

Many a problem in Municipal accounting

Urban local bodies, or municipalities, have a crying need for better finance management,
says R.S. Murali

MUNICIPALITIES in India are undergoing a major change - in terms of better methods of revenue collection, inclusion of information technology (IT), improvement in infrastructure and the use of modern methods of accounting.

These changes are taking place at different levels in different places using varying methodologies. To understand the complications involved, it is necessary to understand the sector per se.

Urban local bodies

The change in municipal management was initiated a decade ago, by the 74th amendment talks about decentralization and increased governance by urban local bodies (ULBs) - as municipalities are generally referred to, as opposed to rural local bodies

There are several types of ULBs, from city corporations to town panchayat is basically a rural local body but a town panchayat is the uniest ULB), with city and town municipal councils falling in between. This classification could vary among States, as each follows different classifications.

Also the annual budget of the city corporations may vary from, say, Rs 40 - 50 Crore to as much as Rs 1,000 crores (in the case of metros). In the case of the other ULBs, the annual budget varies from a few crores to about Rs 100 crores. Generally, the larger city corporations have employees in the thousands and the smaller ones, in the hundreds: the other local bodies also employ a few hundred persons each.

ULB management

As regards management, two streams of personnel are involved - the administration and the elected representatives. The elected representatives or councillors as they are normally called are generally

grouped into Standing Committees which take key decisions on behalf of the ULB.

The administrative stream, starting with the Commissioner, takes care of operational decision-making. In larger corporations and ULBs, persons from the IAS or State Administrative Services are appointed.

Again in the case of larger corporations, other members of the administrative streams are appointed as additional, special or deputy commissioners to handle the operational management. The personnel for the other level are appointed by the ULB itself. Interestingly, in most of the States, the accounting function is generally performed by persons from the State Accounts Department on deputation to the ULB. The audit function is generally performed by the Local Audit Circle from the State Accounts Department. While these are the general formats, there could be changes in specific cases.

Independence

One general complaint is that the government does not perform; the ULBs or the urban local governments, being the third tier of government, are never spared. The commoner often thinks that ULBs belong to the State government which, in fact is not the case. City corporations and ULBs are formed under specific legislation of State governments and work under the Urban Development Department or its equivalent in the State government. ULBs, though independent definitely have ties with the State arising out of tradition and practice. In case an ULB wants to act independently it can. But this does not normally happen, as ULBs depend on the State for their existence - through grants and by way of staff who are deputed.

Changing scenario

The sweeping changes taking place in the Indian economy are also having a strong influence on ULBs. The pressure on infrastructure and increased literacy, coupled with demand for services, influence the management of urban local earnings. State governments have enough matters to worry about and they also conveniently prefer not to get too involved with ULBs, except for maintaining the power equation. A number of local body managements have attempted to change the way they are being administered.

Approach

Information technology (IT) is a major area, where ULBs are concentrating. This could be because of lack of adequate staff to handle various processes within the ULB, the increasing volume of work without proportionate increase in trained staff, or the "capital purchase syndrome" which exists across all the sectors. IT interventions are generally in areas

relating to services to the public such as issue of birth and death certificates, payment of property taxes and so on.

The computerisation of various tax payments and Web-enabled services such as understanding the status of tax payments or issue of licences are currently being resorted to by the municipal management. In general, the approach is to bring in technology in areas where there is contact with the public. One of the reasons that these are taken up by ULBs is to provide some visibility for the changes that are taking place within. Is this approach wrong? No. But the issue is whether all the required elements in this regard have been considered properly

Changes in accounting systems

Some ULBs are attempting to change their accounting systems. ULBs follow the traditional governmental accounting system - cash accounting, that is. There was a time when ULBs had to simply account for the monies taken from the government and so the cash-based system was good enough. But now where information for day-to-day management is the key issue in governance the cash-based system is rendered totally irrelevant while the top management wants appropriate information, they are not in the know of the fact that changing the accounting system with a proper blending with management information systems most of their information-related problems can be solved. This, coupled with IT, can empower the management with reliable information at the required time.

However with all these, the management will have to take decisions which need proper knowledge in accounting and finance and links with other functional areas. This is one major area that needs focus.

Can one measure blood pressure with a thermometer? Yes, say the municipal managers.

A typical conversation with municipal management is as follows:

"How would you manage your maintenance of roads?"
"We have qualified engineers," "Any problems?"
"The normal finance problems,"
"How do you manage your hospitals?"
"We have qualified doctors," "Any problems?"
"The normal finance problems."
"So you have a lot of finance problems. How do you manage your finance? Do you have finance managers?"
"No!"

The key issue

The problem is finance and there is no finance manager, and is this being addressed? No. ULBs feel the trick lies in using IT. Many in the administration both within the government and in ULBs, feel that accounting is complete once the cheque is signed.

