CHAPTER VI

Accounting System in the Municipalities
The system of accounting reflects the accuracy of day-to-day financial transactions, receipt of revenues, the payment of expenses, changes in the budget, custody of funds and stores etc. Municipalities are required to maintain accounts in the form and manner as prescribed by the state government. A proper accounting system helps in financial analysis, which in turn facilitates the finding of financial problems of municipalities. Unfortunately, various municipal account codes or manuals, which are in use, do not go into much detail and commercial accounting is generally not adopted. However, under certain Acts separate budgeting and accounting system are required to be adopted in respect of the municipal utilities such as electricity, water supply, sewerage and transport.

A number of local government operations are identical with or closely akin to those of commercial concerns. The maintenance of plants and vehicles, the erection and maintenance of buildings, the provision of meals, printing work etc., are the operations, where the local authorities may keep some of the cost accounts as their commercial counterparts. The possibilities of applying to local government modern conceptions of cost accounting etc. should be explored especially in engineering, maintenance and other services.

The Accountant is the person to prepare the annual and monthly accounts of municipality with the guidance of the Municipal Commissioner. If there is no post of accountant, the manager has to assist the Commissioner in the preparation and submission of monthly accounts and annual accounts.
duly, following the A.P. Municipalities (Preparation and submission of accounts and abstracts) Rules 1970. In municipalities many registers and periodicals are maintained which are helpful to prepare different accounts for submitting the Annual Accounts to the Auditor yearly once. There are some books related to cash used in municipalities, which are discussed here. They are Chitta, Cash Book, Pass Book, Petty Cash Book and Remittance challans.

**Chitta:** The entries in the Chitta are made in accordance with the rules and instructions on the subject. The secretaries of Municipal Councils, except Third Grade Municipal Councils, are required to follow the triplicate challan system for payment of miscellaneous dues into Municipal Treasures. When the payment of miscellaneous dues are made by the parties themselves into Municipal Treasures, they should prepare a Challan in the form appended to G.O.M.s.No.439, M.A. dated 2-9-1960 in triplicate showing the full particulars of the amount sought to be paid. The challan is first presented to the clerk concerned in the Municipal Office who will examine it and initial it, in the left hand top corner of the original, if he finds it correct in regard to all parties. The party then presents it with the money to the Shroff who will receive the money, enter it in a separate Chitta to be maintained for recording the receipts in triplicate, number the challan in a consecutive order, sign it and then send it on to the clerk maintaining the register of miscellaneous receipts, or to the clerk, who maintains the register of licenses and permissions. The latter will enter the challan number, particulars and amount in his register, sign the challan in token of having done so in the place provided there at the bottom of the challan in all the three copies of the challans and send the same
to the UDC who is authorised to sign the challans. This UDC is designated as Cashier. After satisfying himself from the entries on the challan that the entry of the amount has been made independently by another clerk in the register of miscellaneous receipts or register of licenses and permissions, the UDC called cashier will sign the copy of the challan intended for the party. The duplicate is sent to the Accountant and the Cashier retains the original. At the end of the day all such originals are arranged serially, stitched together and traced by the cashier into the register of miscellaneous receipts and register of licenses and permissions. He should then tally the total collections for the day with the totals in those two registers and the totals in the Shroff's Chitta mentioned above. The total collections recorded in the separate Chitta should be taken to the main Chitta before recounting the total there with the cashbook at the end of everyday. The challans arranged and stitched together are to be produced for audit. That the amounts shown as realised are remitted into the treasury without delay and that no portion is withheld, and that the total cash balance at the end of each day including balances, if any, left unremitting from the previous days collection, are verified by the manager or other head ministerial officer at the close of each day and by the Secretary at least once a week, and the balance so verified is stated in words over the initials of the verifying officer.

Cashbook: The Cashbook is prepared with cash and bank columns. The entries on the receipt side are correctly made from the challan and collection registers and not from the Chitta. Care is taken to see that there are no erasures and all corrections are neatly made and attested by the executive
authority. The Cashbook is written up daily so that the cash balance at the time of audit is correct. All receipts paid by parties in the treasury direct, and amounts of grants etc., adjusted to the personal deposit account at the treasury are entered in red ink in the treasury or the bank column of the Cashbook. The amounts entered in the treasury or the bank column on the charges side of the cashbook should agree with those in the counterfoils of cheques. All counterfoils of cheques for the period of audit should be traced into the cashbook. If a cheque includes the amount due for payment on more than one voucher, the totals should be tested to see that the amount drawn on a cheque is correct. The cancelled cheque should be destroyed in Audit. It should be seen whether a note has been recorded on the counterfoil of the cheque under the initials of the drawing officer. The amounts drawn on self-cheques are brought on to the petty cash book with particulars of voucher number and the purpose of payment.

**Pass Book:** It should be seen that the collections remitted into the treasury or the bank have been duly credited and that only the amounts of cheque issued by the Executive Authority upon the treasury or the bank have been debited in the bank. For this purpose the daily remittance of collections as per the chitta and the cashbook should be traced into the Pass Book through the remittance challans and the payments as per the Cash Book through the counterfoil of cheque be issued. All receipts from local bodies or other institutions paid into the treasury direct to the credit of municipal funds and amounts of grants etc. are adjusted to the credit of the municipality at the
posting register. The Passbook is written up at the treasury or bank and each receipt entry is duly authenticated. The Passbook is sent to the treasury once a week or 10 days for being written up, and the balance shown in the pass book at the close of the year should agree, with that entered in the bank or treasury column of the cash book for the month of March after making the necessary allowances for uncashed cheques. This verification should be effected to take the cashbook balance and to it be added the total amount of uncashed cheques and the amount of unremitted revenue deducted. This will represent the balance in the bank or treasury and if there is any difference it should be verified with reference to the subsequent encashment noted in the Pass Book after the close of the financial year concerned.

Cheques: The Treasury or Bank supplies the cheque books used by the municipalities. The total number of leaves in each cheque book is certified to on the cover. Cheques are issued only for payment of Rs.10 or more. Cheques have to be drawn only by the authority specified in rule 57 of schedule II to the A.P. Municipalities Act 1965. Cheques are not signed unless required for immediate delivery to the person concerned. Cheques are drawn in favour of the Secretary for payment of salaries etc. to the establishment, for recouping permanent advance and payment to persons residing outside the town. All cheques issued are duly recorded in the Cash Book. For this purpose, the counterfoils of all cheques issued during the period under audit should be traced into the cashbook, care being taken to see that the amount, number and date of the cheques have been correctly entered. All passbooks have to be in the personal custody of the drawing officer who signs the cheques.
**Petty Cash Book:** The amounts drawn on self-cheques for disbursement of salaries etc. are shown in this book. The amounts drawn up to the end of the previous month and which have remained undisbursed at the close of each month are refunded into the treasury. The balance according to the Petty Cash Book on the day of audit must agree with the actual cash in hand undisbursed. The undisbursed cash in hand should be actually counted and if it agrees with the balances shown in the Petty Cash Book, the fact should be certified to in the book. If not, the deficit should be noticed in the objection statement and also reported to the executive authority immediately. Before verifying the cash balance the counterfoils of cheques issued up to date since last verification in audit, should be examined to see that all amounts of cheques drawn in favour of the executive authority up to the date of verification of the undisbursed balance on hand have been duly shown in the Petty Cash Book.

The entries on the disbursement side need not be verified with payment vouchers but it need only be generally seen that the accounts have been closed every month and undisbursed balances refunded into the treasury. That the balance is noted in column 15th at the close of every day and is verified either by the manager or other head ministerial officer, at the close of every day and by the secretary himself at least once a week and the balance verified is stated in words under the initials of the verifying officer.

**Remittance Challans:** All amount returned by the treasury on the ground that the coins are counterfeit ones or the currency notes are mutilated is taken credit in the Chitta and included in the next days remittance. The executive
authority or the manager signs the remittance challans and if the manager
signs the challans, the executive authority should check the remittance with
reference to the receipted challans at least once a week and initialled them in
token of such verification.

The book, described above give a glimpse of the cash entries recorded
in the municipality. Apart from the cashbooks many other registers are
prepared periodically by the authorities concerned, which are useful to give
full information to prepare the Annual Account. The following periodicals
and registers are maintained in the office of Commissioner and Director of
Municipal Administration for accounting purpose.

1. Pay Bill Register - records the gross salary deductions and net salary
   Payable particulars of the staff.

2. Register of undisbursed Pay – prepared for watching the disbursement of
   money drawn from the treasury, which is not disbursed on the same day.

3. Town Advance Register – records the particulars of town advance drawn
   by municipal staff.

4. Festival Advance Register & Special Festival Advance Register (APCO) –
   records the festival advance particulars of staff.

