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1. Introduction

1.1 Local Self Government

India is one of the largest democratic countries in the world. According to 2001 census report the population of India was 102.70 crores.

The area of our country is about 32,92,054. If we compare the area to other country, India stands on seventh position regarding area. The population of India lives in villages, towns and cities. It is difficult to manage the local problems by central and state government. So the concept of local self government was introduced.

Understanding the local requirement, to fulfill them properly, and where local people co-operate with local administrator is known as local self-government. So, the organization set up by law to carry out administration is known as local self-government organization. Such local self-government have been established to make the administration easy scientific and simple and more so to involve the local resident.

(1) This type of government solved local problems very fast and very effectively.

(2) Local people are directly involved to solve the problems, because they know their real needs.
local self-government organisation can be broadly classified in to village area and urban area. In village area it is known as Gram Panchayat, Taluka Panchayat and District Panchayat. Where as in urban area is known as Municipality and Municipal Corporation.

According to rules the residential area where population is more then 15,000 and less than 5 lakhs are known as towns and in this type of towns there exist municipality. The area whose population is more than 5 lakhs known as cities and in this type of city the local self-government known as Municipal Corporation. The notified area council is constituted in a rapidly growing area which does not fit in the definition of municipality. The cantonment board is a creation of the central government and functions under the ministry of defense.

1.1.1 Important features of the local government

(1) It is mainly connected with local people and local problems.

(2) Through election, local people select their representatives and ultimately control them.

(3) It enjoys limited autonomy due to government control.
In Gujarat state there are six municipal corporations. The numbers of members in the municipal corporation is decided in preparation to the population of the city. The Head of Municipal Corporation is known as Mayor, who is known as the first citizen of the city. The elected representatives of the Municipal Corporation elect mayor from among themselves. Municipal Corporation function to provide certain amenities to the people. These functions are –

(1) To provide facilities of Public Health and maintain cleanliness of the city.

(2) To provide public amenities like construction and maintenance of roads and bridges, public lighting, public urinals, drainage system, drinking water facility etc.

(3) To create facility of education at primary and secondary level and cultural development.

(4) To provide safety and security to the citizens like fire brigade.

(5) To create facilities of recreation like gardens, amusement parks, stadiums etc.
1.1.2 Problems of Urban Government

The phenomenon of urbanization is neither new nor surprising. During the ages people have tended to cluster together for their living and in due course of time areas in habited by human beings for purposes other than agriculture got designated as urban. Of course, invariably there are other attributes too but these are in the nature of afterthoughts and refinements, and mainly to distinguish the viable units from the non-viable ones and do not deserve to be considered as characteristic of the scene. One may, indeed, be tempted to make a broad generalisation to help identification; clusters where human beings are found together basically and initially for purely social reasons maybe termed as non-urban; areas where economic necessity brings them together are generally urban. That is so far as sociological factors go too. Naturally, with the evolution of human society and complexities added to human activity, even the rural areas have gradually begun to get transformed into economic entities. Agriculture has already become an industry in many countries and is well on its way to show these characteristics in India as well. A way of life is getting changed to a way of living. Consequent changes in social habits, family and institutional relationships and the predominance of economic attitudes and pressures are already abundantly visible. All this is profoundly disturbing to the romantic view of human society, but is undoubtedly a blessing in the present stage of human evolution. Thanks to the unabashed maintained of double standards, the human element in the rural areas was relegated into the background and treated with apathy, if not contempt undeserving in the eyes of the urban dweller of the good things of life. The producer of milk and food and vegetables had become a
second class citizen, whereas the manufacturer of pins and needles in the miserable slums of an urban area was the better citizen! Naturally, such a state of affairs could not last indefinitely and the exodus to towns from the rural areas began many decades ago. In some countries, the saturation-point has been reached already. In India the process continues unabated though the magnitude of the problem is not fully realised everywhere for various reasons.

**Problems of Urban Socio-economic Structure**

A factor which confounds our urban picture and creates immense problems for urban administration is the economic and social level of the vast numbers of people who congregate in our urban areas. The anonymity and impersonality of urban life militates against the ‘tribal’ attitude that groups of migrants bring the complex, often imperceptible, economic structure and relationships in the urban situation demand a loosening of the earlier social cohesion to the utter bewilderment and annoyance of the new comers, and help build resistances which only create further problems. The capacity of our towns to absorb the immigrants gainfully, that is to say at a reasonably satisfactory level of remuneration, is limited at present. The result is that a large percentage of the urban population is unable to pay for the services that must necessarily be provided, and local governments which are primarily responsible for the maintenance of a minimum standard of services are overstrained. Their resources are limited, even allowing for better husbanding of present resources, and little elbow-room is left them for maneuvered. The Central Government, in defense of constitutional propriety, does not take
any responsibility for urban government, and the apathy of the State Governments is notorious. Neglect and dereliction are thus writ large on the Indian urban scene. There is hardly any growing city in the country, not excluding even some of the new industrial townships, and Delhi, where a cruel visitor or an unsuspecting foreigner may be beguiled by the garishly lit fountains, the patches of canna and bougainvillaea, the “taller-than-Qutab” buildings and, alas, painted granite, in the midst of shortages and deficiencies of all kinds and the ghastly slums, which do not exhibit falling standards of services and absence of increased welfare activities. The appalling amorphousness of our towns recalls minding the picturesque Miltonic description of a shape “that shape had none”.

