

REFORMING THE MUNICIPAL ACCOUNTING SYSTEMS

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July 2000**

Traditionally, municipal accounting is given less importance and is limited to making payments for the work executed and reporting against the budget at the financial year-end. This system has failed in providing information on the status of financial performance and financial positions as it lacks completeness and accuracy of the accounting data. Good financial reporting is a key input to the decision-makers for providing good governance. This needs accounting standards and uniform financial reporting through reforms of finance and accounting practices at the local level to encourage professional Chartered Accountants and specialized staff to work for municipal bodies.

Recognizing the need for reform, initiatives have been taken at different levels. The ICAI took the lead and created a study group to develop a technical guide with interaction with Financial Institutions Reform and Expansion Project of USAID. The international agencies like World Bank, USAID, DFID and ADB, etc. are fully committed to assist at various levels in moving this reform forward.

At the local level, in 1990, World Bank provided support to six cities in Gujarat - Ahmedabad, Baroda, Surat, Rajkot, Bhavnagar and Jamnagar to improve accounting systems. Recently, Municipal Corporation Ludhiana also engaged private consultants with technical support from FIRE in moving towards accounting reforms. At the state level, Tamil Nadu has taken lead in preparing a revised accounting manual for all local bodies with computerized double entry accrual based accounting system. These cities have experienced mixed results and only handful of these cities has been able to produce appropriate financial statements to date.

Based on these experiences and difficulties faced at the municipal level in the absence of any technical guideline, there is a pressing need to develop a technical guide reflecting three main objectives:

- Financial reporting must be based on the accrual basis of accounting,
- The policies must conform to the accepted accounting standards and policies and
- Independent and external auditors must audit accounts of local bodies.

This technical guide should include a number of recommendations to meet the expectations of various user groups. Which would primarily cover:

- Standard and model financial reporting formats based on Generally Accepted Accounting Principles (GAAP) providing notes to accounts, compilation of accounts and development of appropriate accounting policies in different areas.
- Guidance on governmental fund accounting to track revenues and expenditures based on a set of separate self-balancing accounts.
- Public utilities in all service areas to understand their accounting and reporting requirements and audit techniques to assess financial health through both internal and external audits.

However, there would be several constraints to implement these reforms, which would be required to be tackled for successful introduction and implementation of these reforms. These would include:

- Provisions of Municipal Acts for auditing the accounts are not specific and would require legislative changes, is a time consuming process
- The level of competency of municipal human resources is inadequate for introducing the reforms, as the accounting personnel are typically clerks, transferred frequently to different departments, inhibits their ability to specialize in accounting. Moreover, Fear of penalty among the bureaucrats, as the new accounting system would inhibit municipal bodies to hide its inefficiencies due to transparent system and reporting policies.
- Training for the accounting staff and other departments as this would require different types of training to different departments and different levels of personnel.

Under the 73 rd and 74 th Constitutional Amendment Act, the role of the municipal and local bodies is increasing rapidly. One would see a substantial inflow of investments and urban infrastructure projects being taken up at the municipal body level itself. In this context, adoption of these reforms towards improving the accounting system by the municipal bodies would ensure accurate and complete financial information to improve governance through delivery of services, resource mobilization and efficient utilization of scarce financial resources.

The specialist role of the Chartered Accountants would be greatly required for implementing the reforms in this sector. It is bound to increase the opportunities for Chartered Accountants in this sector. Successful tackling of the constraints would lead to transparency where all transactions can be measured, accounted for and reported to the citizens and the financial institutions for investments and enhance the credit rating. This would also guide the centre and states to oversee local administration based on their performance and generate intrastate and interstate financial comparison and give the much-required boost to investments and project development in the urban infrastructure sector