5. Increment Register - records the date of increment, total amount given as
   increment and other remarks.
6. **Establishment Register** - records the name of posts sanctioned, G.O. in which they are sanctioned, number of permanent and temporary posts.

7. **Late Attendance Register** - records the time of arrival of employee to the office.

8. **Turn Duty Register** - records the name of the employee posted for turn duty.

9. **Movement Register** - records the movement of employees from one place to another place.

10. **Permanent Advance** - records the mode of payment of advance.

11. **Acquittance Register** - records the recovery of gross amount, non-government recovery and net salary to be received.

12. **Log Book** - records the particulars of vehicles, milemetre / kilometre reading and petrol drawn by the officials.

13. **Petrol Account** - records milemetre / kilometre reading, miles/ kilometres covered, places visited, purposes of journey, name and designation of officer using staff car.

14. **Government Tappals Register** - records the government memos & dangerous and offensive letters, their reference numbers dates and date of submission of reply etc.
15. Registered Post Register - records from address of M.C., R.D. and others
   R.L. & R.P numbers etc.,

16. Lag & Assurance Register - records Memo & D.O. letter, reference
   number, dates and dates of submission of reply

17. Court Register - records WP.No.& O.A. NO. C.C., subject, office current
   No. and Seal No.

18. Press Clipping Register - records government Memos and D.D. letters,
   number and other details of dates of submission of reply.

19. C.M.P. Register - records C.M.P.No. and date of office current No, Seat
   number, date of submission etc.,

20. Manage Advance Register - records designation of the cadre, amount,
   sanctioned, proceedings, number and date.

21. Records Issue Register - records kind of disposal and number, signature of
   the receiver and reference.

22. Library Issue Register - records library books issued and dates of books
   returned

23. Library Stock Register - records No. & Date of invoice letter, order or
   proceedings received and names of books and other particulars.

24. Treasury Bill Register - records Treasury bill, number & A.P. T.C.
   Particulars.
25. Register of Bills sent by - to the treasury for payment of money - records
the name, case and description of bills on, for the payment of, to be passed
for payment at the Bank sub-treasuries, total amount of bill, amount
required in cash, by cheques, drafts etc., name of the person who draws,
name and designation of the person who bills hand over the sub-treasuries,
signature of the disbursing officer, date on which the bills were received,
amount passed by the treasury officer, initials with dates of the head
accountant of the treasury passed the bill for payment at the bank or at the
sub-treasury and remarks.

26. Courier Register - records, C.R No., from address M.C., R.D., and others,
subject, office current and seat number etc.,

27. Registered Post Dispatch Register - records address to which sent,
reference of the office & its date and date of dispatch etc.,

28. Ordinary Post Dispatch Register - records address to which sent, reference
of the office and its date, and date of dispatch etc.,

29. House Building Advance Register - records name and designation of
person to whom amount sanctioned, proceedings No. & date, purpose,
date & place of drawal with token number, first recovery commenced
(place & month) and remarks on fulfillment of formalities with file
number.
30. **Call Book** - records personal or current register number, outside number, date of entry in the register, subject, details of order to lie over, fresh new case number assigned and date of revival in the personal register.

31. **Chitta** - records the date and number of challan, from whom received, No.of receipt or license, Bill collectors receipt, license for animals etc., miscellaneous licenses, miscellaneous receipts, total and daily total remitted to treasury and the initial of manager etc.

32. **Meter Ledger** - records Meter no., door no., electoral ward no, Assessment No. Name, capital annual rental valuation, date of reading and amount billed for water consumed.

33. **Mutation Register** - It should be seen, that all permanent charges made in the assessment of buildings, lands, lighting, water & drainage, scavenging railway and education taxes have been recorded in this register with reference to the register of revision petitions, appeals, notices of demolition and construction monthly lists of out door subordinates. The monthly lists submitted by out door subordinates should give full details as to the number of rooms, out houses and whether electrified and provided with water supply connections.

34. **Distribution Register** - records enclosures, number of the clerk and his initials, disposal nature and date, record keeper’s acknowledgement with date. Dispatch seal in the case of ‘N’ disposal.
35. **Personal Register** - records current number and date of receipt by clerk, title (main head underlined), from whom, outside No. and date, when the current was sent to records for reference and returned.

36. **Tender Register** - records name of work, estimate amount of contract, name of tenderer, whether registered contractor or not, tender percentage, amount of deposit, engineer's recommendation and orders of Commissioner etc..

37. **Register of D.O. Letters** - records current / reference No & date, Name of the outside officer, subject, current no. & date, designation of Assistant and reply given by the assistant concerned.

38. **Register of Government Tappals** - records current / reference No. & Date, Name of outside officer, subject, current No. & Date Designation of Assistant, and reply given by the Assistant concerned.

39. **Register of Tappals received from head of department & Regional Directors** - records current / reference No. & Date, Name of outside officer, subject, current No. & Date designation of Assistant, and reply given by Assistant concerned.

40. **Register for Grievances Received from Superior Officers** - records reference number and date of outside office, brief subject, current number and designation of assistant and reply given by assistant.
41. Register of M.P.S/ Ministers / M.L.A. Tappals - records name of outside officer, subject, current No. & Date designation of Assistant and reply given by Assistant concerned.

42. Security Register of Municipal employees - records name designation, order of council as to amount of security, nature of security, if cash whether to be deposited in a lump sum or by instalments, number and date of council's resolution, security tenders, date of verification of security, initials of chairman, date of refund of security or return of documents, and signature of employee in token of receipt of documents etc.,

43. Register of Grievances - records name of municipality, number of grievance petitions pending at the beginning of the month, number of grievance petitions received during the month, number of acknowledgments issued to the public, number of grievance positions disposed of during the month, number of grievance petitions disposed of as per the time frame, Number of grievance petitions not disposed of as per the time frame, & reasons for not adhering to the time frame.

44. Register of Casual Leaves - records date of leave, reasons for leave, No. of C.L.S., applied for, Balance, leave address, signature of officer granting leave.

45. Attendance Register - records attendance of every employee for every month.
46. Register of Increment Certificates: records name, designation, scale of pay, date of increment, present pay, pay after increment, date of sanction, and initials of officer etc.:

47. Imprest Cash-Book - records month and date, particulars of transaction brought forward, imprest received, voucher number, disbursement amount, miscellaneous receipts, date of remittance into treasury and signature of head of account.

48. Register of Miscellaneous Demands - records name of renter, number and date of agreement, nature of deposited, amount of each instalment, Rt.No. and Date month wise, penalty and balance etc.

49. Late Attendance Register - records name of employee and designation, details of leave applied for, details of date permission applied for and time of attendance at the office.

50. Periodical Register - Name of periodical, due date and from whom, date of receipt and outgoing periodical etc.

51. Register of Appeals for the year - records name of assessment number, service of notices receipt of appeal, number and date of version petition disposal, amount of half-yearly tax appealed against, amount of tax paid under protest, date of credit of tax paid under protest initials of manager, final orders of appellate authority, amount of tax remitted if any, amount of tax increased if any, number and date of appellate authorities orders, number and date of voucher of adjustment bill, amount, amount transferred to deposits, no. of item in the deposit register and initials of revenue officer/manager.
52. **Bill Collectors Collection Book** - records date of collection, assessment number, warrant number, year to which rebate, property tax, education tax, library cess, total, warrant fee, distraint fee, total of each bill, daily total paid into the office, initial of bill collector, and signature of shroff.

53. **Register of loans** - records amount of principal, amount of interest, reasons if instalment is not paid on due date and number of installments paid. That in case the loan is not utilised within one year from the date of drawing the unspent balance of the loan has been refunded to Government together with the interest there on.

54. **Register of Tools and Plant and Office Furniture** - records balance at beginning of the year, initials of officers to whom entrusted, supplied during the year, total, issued during the year, and balance at the end of the year.

55. **Fair Copy Register** - records number of descriptions with date of approval of draft, date of receipt, date of dispatch and superintendent's initial.

56. **Local Delivery Book**: - records date of dispatch, address, particulars of papers dispatched, number of covers, weight of packets, value of postage stamps, signature of person who takes them for posting or for delivery and signature of addressee.

57. **Daily Stamp Account**: - records date, value of stamps, and receipts spent and on hand.
58. Register of Papers – issued from and returned to the record room -records serial number of requisition and date of receipt, number and date of the disposal or other description of the document required, date of the issue from the records, current number if any, for which purpose taken, otherwise. Signature and designation of clerk taking. Initials of record keeper or assistant delivering date of return, signature and designation of clerk returning, initials of the record keeper or assistant receiving.