Problems of Enactment to Govern the ULBs

It is on this canvas that urbanisation is taking place and urban governments are required to deal with the numerous complex problems arising out of this situation. In order to comprehend the competence of local governments to handle an ensemble of such vast dimensions, it is necessary first to recapitulate briefly the structure and functions of local governments in India. The laws in the various states differ in matters of detail but the main features are fairly uniform and a certain amount of generalisation would, thus, be justified. For one thing, most municipal acts enunciate fairly precisely the functions of municipalities and municipal corporations and place them distinctly either in the mandatory or the discretionary category. But these enactments do not define the role of local government.
This is a serious lacuna because functions emerge from the role. The absence of a preamble on this point has deprived local bodies of a definite place in the hierarchy of the governmental system and has only tended to relegate local government to a position worse than that of an ordinary executive department of government. It has to be realised that urban governments are created by elections and they are, thus, in every sense political entities, and must, therefore, be allowed to function as such. To deprive, or attempt to deprive them of their political attribute and to saddle them with responsibilities which require political judgment and action results in clipping their wings. It would be interesting to quote from there municipal acts to show how casual has been the approach to local government. The Bombay Municipal Corporation Act of 1888 just states: “Whereas it is expedient to consolidate and amend the law relating to the municipal government of Bombay”. The Punjab Municipalities Act of 1911 is equally summary: “Whereas it is expedient to make better provision for the administration of municipalities in the Punjab”. The Delhi Municipal Corporation Act of 1957 which was enacted well after Independence is no better: “An Act to consolidate and amend the law relating to the municipal government of Delhi”. One would have expected that some at least of the political enthusiasm of the period 1947-1951, when our constitution was being framed, would have survived to inform the framing of legislation for local government in Delhi in 1957. On the other hand, not only did the Delhi legislation treat the Bombay Act of 1888 as a model but also copied verbatim the introductory sentence from the Bombay Act. It may be argued that the statement off “aims and objectives” in each case fills the gap in actual fact, it does not and, in any case, incidental references do not serve the purpose. One might as well scan the debates during the passage of the bill! Unless the philosophy is enshrined in the
law itself, it ceases to have any operational worth and is of academic interest only. It may inspire students and historians but fails to inspire the institution. This is exactly what has happened to the entire world of local government in India. Our Constitution only makes a tangential reference to it, and Article 40 in regard to Panchayati Raj is not only an afterthought but purely incidental. The result is that local government, particularly urban, is only suffered as a hang-over from the past. It has no inherent strength, and contemporary approaches only help emasculate it further. This then is the biggest problem for urban governments today. When the pace of urban growth was slow and the functions of local bodies were of a simple nature, they were able to handle them somehow. But today the problems have been complicated by mere size, apart from the consequences of technological advancement (the increasing number of automobiles, for instance). Local bodies need greater political and financial strength to deal adequately with these and, above all, the full and active participation of the State and Central Governments, and not, as at present, a step-motherly treatment. Unless constitutional protection is given to the existence of local governments and their role in the governance of the country, it is feared that they would not be able to discharge their multifarious duties with confidence, and the interest of the citizens (the votes) will never be aroused. This latter desideratum is one of the main reasons for local government being what it is today – weak, erratic, and inefficient.
Problems of Relationship among the Central, State and Local Self Government

A direct consequence of this situation is the absence of the emergence of any positive and purposeful relationship among the three tiers of government. At the State level, it is, by and large rather negative – prolonged indifference followed by drastic action: super session. Instead of guiding and helping at all stages and responding to their difficulty, the State Government cultivates an attitude of aloofness till political or other considerations prompt it to take punitive action. It was hoped that the creation of directorates of local authority would fill this gap, that they would provide governmental support and guidance to urban government but in actual practice – and not quite unexpectedly on account either of political apathy towards local government or in unawareness of its urgent and everlasting significance to democracy, and a bureaucracy immured in its old attitudes and traditions – these have tended to be an agency for controlling and supervision only. Thus, urban government with functions which affect the citizen in practically all facets of his life has been left neither with political stature nor that amount of administrative and financial power as would enable it to render service to the people. Its so-called autonomy is actually a disadvantage as it deprives it of the direct and willing patronage of government (as in the case of the departments of government) and yet when it suits government, it does not hesitate to supersede them. The community is thereby deprived of its organ of government at the local level; the punishment is not meted out to the elected councilors but to the whole lot of citizens. If then these
institutions should not only be allowed to function but given all the help and support by the state and Central Governments. One has not heard of departments of government being put in cold storage on account of failure to deliver the goods according to plan. Quite naturally, urban governments in India are generally not able to meet the overwhelming challenge of urbanisation in its present form. Urban centers are an integral part of the human and spatial sphere of responsibility if the State and the Central Governments and they contribute so much to national prosperity. The higher levels of government should, therefore, show as much interest in their welfare. Towards this end they should act as friends and benefactors and not as powerful rivals, or disinterested spectators.

**Problems of Personal Management in Local Self Government**

The present moribund condition is urban governments creates another serious problem for them. It is in regard to the hiring of competent personal to man various positions under a local government. With enlarged responsibilities and complicated financial, technical and administrative problems, never was the need greater than now for the employment of efficient and well-qualified personnel. The meager and inelastic resources of local bodies prevent them from competing in the employment market with government and big businesses. They have thus generally to satisfy themselves with the “rejects”, so to speak. Equally, their inability to provide good service conditions and incentives not only adds to the misery of their employees but acts as a deterrent to the competent man from entering into municipal service. Second
rate, or worse, personnel, generally disgruntled too, add to the
current inefficiency of local government. The resultant
dissatisfaction among the citizens further tarnishes the image of
local government and encourages the higher political and
administrative levels – none too friendly any how-to question their
utility. A perfect vicious circle thereby has come into operation,
regarding progress. Recent steps to create State cadres of
municipal services, even though an encroachment on the
traditional autonomy of local government may help solve this
problem in due course of time. But this measure should be
followed by a progressive and liberal pay, training and
management policy in order to make it really effective, otherwise
it will not be possible to banish the impression that the step has
been taken merely to bring municipal servants under State control.
State Governments amy like, in this connection, to be reminded of
their own occasional impatience with the all-India services
operating in the State field, and the equation is not perfect by any
means! If the well-being and efficiency of local government
genuinely inspires the State Governments which have created state
municipal cadres, the logical step would be to merge them in
corresponding State cadres. This would not only give a
psychological boost to the local bodies but would also, in the
sphere of action, enable them to utilise experienced personnel. The
homogeneity will raise the level of local government performance
and will raise the level of local government performance and will
indirectly engender greater interest on the part of the State
Government in the fortunes of urban government. It may also help
eliminate the present alienation and make local government an
integral part of the system of governance.
Problems of Recovery of Amenities Fees

Urban local authority is beast today with acute and increasing financial difficulties. A rapidly increasing urban population, as has already been stated, stretches municipal services, and needed augmentation is hindered by lack of funds. In the present rather depressed state of the urban economy, a very large proportion of the citizens, who otherwise use most of the local services, do not pay the requisite taxes on account of their low level of income. Thus, urban governments financed by a few have to subsidies numerous basic services and the financial strain is undoubtedly heavy. Yet these services cannot be denied: protected water supply has to be maintained and new roads built in the ever-expanding city, garbage has to be collected and disposed of (a complicated and costly exercise) and health facilities have to be maintained at a certain level and so on. Until internal resources increase proportionately, urban governments will fail to keep pace with growing requirements. This grim situation will continue as long as the economy does not become reasonably strong. In such a situation, direct assistance from the State and the Central Governments appears unavoidable. It is true urban governments have not, by and large, shown much aptitude for efficient financial management and control: there is wastage, there are leakages, there is extensive under-assessment, several sources of income have not been tapped and at least some services for which charges could be leveled are extended free to a large number of citizens (for instance, liberal installation of public hydrants). Political considerations are often responsible for such a State of affairs and it is hoped that with the attainment of greater maturity, some of these attitudes will change. After all, State Governments also play
ducks and drakes with land revenue, granting exemptions at their whim and pleasure.