They are yet to realise that the accounting actually begins with the signing of the cheque.

Another major problem with regard to ULBs is that they want to do efficient finance management without having scientific accounting. It is a pity none has understood that "finance management begins where accounting ends", And in the case of ULBs, there is no effective accounting. Is this true? The following checklist should throw more light:

- Does one account for the assets of the ULB? There is what is called, the property or assets register. But since balance-sheet is not prepared and cash basis of accounting is followed all the capital expenditure incurred are shown as expended in accounts. (In most of the cases, the property registers are not upgraded, as the information is not required for preparation of financial statements and in many cases, information on assets such as office equipment or furniture are not maintained)
- Does one account for the liabilities of the ULB? The loan portion taken appears on the receipt side and any capital expenditure incurred is treated like any other expense. Any capital work-in-progress will not be known from any accounting statement *per se*. Also, in case there are adjustments made by the State government out of the grant received entries for various items of adjustment are not passed and they are only made for the amount received;
- How about receivables? There are independent registers for various items such as property tax and trade licences. In fact, a DCB (demand collection balance) register needs to be statutorily maintained. This will give details. But since there is no way of accounting what is due to be collected, only information collected from the DCB is available in the receipts and payments account.
- How about payables? There is a register that tells one about the bills received from contractors. But this will not appear in the accounts, as the receipt and payments account only shows those payments that have already been made.
- Accounting control (bank reconciliation, for instance): Are bank accounts reconciled? And how are bank charges for bounced cheques accounted? Bank reconciliation statement is prepared every month, but bank charges are not accounted for must be wondering how without accounting bank charges the bank account has been reconciled.

The real-state of affairs is that assets, liabilities, receivables or payables are not known. These are not tied up in any statement (no balance-sheet), so the financial position is not known. The accrued income or expenditure is also not known, as there are no journal vouchers and revenue and expenditure account (equivalent of profit and loss account of the commercial organisations) is not prepared.

And hence the financial performance for the period or year is not known. Only the receipts and payments account which summarises all the receipts and payments of the year is available. Also there is nobody with the required knowledge of accounting or finance? How to manage the finances then? The reality check

It is strange but true that ULBs do not have balance-sheets or revenue and expenditure accounts. The annual accounts certification if done is only with respect to the receipts and payments account. The only consolation is that the higher tiers - the Central and State Governments -also do not have balance-sheets or revenue and expenditure accounts. These institutions are constitutionally accountable to the public and in reality, belong to public; but today they are unable to give information relating to financial performance or position.

ULBs are service organisations that have to maintained asset (roads, drains, and flyovers), run hospitals and primary schools and so on. How does the system run without having accurate information about assets or liabilities? Moreover monthly accounts (receipts and payments accounts) are usually published' after a time lag of 45-60 days. There are no ledger accounts to show the status of various accounts. Those 1 who know how ULBs work, would say that they need to furnish "debt and suspense - accounts" as a part of their accounting statements which take care of these current assets and current liabilities. How these data are maintained and disclosed is any body's guess. Also, these are compiled information and do not form part of the accounting registers in the cash book, which records only cash, and not credit transactions.

One would be surprised to know that even at the State level; aggregate information on the financial performance of ULBs is not available. Guesstimates of some key financial parameter may be available but this invariable cannot be validated. In some ULBs even cash-basis accounts are pending finalisation for years. The situation as regards audit is worse.

Now, changes are taking place without putting the house in order? Can IT make a difference? It may or may not. If computerisation of say issue of birth and death certificates is not linked to accounts by means of accounting code the results could be disastrous. Similarly, in the case of property taxes unless the software is able to account for receivable and arrear classification by years, and is properly tied up with the accounting engine the benefit, of change would not only be limited but could also lead to scams.

The required approach

In ULBs Financial accounting needs to be shifted from a terminal to a core activity. This would mean that every transaction shall be recorded scientifically, giving well formatted financial information vital for the management of ULBs. One often hears that "end-of-the-spectrum technology" is being introduced in ULBs. This would be totally irrelevant. What is required is appropriate technology.

It is encouraging to see those out side ULBs chipping in as well. However accounting technology being what it is needs to be dealt with systematically and intelligently.

Some of the better experiments in this regard are the ones by Tamil Nadu, Karnataka and Andhra Pradesh.

Tamil Nadu has moved into actual accounting system rather smoothly. Andhra Pradesh has approached the problem from the IT angle by providing citizen interface. The experiment in Karnataka is unique, as it has, through IT, blended state-of- the-art accounting systems appropriate for other local bodies with management information.

The city corporation of Bangalore has introduced a fund-based accounting system. Which is being implemented in the US as well?

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