59. Register of Cheques received by the Municipality -records provisional receipt number and date, from whom received, purpose, cheque number & date, amount, initials of commissioner, date of encashment, Bank commission, net amount released, date of credit to municipal fund and initials of commissioner.

60. Register of Money Orders received by the Municipality- records date of receipt, from whom received, particulars, amount, initials of officer authorised to receive money orders, date of credit in the cash bank, number of miscellaneous receipt issued and initials of executive authority.

61. Register of Suits -records particulars of suits instituted, council resolution sanctioning deference or institution, date of institution, advance given, adjustment, voucher number, whether disposed off in favour of or against the municipality and the date of disposal of each suit, amount decreased by court, execution position, amount received, initials of the executive authority.
62. Copy Application Register - records, date of receipt, name and address of applicant, description of records required, orders of commissioners, when given for fair copying with typists initials, when copy was given for comparison with his initials and date when copy was delivered or sent by post, signature of dispatch clerk, value and nature of stamps, required for sending copies, amount of fee collected etc.,

63. Security Register - records consecutive number of securities in the register, date of receipt, from whom received, date & number of the current, purport of the current, particulars of valuables enclosed, branch to which sent, signature of head of department and date of receipt by him etc.,

64. Register of Punishments - records name of subordinate, designation and monthly pay, gist of default for which punishment is inflicted, in case of fines amount of fine levied, number and date of order levying the fine, nature of other punishments, if any, number to-date of vouchers in which the fine was deducted.

65. Register of CMP (Civil Miscellaneous Petition) Cases - records number of C.M.P. cases, subject in brief, municipal office file number D.M.A. (Director of Municipal Administration) office reference number, government reference number and date and present stage etc.,
66. Register of L.A.Q.S. (Legislative Assembly Questions) - records L.A.Q.S. No. subject in brief, municipal office file number, D.M.A. office reference number, government reference, no. and date and present stage etc.,

67. Register of Assurances - records assurance number, subject in brief, municipal office file number, D.M.A. office reference no. Govt. reference no & date and present stage.

68. Register of Accounts Committee - records current / reference and date, name of outside officer, subject, current number & date designation of assistant, Reply given by the assistant concerned etc.,

69. Register of Lokayuktha Cases - records Lokayuktha reference number & date; subject in brief, municipal office file number if any, D.M.A office reference number, government reference number & date and present stage.

70. Register of Registered Post Letters - records registered post number, name & address of sender, subject and designation of clerk, current no & date etc.,

71. Register of W.P.S. (Writ Petitions) /Suits - records serial numbers of cases, receipt date & time, name of the court, suit/W.P/O.S (Original Suit)/A.S (Appeal Suit) number, particulars of notice/plaint copy /summons etc., signature of executive authority, hearing date, designation clerk, current number & date etc.,
All the registers mentioned above are maintained in the municipal office and checked by auditors yearly once. In addition to these, the following registers, and periodicals are also maintained in the municipal office.

**Monthly periodicals being maintained in the Municipal office**

1. Statement showing the position of water supply in the municipality.

2. DCB under taxes and non-taxes in the municipality.

3. Statement showing the grounding of developmental works.

4. Statement showing the position of annual accounts.

5. Statement showing the position of annual accounts and disposal of audit objections.

6. Statement showing the position of payment of salaries and pensions to employees.

7. Statement showing the remittance of library cess to the Zilla Grandhalaya samsthas by municipality.

8. Statement showing DCB on water charges.

9. Statement showing the DCB on advertisement tax.

10. Statement showing the progress reports on control of gastro-enteritis in Municipality.

11. Statement showing dues from the Municipality to employees organisations, institutions, contractors etc.,


14. Statement showing Bank wise particulars on the DWCUA of SJSRY in municipality.

15. Statement showing the progress reports on National Development programme (NSDP) in municipality.


17. Statement showing the progress reports on construction of school building (plan) in municipality.

18. Statement showing the progress on implementation of Urban Basic Services programme in municipality.

19. Statement showing the progress of construction of individual toilets to the E.W.S. category under the ILCS programme.

In addition to the above mentioned registers and statements, comparative Annual Account, detailed Annual Account, Annual Account of receipts and charges and balance sheet are also prepared and submitted to auditor monthly and annually.
Preparation of Annual Account

After the posting register has been complete and checked, the annual account of receipts and charges, which should be submitted along with, the audit report should be prepared from the entries in the posting register. The figures to be entered under the head “final budget appropriations” should be taken from the original budget sanctioned by the council and transfer of allotments, if any, ordered by it during the course of the year. It should particularly be borne in mind that the figures given in the revised budget for the year submitted along with the budget estimate for the subsequent year should not be adopted. The abstract of account on page 2 of the Annual Account should then be prepared with reference to the previous year’s account as regards opening balance and the body of the account as regards receipts and expenditure. The closing balance should be worked out and tallied with the closing balance of the cashbook or cashbooks (where a separate cash book is maintained for the Elementary Education Fund) It should be seen that ear-marked funds such as balances of capital receipts from sale of capital assets, loan funds, special state grants, and those under accounts ‘B’ to ‘G’ have not been diverted for ordinary expenditure under ‘A’ General Account without the specific sanction of Government. It should be particularly seen that no portion of provident fund balance has been diverted; as such diversion even temporarily is not permissible. This check should be exercised for each of the months of the year and sanction of Government called for in the half yearly and annual objection statements.
In determining the exact amount of diversion from earmarked funds, the amount of advance paid for purposes ultimately debitable to 'A' General Account –Ordinary should be deducted from the closing balance under A. General Account ordinary. If the closing balance so arrived at is a minus figure, it should be taken that the diversion is to that extent of the amount so arrived at. Deficits occurring in the general account in the course of a year should be exhibited as such, even though temporary diversions are sanctioned from earmarked funds to cover them. It is however, not necessary to show the general account as having a deficit where long-term diversions are sanctioned.

Where the same staff collects different taxes and fees or where the same staff keeps the account for different taxes and fees, the total cost of such staff and the pay and allowances of the secretary should be allocated from among the funds concerned in proportion to the amount collected under each head. No portion of the charge under management should, however be debited to Elementary Education fund Account. The charges under Management 1. General Establishment and 2. Collection Establishment will be the amount to be allocated to various funds. The charge debitable to the various funds will be shown as a deduction of water tax receipts concerned. At page 44 of the annual account in the case of other deposits to be specified it should be seen that the details of deposits for each year have been given as follows: (1) Advance collection of license fees (2) Excess Collection of Taxes and fees (3) Appeal remission transferred to deposits (4) Undisbursed provident fund balance (5) Treasury adjustments for which particulars are not available (6)
Security deposits of municipal employees. In page 47 of the Annual Account year wise particulars of all advances with complete details should be furnished. Similarly the amounts held as permanent advances by officers should be clearly given. The rates of taxes, the year wise details of arrears of taxes and fees should be furnished in the particulars of G O's related to preparation of Annual Account.

**Table 6.1**

**Particulars of G.O's related to preparation of Annual Account**

<table>
<thead>
<tr>
<th>S.No</th>
<th>G.O. Number</th>
<th>Dated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government Memo 33123 / B1LA</td>
<td>1-11-40</td>
</tr>
<tr>
<td>2</td>
<td>G.O.No.1909 L.A</td>
<td>16-6-43</td>
</tr>
<tr>
<td>3</td>
<td>G.O.No.1850 L.A</td>
<td>9-6-43</td>
</tr>
<tr>
<td>4</td>
<td>G.O.No.3413 L.A</td>
<td>28-11-46</td>
</tr>
</tbody>
</table>


The above mentioned Government orders instructions have to keep in view in the preparation of Annual Account. Separate subsidiary accounts are maintained for Lighting Account, Elementary Education Account, Water Supply and Drainage Account, Town Planning Fund Account and deposits and Advance Account.
a) Lighting Account:

Their account should be maintained only in municipalities where lighting tax is levied to provide for expenses connected with the lighting of the municipality by gas or electricity. The charges incurred for street lighting by electricity should however be debited to this account. It should be seen the contribution made from the general funds to the lighting account is not more than Rs.2000 a year without provisional sanction of government. The amount of compensation payable by the government on account of acquisition of municipal electrical undertaking should be treated as an item of capital receipt and should not be utilised for ordinary expenditure.

b) Elementary Education Fund Account:

It should be seen in audit that the education tax collected has been credited to the account, that contribution under section 37 of the Act is equal to the proceeds of tax in the previous year excluding refunds, any, but not collection charges and that the contribution from the general account fixed in the original budget approved by government has been adjusted during the year. Any short adjustment noticed should be made mention of in the audit report. It should be seen that expenditure debited to this account is on objects authorised by the Act or rules or orders of Government.
(c) Water Supply and Drainage Account:

This is also an earmarked fund and it should be seen that the tax realised has been credited to the fund and charges in connection with water supply and drainage alone have been debited. It should be seen that the contribution, which a municipal council can make from its general account of the water supply and drainage account during a year, has not exceeded Rs. 2000 without the sanction of Government.