Problems Regarding to Proper Finance

In addition to these problems, urban governments have another problem in the financial sphere. It is their inability to impose new taxes and the reluctance of the State and the Central Governments to share with them on a rational basis some of the taxes collected by them from the urban areas to which urban governments appear entitled. A rational and statutorily protected mechanism for sharing of revenues is urgently indicated. The statutory protection is necessary to prevent deviations on account of political or personal reasons. What important is an acceptance of responsibility on the part of the higher tiers of government for the proper discharge of local functions by urban governments and the changing priorities of State and Central Governments could not become an excuse for diversion or withdrawal of funds. Needless to say, the system of grants and loans (apart from revenue sharing as stated above) should also be re-examined and placed on a surer and dependable footing. But, as has already been pointed out, the provision of funds alone is not going to help solve the problems of urban governments. They must also learn to utilise these funds properly. Towards this end, competent staff is, of course, necessary but what is equally important is sound budgeting—a sphere in which most urban governments are at present pathetically weak. They need to train their budget officers for this purpose and State Governments should extend all possible help to them in this direction. Similarly, a good system of help to them in
this direction. Similarly, a good system of continuous internal and regular external audit – not by way of a distant post-mortem – must be immediately introduced. These are fields in which the directorates of local government can be of great help. The smaller urban governments, particularly, will not be able to create highly competent budgeting and accounts units and would stand in need of guidance.

Problems in Town Planning

Another problem which urban governments face is in regard to planning. For one thing, most municipal acts do not have any precise provisions about planning – its definition and content, and several States do not have any legislation on the subject. The result is that planning does not receive any attention, and where ad hoc plans are prepared, it becomes very difficult to enforce the provisions in the absence of legal sanction. It is obvious that where growth is taking place, municipal activities must be undertaken on an integrated basis not only to avoid waste and lopsided development but also with a view to forestalling and meeting future requirements. The very exercise of carrying out surveys and studies, assessing deficiencies and needs, determining priorities and estimating costs is in itself an education to councilors and officials alike. They would begin on approach problems with full knowledge of things and thus tackle then, efficiently and expeditiously, instead of, as they often do now, biting here and biting there. In the limited scope of this paper, it is not possible to discuss the planning process in all its details out every one is aware of the glaring absurdities resulting from a lack of it.
Residential colonies are sanctioned without my arrangement for water supply; industrial areas are developed without a proper circulation or parking system or arrangements for the disposal of effluents. Such add situations do arise quite often and it is so much more expensive to remove the deficiencies or undo the mischief later. An important function of planning in purely physical terms is the judicious use of land – a scarce commodity in most urban areas – and rational and timely reservation for future also. Roads have to be widened, new ones built; sites are required for schools, hospitals, parks and play-grounds, housing, industries, shopping, community facilities and a million other uses. Land planning is thus a very essential need. Urban governments cannot obviously legislate upon planning: It is the State Governments which have to undertake this and the sooner they do it, the better. But as planning requires the use of many disciplines and a fairly high level of expertise, the majority of the urban governments cannot engage in this work on their own. The State Governments must create the machinery for this and make it available to local bodies but the latter must show active awareness of the significance of planning and preparedness to enforce a plan. The ultimate responsibility is undoubtedly that of urban governments and many good plans have been reduced to scraps of paper by un-cooperative or un-understanding agencies, or utterly messed up in the course of implementation by short-signed authorities eager to bask in the sunshine of temporary popularity.
Problems in Administration in Local Self government

The planning process leads on to a number of administrative problems which continue to even the more efficient urban government. Apart from purely internal administrative problems within the specified jurisdiction of an urban government, growing towns invariably generate a suburban development along the periphery over which they have no control. Sooner or later such haphazardly developed areas get incorporated into the central town. It is an unpleasant and costly dower and creates serious difficulties for the town administration and, in any case, generally does not contribute much to the revenues of the town in the initial stages and still clamours the most for the full extension of municipal services and facilities. On the physical plane, the task is gigantic as the urban government does not operate upon a clean slate. Expense and technical difficulties apart, the laying of the services and the provision of amenities in a planned way causes much dislocation to the people already settled in these pockets in an utterly disorganised manner. Thus, whereas urban local governments have to face the problems, they have no means of preventing such development on the outskirts. To reduce these possibilities, remedial measures have to be devised by the State Government in close collaboration with the urban local governments concerned and the formulation of integrated plans with built-in protective devices is imperative. On the other hand, it must also be conceded that local bodies do not evince much alarm or anxiety about such ugly developments right from the beginning and register protest and display helplessness when the mischief is done. If they were less somnolent or indifferent, it
It will be seen from this brief narration that urban governments face serious problems and as they happen to be face to face with the community, their task becomes all the more difficult. Even though a strengthening of the basis of local government and an enlargement of its responsibility, authority and financial powers and resources is necessary, let it be stated beyond the scope of any doubt that much can be done even within the present dispensation – much, indeed, to meet the advancing wave of urbanisation and to reduce current deficiencies. What is needed is a total effort in the public interest born out of a full and complete knowledge of the role and functions of local government and of the human and physical landscape of the city. Piecemeal and sporadic efforts, as are often in evidence and wringing of ones hands are not going to help. All aspects of the community’s life have to be taken care of – physical well-being, social welfare and economical prosperity. Municipal government has to be total government within its jurisdiction.
1.2 Municipal Administration in Gujarat

1.2.1 Historical Background

The Gujarat State separately established on 1st May, 1960. Prior to its bifurcation from the erstwhile Bombay State the local government institutions of the area were governed by the Acts that were in force in the old Bombay State and in the erstwhile native States.

In the former Bombay State, city municipalities came into existence for the first time, in pursuance of the Bombay Act (No.VI) of 1973. The municipal areas with a population of 10,000 and above were constituted into city municipalities while those with a population between 2,000 and 10,000 were named as ‘town municipalities’. The principle of election was first introduced in 1873, but the first elections were held only in 1882.

In the year 1884, the Government of Bombay abolished the distinction between the district and city municipalities by enacting the Bombay Act No.II of 1884. But this distinction was revised again as a result of the enactment of the Bombay District Municipalities Act IV of 1901. The larger district towns were constituted into ‘borough municipalities’ which were governed by the Bombay Municipal Boroughs Act of 1925. In both these Acts, there were provisions for the nominated element. In 1938, the Government of Bombay took a decisive step in the history of local
self-government by passing the Bombay Act No IX of 1938. This Act abolished nomination in municipalities and permitted Muslims to vote in the general constituencies, provided they did not desire a separate constituency. It also made due provision for necessary representation of Harijans, backward communities and women by creating reserved seats for them.

