.84	160.00	160.00	160.00	160.00	-
Jammu and Kashmir	156.58	156.58	469.74	-	380.00	760.00	-	-	-
Uttar Pradesh	2278.90	6836.38	2278.82	4557.64	5170.00	10340.00	15510.00	10340.00	-
Uttara-khan d	237.42	237.58	712.50	-	340.00	680.00	-	-	-
Northern India	4619.64	11898.4 1	6946.57	6990.20	13980.0 0	19380.0 0	23110.0 0	25340.00	5730.00
India	19061.0 2	46064.2 9	38292.9 7	21816.5 1	59845.0 0	99975.0 0	71470.0 0	122144.0 0	49020.0 0