1) The cost of the municipal engineer and the common staff working under him such as draughtsman, tracers, clerks and menials should be debited to (1) the general and (2) the water supply and drainage, accounts ordinarily in the manner indicated below.

(1) If there is no water supply or drainage scheme in the municipality: Wholly to the general account

(2) If there is either a water supply scheme or drainage scheme: Equally to the general account and to the water supply and drainage account

(3) If there are both water supply and drainage schemes: One third to the general account and two thirds to the water supply and drainage account

In respect of staff employed exclusively on water supply and drainage departments such as water works or drainage overseers, pumping station and distribution staff, their cost should be debited wholly to the water supply and drainage account.
II) The cost of staff employed for public works (other than water supply and drainage) should be wholly debited to general account.

III) The share debited to the water supply and drainage account may be further apportioned between the water tax portion and the drainage tax portion of the rates of water and drainage taxes.

(d) Town Planning Fund Account:

In checking this account it should be seen

1. That the receipts of a municipal council under the town planning act or any town planning scheme made hereunder have been formed into a separate Town-Planning Fund,

2. That all expenditure under the act or any scheme hereunder has been defrayed out of such fund,

3. That no portion of the fund has been except with the sanction of government, expended for purposes not provided for by the Act and,

4. That money required in the first instance to establish such fund and deficiency, from time to time occurring in such fund by reason of excess expenditure over receipts, have been subject to such rules as the state government might frame in this behalf, supplied out of the General Municipal Fund or out of moneys borrowed in pursuance of this Act. The expenditure on the salaries, allowances, pension and other contributions on the technical and ministerial staff doing town
planning work should be debited to General Account and Town Planning Account at the rate of 50 percent to each account. For purposes of accounting, the entire expenditure incurred on town planning staff should be shown on the expenditure side in the Town Planning Fund Account, the portion of the expenditure to be borne by the General Fund Account being exhibited in the Town Planning Fund Account as a deduct entry under (1) Expenditure ordinary section as follows: - Deduct share of expenditure to be borne by the General Fund Account in respect of duties covered by the A.P. Municipalities Act. The contributions for pension etc., to be debited to each of the two accounts will be calculated on the portion of the expenditure debitable to the respective accounts.

Statement to be appended to the Annual Account:

a) Endowments Account:

There is no separate subsidiary account for endowments. The figures under receipts and expenditure should be compiled from the head "Endowments" appearing under each minor head in the body of the account. These should agree with the figures appearing in the approximation register of Loans, Endowments and other funds. The opening balance should be noted in the endowments account printed on page 33 of the Annual Account which should correspond to the figure noted in the abstract on page 2 of the amount required for probable expenditure during the year to be invested in any of the permissible forms of securities.
b) Special Government Grants Account for capital works and other special purposes:

The statement should be compiled from the appropriation register of loans, endowments and other funds. It should be seen with reference to this register and the statement that the grant is utilised only for the purpose for which it was sanctioned and that the utilised balance after the completion of the work has been refunded to state funds.

c) Loan Account:

This account also should be compiled from the appropriation register of loans endowments and other funds. The checks to be applied in the case of special government grants apply to loans fund also.

d) Loans Statement:

This should be compiled from the Register of loans.

e) Investment Account:

This should be prepared with reference to the register of investments.

f) Demand Collection Balance Statement:

This should be compiled from the general current and arrears demand registers, miscellaneous demand register, yearly list of dangerous and offensive trades, licenses etc. The amounts under the columns Remissions and writes off should be taken from the register of writes off and remissions. The
figures under collection in respect of taxes and fees should agree with the figures shown in the body of the account, as excess collections should have been transferred to deposits. The percentage of collections demand should be worked out, compared with that for the preceding, four years and suitable comments if necessary made in the audit report. It should be seen that balance of taxes and fees have not been allowed to become time barred without adequate action having been taken for their realization.

g) **Statement on page 41 of the annual account:**

This statement should show the rate at which taxes are levied and should be compiled from the notifications issued by the municipal council specifying the rates of levy of taxes.

h) **Statement of liabilities and assets:**

The figures under the heads falling under liabilities and assets should be taken from the register and accounts mentioned against each. Table 6.2 shows the particulars of Assets & Liabilities.
### Table 6.2

**Statement of Liabilities & Assets**

<table>
<thead>
<tr>
<th>Head</th>
<th>Register or Record from which the figures shall be taken</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance of loans</td>
<td>Register of loans</td>
<td>This should agree with the total of the figures in column 9 of the loan statement at page 36 of the annual account</td>
</tr>
<tr>
<td><strong>Provident Fund</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Cash</td>
<td>Closing balance in the treasury column of the provident fund cash book</td>
<td>This has to agree with the respective figures in the statement at page 46 of the annual account</td>
</tr>
<tr>
<td>(ii) Investments</td>
<td>Closing balance under investment and post office savings bank of the provident fund cash book</td>
<td>This should agree with the respective figures in the statement at page 46 of the annual account</td>
</tr>
<tr>
<td>Deposits</td>
<td>Closing balances of the deposit registers and the register of security deposit of municipal employees etc.,</td>
<td>These should agree with the figures appearing on pages 44 and 45 respectively.</td>
</tr>
<tr>
<td>Funded capital of endowed institutions</td>
<td>Investment of endowment funds in the register of investments</td>
<td>-</td>
</tr>
<tr>
<td>Cash Balance of endowed institutions</td>
<td>Closing balance of the endowment account at page 2 of the annual account.</td>
<td>This should agree with the closing balance in the statement at page 33 of the annual account</td>
</tr>
</tbody>
</table>

293
<table>
<thead>
<tr>
<th>Head</th>
<th>Register or Record from which the figures shall be taken</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded capital of endowed institutions</td>
<td>Investment of endowment funds in the register of investments</td>
<td>-</td>
</tr>
<tr>
<td>Cash Balance of endowed institutions</td>
<td>Closing balance of the endowment account at page 2 of the annual account</td>
<td>This should agree with the closing balance in the statement at page 33 of the annual account</td>
</tr>
<tr>
<td>Cash balance of special accounts</td>
<td>Closing balance of account ‘B’, ‘C’, ‘D’ and ‘E’ in the abstract at page 2 of the annual account.</td>
<td>-</td>
</tr>
<tr>
<td>Other amounts</td>
<td>Contractors due, investments of special accounts and other liabilities specially those due to Government such as proportionate share for water obtained from Government source from the respective registers</td>
<td>-</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balances</td>
<td>Closing balance in the cash book of the general and elementary education fund account</td>
<td>This should agree with the figures in the abstract at page 2 of the annual account</td>
</tr>
<tr>
<td>Provident fund Investment</td>
<td>Closing balance under investment and post office savings bank account in the</td>
<td>-</td>
</tr>
<tr>
<td>Head</td>
<td>Register or Record from which the figures shall be taken</td>
<td>Remarks</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>Deposits</td>
<td>Security and other deposits not in cash as at page 45 of the annual account</td>
<td></td>
</tr>
<tr>
<td>Sinking fund Investments</td>
<td>Register of sinking fund and register of investments</td>
<td></td>
</tr>
<tr>
<td>Other Investment</td>
<td>Register of investment</td>
<td></td>
</tr>
<tr>
<td>Funded Capital of endowed institutions</td>
<td>As under the same head appearing on the liabilities side</td>
<td></td>
</tr>
<tr>
<td>Arrears of taxes</td>
<td>Total of balances under tax resource on page 40 of the annual account</td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td>Total balances under tax resources on page 40 of the annual account and the value of immovable property from the respective registers</td>
<td></td>
</tr>
<tr>
<td>Advances recoverable permanent</td>
<td>Closing balance of the register of permanent advances</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>Closing balance of the register of advances</td>
<td></td>
</tr>
</tbody>
</table>
After the statement is prepared, totals should be made and by noting the difference as closing balance so that the totals of both the sides should agree.