The situation in the native States was different. In many of them, the municipality existed as a part of the State Department with highly limited powers and extent of jurisdiction. But with the merger of those States with the Bombay State after independence, the Municipal Acts of the Bombay State were extended to these areas also and most of the nominated Municipalities functioning as departments of the State began to function as popular municipalities.

Thus, when the State of Gujarat was formed, there were 147 municipalities of different types functioning as local self-government institutions with diverse traditions and historical background. In order to bring about certain uniformity in their working, the State Government appointed the Committee for Rationalisation of Municipal Functions which submitted its report in December 1961. The Committee recommended, among other, the abolition of the various types of municipalities and to have one type governed by a unified law. Accordingly, the State Government enacted the Gujarat Municipalities Act, 1963 which now governs all the municipalities in the State. The rural local bodies in the State are governed by the Gujarat Panchayats Act, 1961.
1.2.2 Types of Urban Local Bodies

There were one municipal corporation and 56 municipalities in the State in 1965 governed respectively by the Bombay Provincial Municipal Corporations Act, 1949 and the Gujarat Municipalities Act, 1963. The district municipalities which had a population between 10,000 to 20,000 have been converted as Nagar Panchayats and those with population below 10,000, as Gram Panchayats. They come under the Panchayati Raj set-up and are governed by the Gujarat Panchayats Act, 1961.

1.2.3 Demarcation and Rural-Urban Relationship

There are no specific criteria for constituting municipal corporations. This is decided by the State Government after considering the growth and importance of a city and the necessity for ensuring a better municipal government for the same. The Gujarat Municipalities Act, 1963 also does not state any specific criteria for constituting municipalities. But the Gujarat Panchayats Act, 1961 provides for the declaration of towns having a population from 10,000 to 30,000 is Nagar Panchayats, although in practice, only towns upto 20,000 population have been integrated so far. Thus, it may be seen that towns with a population above 20,000 are generally constituted into municipalities.

No criteria have been laid down in the Acts for demarcating the boundaries of the urban local bodies. The Municipal Act
provides that the State Government may by notification include any area in a municipal borough.

Before including any area in a local body, the State Government has to notify the proposal in the Official Gazette and also in at least one of the local newspapers in English as well as in Gujarati and also paste up the same in conspicuous places in the local area. Objections to the proposal in writing to the collector are invited within two months. The collector forwards every objections to the State Government who after duly considering them finally notifies the proposal in the Official Gazette.

1.2.4 Structure, Composition, Tenure, etc., of Local Council

In the case of municipalities, the various authorities charged with carrying out the provisions of the Act are:

(a) the municipality;

(b) the president;

(c) the chief officer.

The municipality consists of elected concillors whose number varies from 25 to 51 according to population as follows:

(i) 25, if the population of the municipal borough does not exceed 50,000
(ii) 35, if the population of the municipal borough exceeds 50,000 but does not exceed 1,00,000

(iii) 40, if the population of the municipal borough exceeds 1,00,000 but does not exceed 2,00,000.

(iv) 51, if the population of the municipal borough exceeds 2,00,000

Seats have been reserved for women (varying between 2 and 5 depending on the total membership of the council) and for scheduled castes and scheduled tribes (in proportion to their population). The term of office of members is four years extensible by State Government to a period not exceeding five years in the aggregate.

A president and a vice-president are elected by the members from among themselves and they hold office for a term not exceeding four years.

The Municipalities Act provides that every municipality shall appoint a chief officer. He can be removed from office, reduced in rank or suspended by a resolution passed by not less than two-thirds of the total number of councillors.

In the case of corporation, the various authorities are:

(a) Corporation;

(b) Standing committee;
(c) Municipal commissioner;

(d) Transport committee (in case the Corporation runs a Transport undertaking);

(e) Transport manager.

The corporation consists of elected councilors whose total number is fixed by the State Government, by notification in the Official Gazette. There are no co-optee nominated members. There is provision for reservation of seats for Harijans in proportion to their population in the city. The term of office of councilors is normally four years which may be extended by one year by the State government. The corporation elects a mayor and a deputy mayor every year from amongst the councilors. The Mayor calls for the meeting of the corporation and presides over all meetings.

The standing committee consists of twelve councilors, half of whom retire every year by rotation. The Chairman of the standing committee is elected every year by the members of the standing committee.

The Municipal commissioner is appointed by the State Government for a period not exceeding three years in the first instance and the appointment can be renewed for a similar period. He is vested with the executive authority for the purpose of carrying out the provisions of the Municipal Corporation Act. He exercises supervision and control over all corporation officers and
servants other than the municipal chief auditor and municipal secretary and the officers and servants immediately subordinate to them. He can be recalled by the State Government if at a meeting of the corporation not less than five-eighths of the total number of members votes in favour of a resolution recommending his withdrawal.

The transport committee consists of nine members for the purpose of conducting the transport undertaking of the corporation in accordance with the provisions of the Act. The chairman of the standing committee is an ex officio member and eight members are appointed by the corporation from among persons who in the opinion of the corporation have had experience of and shown capacity in administration or transport or engineering, industrial, commercial, financial or labour matters, and who may or may not be members. In practice, the corporation elects four members from amongst themselves and four from outside. One-half of the members of the committee retire in every second year. The chairman is elected from among the members every year.

The transport manager is appointed by the corporation subject to the approval of the State Government.

### 1.2.5 Committees

In every municipality, an executive committee is constituted consisting of six to twelve counselors, as the municipality may
determine. The members of the committee are elected by the municipality and hold office for a period of one year. There is also provision in the Municipalities Act to constitute other committees consisting of such number of councilors as the municipality may decide to exercise the powers and perform the duties of the municipality in respect of any purpose. There is also provision to appoint consultative committees to which may be referred any special subjects for enquiry and report or for opinion. In such committees, the municipality may appoint even non-councilors (not exceeding one-third of the total number of members of such committee) possessing special qualifications or representing any authority or interests. Besides these committees, in pilgrim centers notified by the State Government, a pilgrim committee is constituted consisting of four councilors (of whom one shall be the president of the municipality) and two persons appointed by the State Government.

The president or vice-president, if elected a member of any of the above committees shall be its ex officio chairman. For committees of which there is no ex officio chairman, the chairman is appointed by the municipality.

In the case of the corporation, besides the standing committee and the transport committee which have already been referred to, there is also a municipal school board constituted under the Bombay Primary Education Act, 1947 to conduct the affairs of the educational institutions under the municipal corporation with 14 members, of which three are nominated by the State Government and the rest by the corporation. The tenure of
this Board is four years. Besides the above committees, there is provision for the appointment of special and ad-hoc committees for health, town planning and public works, recreational and cultural affairs. All these committees have 12 members each with the exception of the legal committee which has 3 members only. The tenure of these committees is one year.

