

Recommendations on Municipal Finance

#	KEY ISSUE	RECOMMENDATION
I ACCOUNTING		
1	<u>Double-Entry Accrual Based Accounting (DEABS)</u> <ul style="list-style-type: none"> Conversion to DEABS was a mandatory reform under the JNNURM Only 44 out of 66 ULBs had implemented the reform upto 2010-11 as per CAG's audit report in 2012 on JNNURM Institutionalisation of DEABS in the remaining ULBs also needs to be verified 	<ol style="list-style-type: none"> Carry forward the reform condition into JNNURM v 2.0 with the added requirement of <ul style="list-style-type: none"> Amending Municipal Corporation Acts/underlying rules to mandate DEABS as the single method of accounting Discontinuing cash basis of accounting and related records Producing audited annual accounts for 3 consecutive years upto 2011-12 based on DEABS Incorporate the above in the 14th Finance Commission recommendations, pending roll out of JNNURM v 2.0
2	<u>Uniform Accounting Standards</u> <ul style="list-style-type: none"> Currently ULBs in India do not follow a uniform set of accounting standards The Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India (ICAI) has so far issued 7 ASs for LBs, none of which is mandatory 	<ol style="list-style-type: none"> The ICAI should issue a full body of ASs that would generally be applicable to ULBs based on a pre-defined time table The 14th FC and eventually JNNURM v 2.0 should mandate adoption of ASs issued by the ICAI by large ULBs in a phased manner, through amendments to Municipal Corporation (MC)/Municipalities Acts of states
II FINANCIAL AND PERFORMANCE REPORTING		
4	<u>Standardised format of Annual Accounts/Financial Statements</u> <ul style="list-style-type: none"> No standardised format of annual accounts exists for municipal corporations. Each municipal corporation follows the format prescribed under respective MC Act/rules. The absence of a standardised format 	<ol style="list-style-type: none"> Ministries of Finance and Urban Development, Government of India should constitute a Task Force to draw up and recommend a standardised financial reporting framework for MCs in India as per a pre-defined time table. CAG of India, the ICAI, private sector experts, Commissioners and CFOs of MCs etc. should be key stakeholders in the Task Force. The Task Force should also be entrusted with a pilot roll out of the standardised financial reporting framework for major ULBs in India. Adoption of the NMAM has been a key recommendation of the 13th FC. The status of adoption of NMAM, challenges in implementing the same and improvements to the same should be appropriately

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		factored in by the task Force. A standardised financial reporting framework shall comprise format of balance sheet, profit and loss account, cash flow statements, notes to accounts and mandatory disclosures to be made by ULBs.
5	<u>Timeliness and Disclosure of Audited Annual Accounts/Financial Statements</u> <ul style="list-style-type: none"> Major delays in completion and disclosure of audited annual accounts even by the largest ULBs (e.g. the BBMP, the ULB in Bangalore and one of the largest ULBs in India, has not reported its audited annual accounts for the last several years) 	<ol style="list-style-type: none"> 1. Disclosure of audited annual accounts for 5 consecutive years upto 2012-13 should be a mandatory condition for major ULBs (all with million plus population) to access 14th FC's grants 2. Completion of audit of annual accounts within maxm of 6 months of the close of the financial year and disclosure of the same should be a mandatory reform under JNNURM v 2.0, again through amendments to MC Acts 3. The MC Act should also mandate formal written response to audit observations made in the statutory auditor's report from the State Govt/City Council which in turn should be placed in the public domain 4. A blanket ban on grants and scheme funds to large ULBs should be explored, where there is delay in producing and disclosing audited annual accounts (possibly by the Ministries of Finance of the Central and State Governments) 5. To address the issue of lack of state capacities to undertake statutory audits, a system of empanelment of Chartered Accountants for the audit of ULBs should be undertaken in accordance with 2nd ARC had recommendations
6	<u>Performance Reporting</u> <ul style="list-style-type: none"> No standardised performance metrics exist to evaluate the operating performance of ULBs other than Service Level Benchmarks (SLBs). There is also no standardised format for such disclosures/no Management Discuss & Analysis 	<ol style="list-style-type: none"> 1. The Terms of Reference of the Task Force referred to above should include Performance Reporting framework in addition to Financial Reporting framework. A performance reporting framework shall comprise specific metrics and disclosure formats that capture the operating performance of ULBs. 2. The 13th FC had included notification of SLBs as a mandatory condition to draw down performance grants. That condition should be continued by the 14th FC.

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		3. MC Acts/rules thereunder should be amended to mandate completion and disclosure of performance reporting formats (possibly as reform conditions under JNNURM v 2.0 and/or 14 th FC recommendations)
7	<u>Compliance with the Public Disclosure Law</u> <ul style="list-style-type: none"> The Public Disclosure Law is a pioneering reform in transparency and accountability and a mandatory reform condition under JNNURM. It requires States/Cities to disclose <i>inter alia</i> quarterly financial statements, service level benchmarks and comprehensive details of civic works in a time-bound manner. While 22 states have claimed to have “enacted” the PDL, no city/ULB has implemented the PDL in spirit by disclosing quarterly financials/other disclosures mandated by the model PDL. 	<ol style="list-style-type: none"> Carry forward the reform condition into JNNURM v2.0 With enhanced provisions, namely <ul style="list-style-type: none"> Notification of Rules under the PDL should be included as a reform condition Certain specified clauses of the model PDL should be considered as minimum disclosures that need to be incorporated in order to satisfy the reform condition Mandated public disclosure of at least 2 consecutive years’ data should be considered evidence of compliance Incorporate the above in the 14th Finance Commission recommendations, pending roll out of JNNURM v 2.0
III AUDIT AND INTERNAL CONTROLS		
8	<u>Performance Audits by CAG of India</u> <ul style="list-style-type: none"> The CAG of India either through full-fledged performance audits or Annual Technical Inspection Reports (ATIRs) covers audit of ULBs of many states in India. While most of them make generic observations of the status of audit of accounts and finances, there is no mandatory specific section focussed on audit of annual accounts (timeliness, quality, responses) and performance metrics 	<ol style="list-style-type: none"> The CAG of India should mandate all performance audit reports and ATIRs of ULBs to carry a detailed report on the status and quality of audit of annual accounts and on performance metrics. The MC Act should provide for mandatory formal written responses from the State Govt./City Council on audit observations made in the CAG’s audit reports within a pre-defined time period.