Under the orders issued in G.O.No.1407, C.A. dated 5th April 1959, every municipal council should conduct all transactions with the nearest government treasury or sub-treasury. Government have permitted all municipal councils irrespective of the fact whether there is a Government treasury or not at their headquarters to open a current account with the concerned district co-operative central bank in addition to the account maintained with the nearest treasury or sub treasury subject, however, to the condition that the amount at the credit of the local authority in the co-operative central bank does not exceed 10,000/- at any time. A municipal council may with the sanction of Government investment any sums not required for immediate use either in a Government Savings Bank or in Government securities or in any other security, which may be approved by the Government. The municipal money in the custody of executive authority should be kept in a cash chest under double locks of different patterns, the key of one lock being kept apart from and in different persons' custody from the key of the other lock. The key of one lock should accordingly be with the shroff and the key of the other lock should be with the executive authority or under his personal responsibility with an officer, other than the shroff, authorised by him in this behalf. The facsimile stamp of the officer whose signature it represents should be in his personal custody. At the time of audit objection should be taken, if they are found in the custody of others.
Audit in the Municipalities

In Municipalities audit is instituted in order to ensure that all financial transactions are conducted according to the rules, that all receipts are duly credited to proper accounts and that no accounts are paid without proper authorization. Nowadays besides satisfying the above-mentioned aspects audit is also required to take into account the principle of financial propriety i.e., that all the expenditures are made according to the principle of faithfulness, wisdom and economy. The audit of municipal bodies is conducted by the examiner of local funds accounts, who belongs to the state establishment in most states or by the Provincial Accountant General in some states. This machinery for external audit is an outside checks on the local authority and its servant and imposed or adapted primarily to protect the interest of the public. The procedure for external audit starts when the accounts are declared ready for audit. Initially, the examiner conducts a test audit, local fund accounts of a part of the financial transactions of the year. If the test audit discloses serious irregularities, faults and mistakes, the government may order a special audit.

The Commissioner has to prepare or cause to be prepared for each month in Form ‘B’ (Part-I) appended to these rules, the abstract of Monthly Account and forward it to the Auditor together with a demand collection and balance statement and a certificate of verification not later than the end of the succeeding month, provided that for the month of March, the abstract statement and certificate refused to the above, may be forwarded to the Auditor by 15th June following. The Commissioner has to prepare or cause to
be prepared in Form B (Part I) appended to these rules a detailed annual account of the Municipal Council and forward a copy of it to the Auditor not later than the 15th of June following. The accountant shall assist the commissioner in the conduct of audit of accounts and also in the preparation and submission of replies to the Audit reports. The Audit report may consist of (1) Audit notes dealing with serious irregularities which call for special attention of the Committees (2) Objection statement relating to technical errors, irregularities and defects etc. The council is required to consider both the audit notes and the objection statement and express its opinion to the Examiner. In case a particular loss is found incurred on account of the personal negligence or misconduct of a particular councilor or officer, a surcharge can be ordered.

The utility of audit depends largely on the effective and timely disposal of audit objections. Apart from this there should be a system of internal audit, which helps to minimize the number of objections. An efficient internal audit system is also an important instrument of financial control. It is, therefore for the bigger municipalities to organize their internal audit department with efficient and qualified staff.

Accounting System followed by Nellore Municipality

Nellore Municipality is implementing its Accounting System according to Municipal Act 1965 and Andhra Pradesh Municipal rules of 1970. The Commissioner prepares and submits the comparative annual account, detailed
annual account, annual account of receipts and charges and balance sheet to
the auditor yearly once. The Accountant assists the commissioner in the
preparation and submission of accounts to the auditor. He also scrutinizes and
checks the bills of arrears claims as per payment of arrears rules of 1967. In
addition, he has to follow the provisions of the relevant sections of Andhra
Pradesh Municipalities Act, 1965 and the following rules specifically while
scrutinizing the bills received for payment.


2. A.P. Municipalities (check measurement of works) rules 1972

3. A.P. Municipalities (Municipal works) rules 1967

4. A.P. Municipalities (payment of arrears) rules 1967

5. A.P. Municipalities (Pension cum gratuity fund) rules 1969


The Accountant in the preparation of monthly & Annual Accounts
follow the following rules and regulations and Budget estimates.

1. Andhra Pradesh Municipalities Rules 1970 (Preparation and
   Submission of accounts abstracts)

2. A.P.M. rules 1967 (Preparation of budget, allotment and transfer of
   funds)

According to rule 4 of A.P.M. rules, annual statements and accounts have to be prepared by the Commissioner with the assistance of the accountant and forward a copy of it to the auditor not later than 15th June every year. The auditor may require the production of any book, deed, contract, account, voucher, receipt or other documents, for personal examination he considers necessary. He has to report to the municipal council any material impropriety or irregularly which he may observe in the expenditure, or in the recovery of moneys due to the council or in the municipal accounts. He has to furnish to the council such information as it may require concerning the progress of the audit. He also reports to the council any loss or waste of money or other property owned by or vested in the council caused by neglect or misconduct along with the names of persons, directly or indirectly responsible for such loss or waste, and submit to the council a final statement of the audit and a duplicate copy of it to the government within a period of three months from the end of the financial year or within such other period as the government may notify. The commissioner has to remedy forth with any defects or irregularities that may be pointed out by the auditor and report the same to the council.

As already noted in Nellore Municipality, the revenues are collected under eight heads of account. Each account contains different taxes, fees, grants and other sources of Income. Generally the Commissioner fixes the rates and taxes with the help of Manager and Revenue Inspector, in accordance with the rules and regulations prescribed in the Municipal Act,
The rates and fees to be implemented have to be approved in the council meetings. Table 6.3 shows the different heads of accounts under which Nellore Municipality collects revenues.

Table 6.3

**Different heads of Accounts of Revenue**

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Description of Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>General Account (excluding endowment)</td>
</tr>
<tr>
<td>B.</td>
<td>Lighting Account (where lighting tax is levied) (Excluding endowments)</td>
</tr>
<tr>
<td>C.</td>
<td>Elementary Education Account (Excluding endowments)</td>
</tr>
<tr>
<td>D.</td>
<td>Water Supply and Drainage Account (Excluding endowments)</td>
</tr>
<tr>
<td>E.</td>
<td>Town Planning fund Account (Excluding endowments)</td>
</tr>
<tr>
<td>F.</td>
<td>Remuneration Enterprises for which separate account are kept.</td>
</tr>
<tr>
<td></td>
<td>(I) Electric License, Scheme</td>
</tr>
<tr>
<td></td>
<td>(II) Others, if any</td>
</tr>
<tr>
<td>G.</td>
<td>Deposits and advances Account (other than those relating to Electric License)</td>
</tr>
<tr>
<td>H.</td>
<td>Endowment Account</td>
</tr>
<tr>
<td>I.</td>
<td>Conservancy Fund Account</td>
</tr>
</tbody>
</table>
General Account shows the major sources of revenues. The following table 6.4 shows the different items of revenue, which are allocated under the head of General Account.

**Table 6.4**  
General Account

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>General Taxation and Miscellaneous revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>General Taxation and Miscellaneous revenue</td>
</tr>
<tr>
<td>(a)</td>
<td><strong>Taxation</strong></td>
</tr>
<tr>
<td></td>
<td>(1) Property Tax</td>
</tr>
<tr>
<td></td>
<td>(2) Profession Tax</td>
</tr>
<tr>
<td></td>
<td>(3) Tax on advertisement</td>
</tr>
<tr>
<td>(b)</td>
<td><strong>Miscellaneous Revenue</strong></td>
</tr>
<tr>
<td></td>
<td>(1) Warrant &amp; Distraint fee etc.</td>
</tr>
<tr>
<td></td>
<td>(2) Interest on arrears of revenue</td>
</tr>
<tr>
<td></td>
<td>(3) Lapsed deposits</td>
</tr>
<tr>
<td></td>
<td>(4) Fees, fines and forfeitures</td>
</tr>
<tr>
<td></td>
<td>(5) Fishery rents</td>
</tr>
<tr>
<td></td>
<td>(6) Surplus from provident fund</td>
</tr>
<tr>
<td>(c)</td>
<td><strong>Government grants</strong></td>
</tr>
<tr>
<td></td>
<td>(1) In aid of general resources</td>
</tr>
<tr>
<td></td>
<td>(2) Compensation under the provisions of Madras Entertainments Tax Act, 1939.</td>
</tr>
<tr>
<td></td>
<td>(3) Compensation on Account of loss in income on account of the Profession Tax Limitation Act.</td>
</tr>
</tbody>
</table>

The above table shows the different sources of Income, which are noted under the General Account. In Nellore Municipality Revenue Account occupies the first place. Table 6.5 shows the different ranks of revenues.