1.2.6 Executive and Deliberative Wings and Other Relations

The Municipalities Act vests both the president and the chief officer with executive powers. Besides presiding over the meetings of the municipality the duties of the president are to watch over the financial and executive administration of the municipality and to exercise supervision and control over the acts and proceedings of all officers and servants of the municipality in matters of executive administration and in matters concerning the accounts and records of the municipality. The president has also powers to set aside or modify any order of the chief officers relating to the service of the officers and servants of the municipality and their pay, privileges and allowances. In case of emergency, he has also the powers to direct the execution or stoppage of any work deemed necessary for the service or safety of the public.

The functions of the chief officer are to grant and issue under his signature all licenses and permissions which may be granted by the municipality other than licenses for markets or slaughter houses. He can receive, recover and credit to the
municipal fund any sum due and tendered to any post, the monthly salary of which does not exceed Rs.100. The chief officer of the municipality enters into all contracts on behalf of the municipality but he must obtain prior sanction of the committee concerned for all expenditure exceeding Rs.1000. He himself can sanction expenditure only up to Rs. 1000 but all expenditure exceeding Rs.500 and not exceeding Rs. 1000 has to be reported to the committee concerned within 15 days of the sanction. The chief officer can be removed from office, reduced in rank or suspended by a resolution passed by a majority of not less than two-thirds of the total number of councilors.

In the corporation the municipal administration of the city vests in the corporation. But the entire executive power for the purpose of carrying out the provisions of the Act vests in the municipal commissioner who also exercises supervision and control over the acts of all officers and servants of the corporation other than the municipal secretary and the municipal chief auditor and the officers and servants immediately subordinate to them. The municipal commissioner is also the appointing authority for all posts carrying a minimum monthly salary up to Rs.400 and he makes such appointments on the recommendation of a statutory selection committee. The municipal commissioner enters into all contracts on behalf of the corporation. He himself can sanction expenditure only up to Rs.5,000 subject to budget provision, but all expenditure exceeding Rs.1000 has to be reported to the standing committee within 15 days of the sanction. For contracts involving expenditure exceeding Rs. 5,000, the previous approval of the standing committee is necessary. The municipal commissioner can dispose of any movable property up to the value
of Rs.500 and for higher value of movable property or for the disposal by sale of lease (exceeding 12 months) of any immovable property; he must obtain the sanction of the standing committee or the corporation as the case may be.

The annual budget is prepared by the municipal commissioner and submitted to the standing committee which has full powers to very it and then present it to the corporation for sanction. The chief municipal auditor who is appointed by the corporation and is in no way subordinate to the municipal commissioner exercises control over the accounts and finances of the corporation.

1.3 Position of Municipal Services

The chief officer of the municipality is appointed by the municipality subject to the qualifications prescribed in the Act. As provided under Section 47(2) of the Act; he must be graduate of recognised University or a qualified engineer or a person who holds a diploma in Local Self-Government and has experience of municipal administrative work for not less than seven years. A person not possessing the qualifications may with the previous sanction of the State Government be appointed as a chief officer if such appointment borough to which he is appointed, is less than Rs.2 lakhs. The municipality shall also appoint a health officer, an engineer, a land valuation officer or any such officer when directed to do so by the government. The chief officer and other officers can be removed from office, reduced in rank or suspended
by a resolution passed by a majority of not less than two-thirds of the total number of councilors. As for other servants of the municipality, the chief officer has powers to appoint a person to any post the monthly emoluments for which do not exceed Rs.100. For all other posts, the municipality is the appointing authority.

In case of corporation the municipal commissioner is appointed by the State Government. He is under the administrative control of the corporation and the State Government. He can be removed from office by the State Government for incapacity, misconduct or neglect of duty or when five-eighths of the whole number of councilors at a meeting vote in favour of a resolution requiring his removal. His salary is paid from the Municipal Fund. The transport manager is appointed by the corporation subject to the conformation by State Government. He is under the administrative control of the transport committee and corporation. The municipal chief auditor is appointed by the corporation subject to the conformation of State Government. He is under the administrative control of the standing committee and corporation. The municipal secretary is appointed by the corporation. He is under the administrative control of the standing committee and corporation. The deputy municipal commissioner, city engineering and medical officer of health are appointed by the Corporation subject to the confirmation by State Government. They are under the administrative control of the municipal commissioner and corporation. The chief accountant, town development officer, and the assessor and tax collector are appointed by the corporation and they are under the administrative control of the municipal commissioner and the corporation.
For making other appointments, there is a staff selection committee consisting of the commissioner or any other officer designated by him in this behalf, the municipal chief auditor, the head of the department concerned and not more than one other officer nominated by the commissioner.

Generally the power of appointing municipal officers, whether temporary or permanent, whose minimum monthly salary exclusive of allowances is or exceeds Rs.400, the municipal commissioner is the appointing authority.

1.4 Structure of Local Finance

The Structure of Local Finance in Urban areas as follows:

(i) A tax on buildings and lands; (ii) vehicle tax; (iii) a toll on vehicles and animals; (iv) an octroi; (v) a tax on dogs; (vi) a special sanitary cess; (vii) a general sanitary cess; (viii) a drainage tax; (ix) a general water rate; (x) a lighting tax; (xi) a pilgrim fee; (xii) a special educational cess; (xiii) a tax on sale of cattle; and (xiv) a betterment levy.

In the case of corporation, the Act makes a distinction between compulsory taxes. The compulsory taxes include property taxes (consisting of a general tax, water tax and conservancy tax) and a tax on vehicles, boats, and animals. The discretionary taxes
include octroi, profession tax, tax on dogs, theatre tax, and a tall on animals and vehicles. The corporation can also levy any other tax which the State Legislature has power under the constitution to impose in the State. The taxes actually levied by the Corporation of Ahmedabad are the property taxes, tax on vehicles, boats and animals, theatre tax and octroi duty.

Procedure for imposition of taxes

When an urban local body desires to impose a tax, it passes a resolution at a general meeting specifying therein, the class or classes of persons liable to be taxed, the system of assessment to be adopted, etc. and publishes the rules so approved with a notice in the form of schedule specified in the Act. An objection the urban local body submits such objections with is opinion thereon to the State Government. The State Government has the power to sanction, modify and impose conditions relating to the levy of the proposed tax. The rules is sanctioned by the government have then to be published by the municipality together with a notice citing the sanction and the date and serial number thereof. The tax may then be imposed by the municipality from the date specified in the notice.