**Table 6.5**

**Different Ranks of Revenues (in lakhs)**

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Name of the Different Accounts</th>
<th>Total Income</th>
<th>Percentage on Total Income</th>
<th>In Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>General Account</td>
<td>2237</td>
<td>81.1</td>
<td>I</td>
</tr>
<tr>
<td>B.</td>
<td>Lighting Account</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C.</td>
<td>Elementary Education Account</td>
<td>151</td>
<td>5.5</td>
<td>-</td>
</tr>
<tr>
<td>D.</td>
<td>Water and Drainage Account</td>
<td>157</td>
<td>5.8</td>
<td>II</td>
</tr>
<tr>
<td>E.</td>
<td>Town Planning Account</td>
<td>56</td>
<td>2.0</td>
<td>-</td>
</tr>
<tr>
<td>F.</td>
<td>Deposits and Advances Account</td>
<td>155</td>
<td>5.6</td>
<td>III</td>
</tr>
<tr>
<td>G.</td>
<td>Endowments Account</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Account, 1999-2k.

The table shows the share of different sources of revenue to total income. It also reveals that the General Account occupies the first place over and above other sources of revenue. Nellore Municipality like all other municipalities faces the problem of growing expenditure to provide the minimum essential amenities to the public. Growing Urbanisation make it necessary to think of the steps to be taken to improve the sources of Income.
It has to be a continuous process after studying the financial position of Nellore Municipality; the state government has suggested the following steps to be taken to improve its financial position:

1. Improve property tax to cover 10 percent of the deficit of the Municipality;

2. Frame some rules and regulations to control the disputes between Commissioner and Chairperson, members of the council. They have to work together to develop the municipality.

3. Control unlawful practices in the departments of engineering and town planning, by mean of surprise ACB raids.

4. Implement controlling measures strictly to improve the efficiency of the municipality.

5. The DFID scheme is to be implemented in the Municipality to improve the total sum of grants released by the Government.

6. Set up Nearly two hundred and thirty seven E-Seva centres at a cost of 10 lakh rupees, so that the municipal taxes may be collected through them. This helps to prevent misappropriation of money collected, and the records are kept straight.

7. Government also advises to restrict the establishment expenditure through computerization, introduction of private agencies and Dwakra Groups to do the services of Garbage cleaning and other services.
8. It is also suggested to acquire sufficient funds through taxes and non-taxable income sources to meet the day-to-day expenditure and salaries of the staff.

9. It is also suggested to transfer the duty to collect revenues from the public to Transco to reduce dues. Accumulation of dues is one of the major problems faced by Nellore Municipality.

10. Some modifications are suggested in administration, which are successfully implemented in foreign countries.

According to the status report on Nellore Municipality 1999-2k, if above mentioned suggestions are implemented, the financial upliftment of Nellore Municipality would very improve. In Nellore Municipality, property tax levied between 18 to 25 percent. It was as high as 82 percent in West Bengal, 78 percent in Assam, 77 percent in Bihar, 47 percent in Tamilnadu, 46 percent in Bombay in the year 1965-66. It has already been noted for Nellore Municipality, Property tax, Entertainment tax and Advertisement tax, rental income, water tax, Licenses, Government grants and Loans and Advances are the main sources of income. In this municipality, the executive power is invested in one particular individual. Only certain committees are appointed by the Municipal council. Municipal councilors or members of the municipal council or municipal board are members of these committees, which carry out the executive function. The Committees are of two types: Statutory and, Non-Statutory. They carry out the particular jobs assigned to them. The first step of financial management of municipality is to utilize the sources of revenue effectively.
Utilisation of funds

In Nellore Municipality, statutory committees are appointed to supervise the utilization of funds on water supply, education, transport, electricity, public health, and improvement & development of municipality. They are appointed under the provisions of 1965, A.P. Municipal Act. Each Committee has a chairman and a Vice-Chairman. Only these two office-bearers and the committee carry executive powers. The municipal council under the regulations framed by the council itself constitutes non-statutory committees. The number of members of these committees is also fixed by these regulations. A particular committee has to look after a particular job, only, so that it can function effectively and properly. These committees are intended to be very helpful in tendering proper advise to the municipality in the utilization of funds. But contrary to expectation, in Nellore Municipality the function of these committees is carried out by the chairman or by one single individual. One individual is likely to commit more mistakes. Another disabling factor is that because of the large number of membership of these committees, the committees are not able to arrive at decisions effectively. As the adage goes, too many cooks spoil the broth. State Government has framed certain rules and regulations about the expenses to be incurred by municipalities. Municipalities are not allowed to incur expenditure beyond the scope of these rules and regulations. In regard to certain matters, they have to obtain prior sanction of the state government. Without it, they cannot incur any expenditure in regard to them.
In Nellore Municipality the expenditure on office, salaries of employees are a major item. Current charges, education, water supply, public health, women & child welfare, repayment of loans and advances & deposits and other miscellaneous expenditure have to be met by it. Table 6.6 shows the percentage of expenditure incurred by Nellore Municipality in the year 1999-2k.

Table 6.6

Percentage of utilisation of funds

<table>
<thead>
<tr>
<th>Name of the Expenditure</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>29.69</td>
</tr>
<tr>
<td>Electricity of Expenditure</td>
<td>2.72</td>
</tr>
<tr>
<td>Education</td>
<td>2.64</td>
</tr>
<tr>
<td>Water Supply</td>
<td>7.59</td>
</tr>
<tr>
<td>Public health</td>
<td>7.45</td>
</tr>
<tr>
<td>Women &amp; Child Welfare</td>
<td>0.08</td>
</tr>
<tr>
<td>Loans 7 Expenditure on constructions</td>
<td>0.04</td>
</tr>
<tr>
<td>Purchases</td>
<td>49.79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

It shows the different shares of expenditure incurred by Nellore Municipality. Purchases take the largest share of the expenditure. It gives scope to raise doubts whether funds are utilised properly. But there are many heads under which funds have to be utilised to provide municipal services such as sanitation public safety and public works etc., Nellore Municipality suffers severely on the revenue side of the balance sheets while at the same time they are expected to play a vital role in the urban development process. The Municipality finds it increasingly difficult to meet the cost of civic services out of its own resources. The situation cannot be very much different in several other municipalities in India. Many of them are suffer from a deteriorating revenue base at the local level. Not many of them are in a position to provide for new civic infrastructure out of their own resources. Worse still, even if investments are made for the new entrance, to the cities, not many civic governments are confident that they can meet the running expenses of new projects. Table 6.7 shows the balance sheet of Nellore Municipality and its financial stability during the study period.
Table 6.7

Balance sheet of Nellore Municipality, 1999-2k

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>I) Balance of loans</td>
<td>I) Closing Balance</td>
</tr>
<tr>
<td>1) From Government 3549851.01</td>
<td>a) Cash 64522.14</td>
</tr>
<tr>
<td>2) From Public 3300000.00</td>
<td>b) In Treasury 5798037.39</td>
</tr>
<tr>
<td>6849851.01</td>
<td>5860559.53</td>
</tr>
<tr>
<td>II) Provident Fund</td>
<td></td>
</tr>
<tr>
<td>a) Cash 1074492.13</td>
<td>II) Provident Fund</td>
</tr>
<tr>
<td>b) Investment 941920.00</td>
<td>Investments B,F 857720.00</td>
</tr>
<tr>
<td></td>
<td>84200.00</td>
</tr>
<tr>
<td></td>
<td>2016412.13 Pos B,</td>
</tr>
<tr>
<td></td>
<td>36530.00</td>
</tr>
<tr>
<td>III) Pension</td>
<td></td>
</tr>
<tr>
<td>a) Cash 875771.57</td>
<td>III) Pension</td>
</tr>
<tr>
<td>b) Investment 50000.00</td>
<td>a) Cash 875771.57</td>
</tr>
<tr>
<td></td>
<td>b) Investments 50000.00</td>
</tr>
<tr>
<td>IV) Deposit</td>
<td></td>
</tr>
<tr>
<td>a) Cash 3341489.06</td>
<td>IV) Deposits</td>
</tr>
<tr>
<td>b) Surcharge 3132.74</td>
<td>3551539.66 Postal savings bank</td>
</tr>
<tr>
<td>c) Library Cess 206917.86</td>
<td>b) Government</td>
</tr>
<tr>
<td></td>
<td>promissory notes 27000.00</td>
</tr>
<tr>
<td>V) Funded Endowments</td>
<td></td>
</tr>
<tr>
<td>institutions</td>
<td>VI) Cash Balance of</td>
</tr>
<tr>
<td></td>
<td>Endowment Institutions</td>
</tr>
<tr>
<td>VI) Cash Balance of</td>
<td></td>
</tr>
<tr>
<td>Special Account</td>
<td></td>
</tr>
<tr>
<td>VII) Cash Balance of</td>
<td>V) Sinking Fund</td>
</tr>
<tr>
<td>other amounts</td>
<td>investments 1200000</td>
</tr>
<tr>
<td>25887316.04</td>
<td></td>
</tr>
</tbody>
</table>

| VI) Other investments       |                             |
| VII) Funded capital         |                             |
| endowed Institution,       |                             |
| securities and landed      |                             |
| properties 870000          |                             |
| VIII) Arrears of taxes     |                             |
| 8871525                    |                             |
| IX) Other Assets           |                             |
| X) Advances                |                             |
| recoverable                |                             |
| permanent others 3256723.97 |                             |
|                             | 439.32                      |
|                             | 1309195.27                  |

Source: Annual Accounts, Nellore Municipality, 1999-2k.

It shows the different types of loans acquired by Nellore Municipality.

On the assets side, arrears of taxes take a major share nearly 88 lakh rupees. It indicates the level of collection performance of Nellore Municipality.
In Nellore Municipality the major sources of revenue are not sufficient to meet the expenditure of Capital and Ordinary. A number of taxes are inelastic where as the activities of urban local bodies are ever increasing. So are costs, taxes like octroi, terminal tax, property tax, and house tax, which are major sources of revenue, are quite inelastic. Revenue from these taxes does not increase as much as the financial needs of the Municipality. Besides, the government has been continuously encroaching upon the resources of local governments in one way or the other. For example, while property tax has always been the biggest source of income for municipalities, temples, railway stations, & bus stations etc., are exempted from it by some G.O.'s. Municipalities have a double disadvantage in matters of access to funds for capital investment, for upgrading the infrastructure. Being creatures of states, they are outside the purview of statutory devolution of funds, and therefore, are wholly department in matter of grants upon the discretion of state governments. In matters of sharing the funds available for investments through the five-year plans, Nellore Municipality is once again outside the purview of the plans.

Whatever funds are made available to the local bodies for capital investment are restricted to what each state government is prepared to dole out from its own plan allocations under various heads. The procedures as regards the introduction of a new tax or amendments to the existing taxes are very cumbersome. No separate list of taxes is provided in the constitution for local bodies. The imposition of taxes or change in their rates etc. requires the
approval of the state government. The state government may or may not sanction the same. Moreover, if the rates are fixed for once, they cannot be altered during the year. In addition to that, the major sources of revenues are not collected properly.

Problems of Nellore Municipality

The main factor, which affects the internal administration of Nellore Municipality, is the low collection of taxes. Unless the municipality increases its resources. It cannot discharge its duties and fulfill its obligation properly. Therefore it has to increase its revenue sources and do or undertake such things that can bring it some money. One of the major problems facing the municipality is the out molded and in effective system of realization of taxes. The tax collecting machinery is not properly organized nor is it worked effectively. Local appointments, political leaders influence, shortage of regular staff and lack of day-to-day check upon them are other factors affecting the collection of taxes. This is more or less time of other municipalities. The state government in order to draw a scientific and rational tax structure of municipalities should set up a finance commission. Unless it is done, it will not be possible for them to know what items are to be taxed and to what extent. In Nellore Town nearly 1,00,334 people dwelling in sixty-six slum areas located within the municipal limits. One fourth of the population in the Municipality lives below the poverty line. They have not enough resources to pay taxes imposed on them by the municipality. The Municipality also hesitates to levy new taxes and increase the rate of existing
taxes because the municipal authorities know that the citizens will not be able to pay them. The net result is that income of the municipality is affected. The representatives of the people oppose the imposition of fresh taxes. They know that if new taxes are levied the public will not vote for them again in the next elections. Selfish interest rather than civic welfare matters to them. They do not even try to explain to the people by taxes have to be raised for their own benefits. Laxity in collection of taxes is noticed in the municipality. Actually it is the members of the influential class, who have to pay more, are lax, although they can very well afford to pay the enhanced tax. As a result of this laxity, lakhs of rupees fall in arrears. Sometimes the laxity of the well to do encourages others not to pay taxes, which again has an adverse effect on the financial condition of the Municipality.

Natural calamities, political leaders' influence and interference, inadequate grants, and delay in the release of grants by government have been adversity influencing the internal administration of Nellore Municipality. As Nellore District is located on the coastal line of the Bay of Bengal it is affected by depressions and cyclones every year. A lot of damage is done to civic life. It results in financial losses, which impose an additional burden on Nellore Municipality. In the Municipality: Voters have organized themselves into pressure groups, and consequently political leaders who woe them for voter, hesitate to antagonize them by levying tax on them. The municipal authorities, because of the support of political leaders they enjoy, cannot control even the Municipal employees who are all local people. The grant-in-
aid given by the state government falls much short of the legitimate needs of
the municipality. There is every need to raise the percentage of the amount of
the grant-in-aid to the municipality. Unless it is done and done promptly, the
municipality cannot function properly. Much less can it meet to ever
increasing civic needs of the town?

Ineffective audit system, limited borrowing power, absence of
productive enterprises, increases in population, rising prices, are among other
factors, which affect the administration of Nellore Municipality. Nellore
Municipality has neglected a systematic and effective audit of its accounts.
This is mainly due to the accumulation of arrears. In the municipality and the
final accounts have not been completed for several years and it is not known
when these arrears will be cleared and the accounts set right. It is rather
disconcerting that the departmental heads and the municipal authorities are
not quick to dispose off audit queries and reports issued by the examiner of
local fund accounts. Therefore, the very purpose of audit is frustrated and
neutralized. Nellore Municipality has only a limited borrowing power. The
local bodies loan Act 1914, restricts the borrowing power of municipalities in
the state to 5 lakhs, with a repayment period of 30 years. Beyond this the
approval of central government is also required. So, Nellore Municipality has
not utilized this facility for ever-emergency need of finance. Apart from the
sources of finance already considered, a good amount can be earned through
investment in certain productive enterprises or trading activities.
Unfortunately Nellore Municipality is reluctant to undertake such enterprises,
the main reason for being the municipality's limited financial resources. On
the one hand there is dearth of resources, and on the other the population of
the town has been increasing. Owing to the rise in population whatever
resources the municipality has become more and more inadequate. The rise in
population exceeds the available resources. Therefore, the municipality is not
able to provide the expected services to the public. To worsen matters, prices,
which always rise, have risen very high.

The cost of living has gone up very much. Today a man has to spend
three to four times more than what he used to do on certain services 10 to 15
years ago. In proportion to the rise in prices the sources of revenues of the
municipality have not increased. Therefore, the municipality financially
remains to be poor. Seen from the public point of view, in Nellore
Municipality, the essential services and civic amenities are not provided
sufficiently. Environmental services, personal services, trading services, non-
trading services, recreational services and special services are not at the
expected level. Bribery, red tapism, favouritism and local leaders interference
are among the other causes for delay in the work of the municipality. The
municipal administrative machinery also is responsible for these problems; it
is sluggish and not sufficiently responsive to civic needs.

The various internal problems faced by Municipalities in general and
Nellore Municipality in particular has been explained forgoing pages. Such
expects as personal administration, funds issued by government, unbalanced
distribution of resources, complicated taxation procedure, low income,
political interference, weak administration, poor matching grants spent in labour costs, ineffective audit system, limited borrowing power and absence of productive enterprises, have been looked into in detail. In view of the urgency of the need to set them right, those aspects may be briefly considered again.

1. Personal Administration:

   Every municipality requires a properly organised and efficient body of officials in order to deliver to the people high quality services. Increase in urban population and the need for the extension of municipal activities to new areas make it imperative for Nellore is have a sound and systematic personnel administration structure. Unfortunately Nellore Municipal administration has become a by-word for inefficiency, corruption, nepotism and favouritism — indeed for all known administrative deficiencies. The need for better municipal personnel system becomes more urgent. Municipal functions are mostly labour intensive and a large number of unskilled hands are to be engaged in connection with conservancy services. Therefore, a substantial proportion of the total revenue has to be devoted towards paying for salaries, wages and other allowances to the employees.

   Such crucial services to the day-to-day to living of people as water supply, drainage and sewerage, garbage disposal, street lighting public health functions and so on are dependent on the proper functioning of the municipal personnel management. There is generally a high frequency of citizen contact with municipal administration and municipal personnel have to function
under closest public scrutiny of the local elected councilors as well as the
general public. And the nature and performance of municipal personnel
administration is such that some kind of vested interests are likely to grow
mainly due to the fact that under this system personnel recruited by a
municipality are to spend their whole career in the locality, and the officers
are, likely to develop some kind of personnel allegiance to particular local
political leaders. Such allegiance may not allow the municipal officers to
discharge their duties an impartially and effectively. This system in the
municipalities often leads to factionalism, nepotism, political interference and
insecurity. The administration of Nellore Municipality, which for has a
personnel system, exhibits all these uncomplimentary features. Even
minimum standards are not maintained to recruit people.