For levying the discretionary taxes laid down in the Act, the following procedure is followed by the municipal corporation. Rules are made by the corporation and submitted to the State Government for sanction. The State Government may either refuse to sanction them or refer them back to the corporation for further consideration or sanction them either as they stand or with such modifications as it thinks fit. Any sanction given by the State
Government becomes operative from a date not earlier than one month from the date of the sanction.

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The State Government gives loans to municipalities against sanctioned capital improvement schemes under the running Five Year Plan. In the case of corporation also no loans may be taken for the execution of any work other than a permanent work and only with the previous sanction of the State Government. The corporation has also powers to borrow from banks against public securities for execution of any work.

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Grant-in-Aid

Under Section 144 of the Gujarat Municipality Act, the State Government has to determine, on the basis of the recommendations of a committee appointed for this purpose, the pattern and quantum of grants-in-aid to be made available to municipalities every year and to revise the same after a period of every five years. The State Government appointed a committee for grant-in-aid code for municipalities in 1962 which submitted its report in July 1964. On the basis of the recommendations of this committee, the State Government by its resolution dated 25th April, 1965, has laid down detailed instructions about grant-in-aid to local bodies.
In the case of the municipalities, the municipal account code governs the principles of budgeting. The budgets of the municipal boroughs are sanctioned by the municipalities at a general meeting after which they are published as prescribed. The sanctioned budget may also be varied or altered from time to time by the municipality as circumstances may render desirable at a special general meeting called for the purpose.

Under the provisions of the Gujarat Local Fund Audit Act, 1963, the Examiner L, F, A makes arrangement for audit of municipal accounts. The audit reports are submitted to the State Government, the commissioners, collectors and the municipalities concerned. Action is taken by these authorities under the relevant provisions of the Act, Independently of this audit, it is also provided under Section 77 of the Municipalities Act that municipal accounts may be prescribed in the rules of the municipality.

In the case of municipal fund and transport fund of the corporation are kept in such manner and in such forms as are prescribed by the standing committee or transport committee as the case may be. The estimates of income and expenditure of the corporation other than the income and expenditure in respect of the transport undertaking are prepared by the commissioner and submitted to the standing committee. After considering these estimates and proposals, the standing committee frames “Budget Estimate A”. Similarly the estimates of income and expenditure of
the transport undertaking are prepared by the transport manager
and submitted to the transport committee. After considering them,
the transport committee frames “Budget Estimate B”. The “Budget
Estimates A & B” are then finally adopted by the corporation.

The municipal chief auditor conducts a weekly examination
and audit of the municipal accounts and reports to the standing
committee. The standing committee has also powers to
examination and audits the accounts. The State Government may
also at any time appoint an auditor for the purpose of making a
special audit of the municipal account.

1.5 Government Control

The State Government exercises varying degrees of control
over the municipalities and corporation. The control exercised
over municipal personnel such as appointments to superior posts,
exercise of disciplinary powers, etc., have already been discussed.
The various aspects of control exercised by the State Government
such as the control over municipal budgets, accounts and audit,
taxation and municipal borrowing have also been referred to.
Besides these, the various kinds of control exercised through the
administrative channel are: (i) the right to be informed; (ii) the
power to sanction; (iii) inspection and action in case of default;
(iv) control over the municipal establishment; and (v) the right to
suspend the execution of orders of the municipality.
The director of municipalities, collector or any officer of government authorised by the government can inspect any immoveable property occupied by any municipality or any institution under its management or any municipality's processing, any book or documents in the possession or under the control of the municipality. They have also powers to call for any returns, statements, accounts or reports from the local bodies. The collector has powers to suspend execution of orders, etc., of municipalities likely to cause injury or annoyance to the public or to lead to a breach of peace. In case of any emergency, the collector may provide for the execution of any work or the doing of any act deemed necessary for the health or safety of the public. The director of municipalities has powers to prevent extravagance in the employment of establishment. The State Government has also powers to order an enquiry to be held by any officers authorised by it in this behalf into any matter concerning the municipal administration or any matters with respect to which the government's sanction, approval or consent is required under the Act.

Government has powers to dissolve or supersede a municipality in case of in competency, default or abuse of powers for such period not exceeding two years as may be specified in the order. The government can re-establish the local administration by election of the members under the provisions of the Act.
1.5.1 Administration set up of the Local Self-Government Department

Work relating to the municipalities in the State forms part of the panchayats and health department. One deputy secretary and one under secretary with some ministerial staff are in charge of the work connected with the urban local bodies in the State. This section helps in drafting legislation and rules under the Act, advises municipalities suitably in the solution of particular problems and issues executive instructions to them from time to time on relevant matters. The Department of Public Works, Health and Education have also functional relationship with the urban local bodies. They provide technical advice and give grants-in-aid to municipalities for specific items.

The administrative control continues to be exercised by divisional commissioner but as a result of introduction of Panchayati Raj in the State, a new post of development commissioner was created at the State level for panchayat administration and the posts of the divisional commissioners were abolished with effect from 15th May, 1964 and the control is now exercised by the development commissioner. Later on a unified law for the municipalities (Gujarat Municipalities Act, 1963) was brought into force with effect from 1st January, 1965 and with a view to help the municipalities in undertaking their promotional activities and for expeditious, a separate directorate has been established with effect from 1st June, 1965. A senior officer of the I.A.S. cadre is appointed as the director of municipalities, who is now the controlling authority for exercising supervision and
control over the municipalities. The State Government has delegated certain powers to the director for expeditious disposal of the problem of the municipalities. He also exercises the powers of the government under Section 10 of the Gujarat Local Fund Audit Act, 1963 which were previously exercised by the commissioner.

1.5.2 Town Planning Set-up

There is a Town Planning and Valuation Department with the Consulting Surveyor to the Government as the head of this department. The Department has branch offices at Ahmedabad, Baroda and Rajkot each under the charge of Deputy Assistant Consulting Surveyor. The Department performs the functions of both town planning and valuation of real properties including valuation of agricultural and non-agricultural lands for the purposes of sale, lease and probate or stamp duty. At present, the Bombay Town Planning Act, 1954 and the Saurashtra Town Planning Act, 1955 are in force in the State.

1.6 Municipal Accounting

With urbanization and growth of cities, there is need and urgency for better governance. Urban governance is no more limited to provision of infrastructure and operation of civic services. Conventional methods of governance with top-down approaches are considered inadequate, inappropriate and restrictive. Good urban governance is characterized by sustainability, equity and efficiency, transparency and
accountability, civic engagement, security development of partnerships etc. liability, competitiveness and bank ability are the other features of a modern city. There is a need for prudent and efficient financial and asset management to increase their capacity to facilitate market borrowing for investment in city development. Keeping these emerging challenges of 21st century, the Government of India launched Jawaharlal Nehru National Urban Renewal Mission with three interrelated and complimentary components - governance, infrastructure development and provision of basic services to poor, implementation of governance reforms like enactment or community participation and public disclosure laws, earmarking of funds for poverty alleviation by local bodies, levy and collection of user charges, simplification of procedures, etc., in identified areas is a precondition for accessing funds under JNNURM. The Mission was launched in 2005 and lies a timeframe of seven years.

The Ministry of Urban Development, GoI has initiated a Capacity Building Program to all municipal functionaries - mayors, chairpersons, councilors, commissioners and executive officers, engineers, town planners, project officers, etc., who are responsible to implement the project to bring an awareness on the need, significance and urgency of implementation of reforms to improve civic management as well as the quality of life of the civic communities. The objectives of the programme include as under:

Awareness building and understanding on the context, mission, objectives and significance of reforms and expected impact on the in
• To develop political will and administrative commitment
• Explain their roles and responsibilities in initiation and implementation of reforms and projects relating to infrastructure and basic services to the poor;
• To develop ownership and positive attitude towards the programme;
• To create an enabling environment & managerial capabilities to accelerate and manage change.

The capacity building programmes are organized jointly by the Administrative Staff College of India and Center for Good Governance with the support of Ministry of Urban Development, Government of India. The training material, developed and prepared by CGG and ASCI, is presented in six volumes each of them dealing with a set of reforms. This volume covers two important reforms to be implemented at ULB level viz.

- Municipal Accounting
- Property Tax

1.7 Financial Management Reforms

Good Financial Management involves both raising adequate resources for investment in new services and for operation and maintenance of existing services as well as exercising good controls over the resources so that there is no wastage. The latter involves good systems and practices of accounting in ULBs, which ensure that the resources are not wasted, assets are not uncovered / under covered and accountability is ensured. To achieve this,
ULBs need to reform their current accounting system based on cash towards modified accrual based accounting system. Property tax is an important tax that has been the mainstay of ULBs for a very long time and it still continues to be the main source. However, some of the inherent drawbacks in current system render it not tapping the potential fully. Therefore, property tax reforms need to be undertaken to raise the resources base of ULBs. These two reforms are important to improve the financial management of ULBs and are discussed in this volume.

1. Municipal Accounting Reforms*

1.7.1 Cash Basis of Accounting

Currently, municipal accounts are prepared on cash based system. Under this system, transactions are recorded only when cash is received or paid, within the reporting period. It is a single entry system. All receipts and expenses are classified into various heads of account and closing balance at year-end is arrived. The classification of transactions in municipal accounts has a close reference to the functions, programmes and activities of the municipality. The classification of each item of receipt and payment has to be made according to the head of the account to which it relates.

* Governance Administrative Staff College of India, New Delhi.
The adoption of cash basis owes its origin to the pre-eminence of budget as the principal means of financial control. A municipality, being a service-oriented institution, needs to spend the monies received/raised only against planned expenditure. The concern is more with propriety (correctness with reference to legislative sanction) and emphasis is on cash management. Since transactions are accounted on cash basis, single entry accounting system became the logical and accepted system of accounting. Simplicity is one of the main advantages of the cash-based single entry accounting system.

**Disadvantages of Cash Basis of Accounting**

Cash based accounting system does not ensure arithmetical accuracy as single entry system does not have a balancing corresponding entry as in double entry book keeping system. It does not account for expenditure already incurred where payments are not yet made. For example, the rent for hired office premises has fallen due but payment is yet to be made; or goods against a purchase order have been received but payment has not been made. When preparing the financial statements, this expenditure, which has not yet resulted in cash outgo, will not be reflected. Similarly, income (for example, interest on fixed deposit) accrued will not be recognized, unless cash has been received. While government accounts distinguish between revenue and capital expenditure, the latter is not accounted (capitalized) as an asset. For all practical purposes, capital expenditure is treated on par with revenue expenditure. Use of assets in providing services (depletion/depreciation of assets) is also not recognized. As e
result, financial performance of the municipality for a period and status of financial health at a given point of time cannot be ascertained from accounts maintained on cash basis.

1.7.2 Accounting Reform

The functional domain of municipalities is changing from one of providing infrastructure and regulation to development and planning. The 74"" Constitution Amendment Act, 1992 has enhanced the functional domain and even made the municipality responsible for preparing plans for economic development and social justice. Sometimes, government grants stipulate collection of user charges on the in a structure created with those grants/special funds. Further, heavy cost of infrastructure has made it necessary for the municipality to source funds from capital market. The above requirements presuppose the accounting system to be able to (a) facilitate determination of financial performance as well as assessment of financial health and (b) cost the municipal services. Accrual based accounting system enables the municipalities to accomplish the above. The municipal accounting reform is thus about migrating from cash based single entry system to accrual based double entry system. It is one of the six mandatory reforms for ULBs identified under JNNURM.
1.7.3 Accrual Based Accounting System

Determination of financial performance as well as assessment of financial status can be accomplished through accrual based accounting system. Accrual based accounting is a method which 'refers to set of accounting principles used for recording events that determine when the effects of transactions or events are recognized for financial purposes. Accrual system recognizes financial flows at the time economic value is created, transformed, exchanged, transferred or extinguished, whether or not cash is exchanged at that time.' For example, if payment of insurance premium covers the period beyond the accounting period, the expenditure for the financial year under report is accounted for out of the total payment of insurance and the balance is shown as an asset (pre-paid expense). Likewise, if the organization has incurred expenditure during the financial year, but has not paid it, such expenditure is also recognized in the books of account.