The catchments area for recruitment and ability to pay properly are
both restricted in Nellore Municipality. A major disadvantage of municipal
service is that it unduly restricts opportunities for promotion, especially for
higher-level officers. Any brilliant officer employed in the service of a
municipality is likely to feel frustrated because of the absence reasonable
prospects of promotion. This seems to be a strong argument against a separate
municipal personnel system. The shortage of funds for training personnel may
be aggravated where municipal councils are expected to pay for the training
of staff. Municipal personnel will have to serve two masters. One is the state
government and other is municipal authority. This system will jeopardize the
usefulness of a good and responsible administration. So, necessary steps have
to be taken to strengthen personnel administration in municipalities.

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2. Funds issued by government:

Municipalities in India have a double disadvantage in the matter of access to funds for Capital investment and for upgrading the infrastructure. Municipalities are in the state list. So, they are outside the purview of statutory devolution of funds. Therefore they are wholly dependent for grants upon the discretion of the state government. Under the five-year plans most of the municipalities have suffered regarding the sharing of funds, which are made available to them for capital investment. They are restricted by the state government, which doles out from its own plan allocations under various heads.

Nellore Municipality faces the problem of shortage of funds issued by the state government. Many developmental activities are linked with the releasing of government grants such as solving the traffic problem in the town, construction of a by-pass road, extension of the G.N.T. Road, and construction of bridges near railway gates. But government grants are not released regularly to the municipality. Sometimes grants are released with just a few months time left for their utilization. This causes a lot of confusion to the people concerned. Some grants are released for specified purposes, and cannot be used for other development activities. Funds like Swarna Jayanthi Rozgar Yojana, grants under the I.D.S.M. Scheme (for construction of a shopping complex, Mahaboob Khan park near the Collector Office, shopping complex near Stone House Pet) are not released as per schedule. Some grants
are released slowly and partially, for example 2.2 crores were released out of 5 crores to construct Mahatma Gandhi storage tank. It is not completed as per schedule. Nearly 38 crores are required to build roads to control the internal traffic problem. But they cannot build unless the government gives grants. Execution of such beneficial works gets delayed because grants-in-aid by the government are not released in time or fully.

3. Unbalanced distribution of resources:

The major sources of revenue assigned to the local bodies in India are taxes such as Octroi, terminal tax, property or house tax, which are major sources of revenue. But they are inelastic revenue from does not increase as much as the financial needs of municipalities. Besides, governments have been continuously encroaching upon the resources of local governments in one way or the other.

In Nellore Municipality property tax has always been the biggest source of income. But it is not properly assessed. If there is any enhancement in the tax, it is opposed by property owners who supported by political leaders. In some cases tax assessment is challenged by property owner in the court, which causes delay in the payment of tax until the settlement of the case. Vacant land tax is also not properly assessed. The biggest blow to tax collection is tax exemption given by government properties used as public utilities and other nearby properties.
4. Complicated Taxation Procedures:

The procedure as regards the introduction of a new tax or amendments to the existing taxes is very cumbersome. No separate list of taxes is provided in the Constitution for local bodies. The imposition of new taxes or change in their rates etc. requires the approval of state government, which may or may not sanction the same. Moreover, if the rates are fixed once, they cannot be altered during the year.

In Nellore Municipality the major share of the income is seriously affected due to the under-assessment of taxes.

5. Poverty and urbanisation:

General poverty is also one of the important factors affecting the state of finances of Municipalities. The per capita income of an average individual in India is much low. Therefore, the capacity of people to pay taxes is bound to be low. Even here, the union and state governments leave very little for local government. But the pressure on municipalities for services, which require finances, is continuously increasing with rapid increase in urban population.

In Nellore Municipality nearly one fourth of the town’s population are settled in slum areas. Majority of them live below the poverty line cannot pay ever the minimum tax to the municipality. But the municipality cannot deny them essential amenities. It is a challenge to the municipality to extend it services to all areas within the town limits, with inadequate resources.
6. Political Influence:

Generally at the local level, political leaders keep close contact with people, take their support and help in all aspects like payment of taxes, getting more benefits from municipality. So, political leaders hesitate to antagonize them who are their vote bank. Therefore, they too oppose any tax rise. Further, they try to get municipal officials transferred against the rules. As a result municipalities fail to revise or restructure certain taxes.

In Nellore Municipality local leaders interfere in its day-to-day administration. It has failed to access the property tax to the value of urban property. Entertainment tax, tax on publicity boards and hoardings are not collected properly. It is astonishing thing that more than 30 percent of water connections in the town are unauthorised. In the year 1998 intelligence officials detected a mega scam in the collection of property tax and water tax in the municipality. But action against the guilty Bill Collectors, Revenue Inspectors, and Building Inspectors could not be taken as the local leaders protect them. Similarly tax defaulters too get off scot-free. Local bigwigs' involvement in municipal administration has added to its financial crisis.

7. Weak Administration:

The National Institution of Urban Affairs has pointed out that local bodies in India suffer financial losses due to weak financial administration. The administrative machinery responsible for the collection of taxes is mostly ineffective, partly because the staff is not properly trained lacks sufficient morale to work effectively, and is not properly motivated to work hard and sincerely. The low paid staff easily falls to the lure of bribe.
In Nellore Municipality many corruption cases were filed against bill collectors. In 1998, the ACB officials ceased November Revenue records. Municipal officials are not able to exercise controlling measures on corrupt employees due to the interference of local political leaders. APM Act 1965, Sec 53(1) indicates the powers of councilors to discuss the reasons in the council for the reduction of income of the municipality. It also empowers the councilors even to question the Chairperson about corruption. But all these measures are not implemented in the council meetings.

8. Poor matching grants:

The State government has started to levy tax on certain items like octroi. In return, it release compensatory grants to local bodies equivalent to the amount. But in actual practice the matching grants are not released regularly, and there is always delay. Moreover, the general grants or purposive grants are mostly low and inconsistent.

9. Spurt in labour costs:

Municipalities face the problem of spurt in wage bills. In local bodies local authorities pay wages. There is a wide gap between their income and expenditure. Municipal tax collection is a laborious procedure. Every property in a municipal area has to be individually assessed from time to time. It is very difficult to change the technique in a short time. For this reason, increase in labour cost has a significant effect on municipal total expenditure. Nellore Municipality too faces this problem.
10. Ineffective Audit system:

A systematic and effective audit of municipal accounts is not found in most states, mainly because of accumulated arrears. In many municipalities the final accounts have not been completed for several years and it is not known when they will be set right. Again it is rather disconcerting that departmental heads and municipal authorities are not quick to dispose off audit queries and reports issued by the Examiner of local fund accounts, making a mockery of audit.

As per sec 47 (1) of A.P.M Act 1965, the commissioner of every municipality has to prepare the statement of income and expenditure and place it before the municipal council at the time of its annual meeting. Annual Accounts also have to be prepared and sent to the local fund office before 15th June every year for internal auditing. The local fund office has to issue its audit report before 31st October every year. The objections raised by it have to be discussed in the council and answered by the municipal commissioner, engineers, manager and accountants. In Nellore, as in many municipalities in the state, internal audit does not take place regularly, choosy because the auditor appointed by the Director of Municipal Administration delays external audit situated in the state capital. In Nellore Municipality it was observed that for nearly five to six years the local fund authorities did not do internal audit.

11. Limited Borrowing Power:

The attitude of the state government regarding to the borrowing powers of local bodies is least sympathetic. Under the Local Bodies Loan Act, 1914, state governments can sanction market borrowings of Rs. 5 lakhs each with a
repayment period of 30 years only. Beyond this, the approval of Central government is required. No doubt, the local bodies get some capital funds from the LIC, GIC and other financial institutions for their commercial and viable projects such as housing, markets and to some extent water supply. Most of other urban projects or infrastructure that are not commercially viable have to be otherwise funded. The government charges a high rate of interest on loans Nellore Municipality has borrowed funds from the LIC and GIC to use as capital investments. But the problem of paying the high rate of interest charged has been taxing it very much.

12. Absence of productive enterprises:

By undertaking to invest in certain enterprises and trading activities municipalities can supplement their financial resources. But many of them hesitate to resort to them. On the other hand, whatever commercial on trading services are there in some of them they are not properly or efficiently managed. Thereby a potential source of income is wasted. Nellore Municipality has not ventured into commercial enterprises. Even the Town services are not run by it. It is able to raise some rents from its shopping complexes. Markets to reiterate what has been said more than once, in order to stabilize Indian municipalities, It is essential to improve their financial position and administrative efficiency. Nellore Municipality has to cover the wide gap between its income and expenditure by revising its present rates of taxes and discovering new sources of income. All this requires imagination, vision, and will in matters of administration an efficient financial management.
References:

1. V.S. Murthi, II PA, New Delhi, P.P. 218-219.


3. G.O.M.S. No.855 L.A. dated 4th May 1951