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

- Advantages of Accrual Basis of Accounting

Accrual system of accounting has advantages over cash basis of accounting and they include.
Revenue is recognized as it is earned and that ‘income' constitutes both revenue received and receivable;

Expenditure is recognized as and when 'liability for payment' arises and thus it constitutes both amount paid and payable;

Expenditure incurred (paid as well as payable) during the year are matched with income earned (received as well as receivable) in the year;

Distinction is maintained between revenue and capital expenditure;

Costs which are not charged are carried forward and kept under constant review;

Surplus or deficit as shown at the year-end represents the correct financial position;

Assists in effective follow-up of receivables and payables;

Prevents arithmetical inaccuracies; and

Facilitates credit rating organizations to appraise the financial position of municipality.
### 1.8 Cash Basis vs. Accrual Basis of Accounting

Cash basis of accounting differs from accrual basis of accounting in terms of the following as given,

**Comparison of Cash and Accrual based accounting systems**

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Cash Basis of accounting</th>
<th>Accrual Basis of accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Statement of receipts and payments are made based on entries recorded in the Cash Book</td>
<td>Income and expenditure account is prepared.</td>
</tr>
<tr>
<td>2</td>
<td>Only one entry is made for a transaction (either receipt or payment) in the books of account</td>
<td>Two entries are made for each transaction in the books of account</td>
</tr>
<tr>
<td>3</td>
<td>Receipts and payments represent the amounts actually received and payments actually made.</td>
<td>Income includes revenues actually received and receivable; and expenditure includes both payments made or payable</td>
</tr>
<tr>
<td>4</td>
<td>Receipts and payments statement commences with the opening balance - cash on hand at bank.</td>
<td>Income and expenditure account is confined to the year of accounting only and it will not include items of income and expenditure relating to past or future years</td>
</tr>
<tr>
<td>5</td>
<td>Difference between the two sides - receipts and payments indicate cash balance.</td>
<td>Difference between the two sides - debit and credit indicate net surplus/deficit.</td>
</tr>
<tr>
<td>6</td>
<td>Need not necessarily accompany statement of assets and liabilities</td>
<td>Necessarily have the Balance Sheet, i.e. statement of assets and liabilities</td>
</tr>
</tbody>
</table>
1.9 Single Entry vs. Double Entry System

Single entry system of accounting is a method in which transactions are recorded on a single entry basis. Only a single line is entered in the book for each transaction. Each transaction is recorded in one column of an account as either a positive or a negative amount in order to represent the receipt or payment.

On the other hand, under double entry system of accounting, every transaction has two sides - debit and credit. For instance, if cash is paid for stationery, the transaction has resulted in depletion of cash (Cr) due to expenditure on stationery (Dr). Likewise, if, for instance, a lessee pays shop room rent, the transaction has resulted in the increase in cash balance (Dr) and generation of income (Cr). Thus, in double entry system of accounting, the two sides of a transaction are recorded in the account books. In this system, two entries are made for each transaction - one entry as a debit in one account and the other entry as a credit in another account. The two entries keep the accounting equation in balance and thus ensure arithmetical accuracy.

- Advantages of double entry system

Advantages of double entry accounting system over single entry accounting system include:
■ Records transactions in their entirety - both the debit and credit aspects of a transaction are recorded to ensure completeness of a transaction.

■ Ensures accuracy of financial statements - since debit and credit elements of a transaction are recorded, accuracy of the financial statement is established. Errors in recording of transactions can be detected and rectified easily.

■ Indicates financial position - the Income and Expenditure Statement discloses the income earned or losses incurred during the financial year under report. The Balance Sheet discloses the financial health of the organisation as of a given date.

■ Enables reliable MIS Reports - reports generated from the books of account based on double entry system of accounting give a reliable picture of the situation, as arithmetical accuracy is ensured. Thus, the status of the accounts of the customers, suppliers, assets and liabilities can be known with higher degree of reliability.
1.10 JNNURM and Accrual Based Accounting

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is funded with financial assistance from Gol, State Governments and concerned ULBs. The goals of the Mission not only cover improvement of existing services, but also improvement of urban governance and service delivery. In terms of the latter goals, the Mission has identified six mandatory reforms for ULBs and one among them is adoption of modern accrual based double entry system of accounting in ULBs and parastatals and the desired objective is to result in better final self reliance.

❖ Impetus for change - Supreme Court Directive

In the year 2001, in response to a writ petition before it, the Honorable Supreme Court of India ordered that the Municipal Corporation of Delhi and New Delhi Municipal Council will be required to maintain accounts as per mercantile system of accounting. The Honorable Supreme Court also directed that all ULBs in India should take immediate steps to get their accounts converted from cash basis to accrual basis.
1.11 Recommendations of EFC

The Eleventh Finance Commission (EFC) in their report on local bodies suggested that the Comptroller and Auditor General of India (CAG) be requested to prescribe formats for preparation of budgets and accounts by local bodies to be amenable to computerization.

Based on the recommendations of the EFC, Government of India (Gol) requested the CAG to prescribe formats for preparation of budgets and accounts by local bodies amenable to computerization. Accordingly a Task Force was constituted by CAG in February, 2002 and the Task Force suggested formats and Gol issued guidelines to adopt the formats.

1.12 National Municipal Accounts Manual (NMAM)

Development of NMAM

During a review workshop in September, 2003, Gol agreed that CAG with USAID - FIRE (D) support, would prepare National Municipal Accounts Manual (NMAM) which will be provided to State Governments, based on which States will develop State Municipal Accounting Manuals according to their specific requirements. Accordingly, a National Municipal Accounts Manual
has been prepared under the guidance of CAG and GOI made it available to all States in December 2004 for development of state-specific Budget and Accounts Manuals.

NMAM aims at promoting implementation of improved financial management leading to improvement in internal government operations to support and stimulate good governance. As per NMAM, municipal accounts have to be prepared on accrual based double entry accounting system and the process results in preparation of the following 4 annual financial statements.

- Income and Expenses Statement
- Balance Sheet, Statement of Assets and Liabilities
- Receipt and Payment Account, and
- Cash-flow Statement

❖ NMAM - Chart of Accounts

NMAM has designed a well structured Chart of Accounts (COA). The COA defines the heads under which the transactions of ULBs are classified to facilitate maintenance of accounts and preparation of financial statements. The codification structure facilitates capture of all types of financial information within an ULB. Each type of classification is considered as a group. Two groups are prescribed, (i) mandatory and (ii) optional.
Mandatory group:

- Functions: Functions represent various functions or services carried out by ULB.

- Account Heads: Account Heads represent the nature of income, expenditure, liability or asset.

Optional group:

- Functionary (Responsibility centre/section): In the ULB set-up, demands for expenditure are drawn by sections discharging the functions and become the responsibility centers for the assigned functions. Functionary group represents this. This level is used only for the internal control of the ULB and made optional.

- Field (Geographical centre) Field represents the way the ULBs are aligned geographically (wards) and it represents the area to which the expenditure or payment relates. This is needed only for the internal control of the ULB and is made optional.

- Fund: The funds consists (a) Major Fund, and (b) Minor Fund. While Major Fund represents the broad categorisation of funds, the Minor Fund within it represents a particular fund.
Accounting policies and standards

Accounting policies are the specific accounting principles and the methods of applying these principles in the preparation and presentation of financial statements. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed as notes to accounts in the financial statements of the ULB. When there is any deviation to accounting principles adopted by the ULB, the same shall be disclosed together with the reason and financial effect thereof.

Various accounting principles governing the recording, accounting and treatment of transactions relating to various activities are detailed in the NMAM.