

***Report on Accountability, Audit  
Framework and Processes in  
Local Bodies in Haryana***

***Submitted by:  
All India Institute of Local Self Governance***

## Table of Contents

ABBREVIATIONS .....	4
EXECUTIVE SUMMARY .....	6
<b>CHAPTER 1: INTRODUCTION</b> .....	14
1. Introduction.....	15
1.1. 73 <sup>rd</sup> and 74 <sup>th</sup> Constitutional Amendment Act, 1992.....	15
1.2. Constitution of the Commission.....	23
1.3. Terms of Reference of the 6 <sup>th</sup> State Finance Commission - Haryana .....	24
<b>CHAPTER 2: APPROACH, METHODOLOGY AND STRUCTURE OF THE REPORT</b> .....	25
2. Approach, Methodology and Structure of the Report .....	26
2.1. Scope of the Study.....	26
2.2. Haryana – State Profile .....	27
2.3. Approach and Methodology to the Study .....	28
2.4. Structure of the Report .....	30
2.5. Issues .....	31
2.6. Collection of Information.....	32
2.7. Field Visits and Discussions .....	32
2.8. Documents and Studies Referred .....	33
2.9. Design of the Report .....	34
<b>CHAPTER 3: EXISTING SYSTEM OF FINANCIAL REPORTING IN LOCAL BODIES IN HARYANA</b> .....	35
3. Existing System of Financial Reporting in Local Bodies in Haryana .....	36
3.1. Legal Framework of Financial Reporting .....	36
3.2. Observations on Legal Framework of Financial Reporting in Local Bodies.....	40
3.3. Understanding the Accounting System .....	43
3.4. Observations on Accounting in Local Bodies.....	44
3.5. Understanding the Auditing System .....	47
3.6. Observations on Audit in Local Bodies .....	48
3.7. Understanding the Budgeting System.....	51
3.8. Observations on Budget in Local Bodies.....	56
<b>CHAPTER 4:</b> .....	58
<b>IDENTIFIED AREAS THAT NEED STRENGTHENING</b> .....	58
4. Identified Areas that need Strengthening.....	59

4.1.	Legal Framework of Financial Reporting .....	59
4.2.	Areas of Improvement in Accounting System .....	61
4.3.	Areas of Improvement in Auditing System.....	62
4.4.	Areas of Improvement in Budgeting System .....	63
	<b>CHAPTER 5: 15<sup>TH</sup> CFC - GUIDING PRINCIPLES AND ENTRY LEVEL CONDITIONS .....</b>	<b>64</b>
5.	15 <sup>th</sup> CFC and Guiding Principles and Entry Level Conditions.....	65
5.1.	Guiding Principles.....	65
5.2.	Entry Level Conditions .....	66
	<b>CHAPTER 6: FINANCIAL MANAGEMENT PRACTICES OF ULBs IN OTHER STATES .....</b>	<b>68</b>
6.	Financial Management Practices of ULBs in Other States .....	69
6.1.	In Comparison with Other States .....	69
6.2.	Best Financial Reporting Practices in Other States.....	71
	<b>CHAPTER 7: RECOMMENDATIONS AND WAY FORWARD .....</b>	<b>76</b>
7.	Recommendations and Way Forward .....	77
7.1.	Recommendations to Amend Existing Legal framework .....	77
7.2.	Recommendations to Improve the Existing System of Accounting .....	79
7.3.	Recommendations to Improve the Existing System of Auditing.....	81
7.4.	Recommendations to Improve the Existing System of Budgeting .....	83
	<b>ANNEXURES.....</b>	<b>85</b>
	<b>BIBLIOGRAPHY .....</b>	<b>108</b>

**List of Tables**

Table 1:	Eleventh Schedule of the Constitution .....	15
Table 2:	Twelfth Schedule of the Constitution .....	16
Table 3:	Salient feature of Constitutional Amendment Acts.....	17
Table 4:	Financial Management Reforms at Local Bodies - Timeline .....	21
Table 5:	Area & Population Statistic of Haryana .....	27
Table 6:	Population criteria for Municipalities in Haryana .....	37
Table 7:	Legal Provisions for Financial Reporting and Disclosure of PRIs in Haryana .....	37
Table 8:	Legal Provisions for Financial Reporting and Disclosure of ULBs in Haryana .....	39
Table 9:	Ratio of Budgeted Receipts to Actual Receipts.....	44
Table 10:	Status of Availability of Statement of Accounts on DULB Website .....	47
Table 11:	Position of Outstanding IRs/Paragraphs of PRIs .....	49
Table 12:	Position of Outstanding IRs/Paragraphs of ULBs.....	49
Table 13:	Entry-level conditions prescribed by 15th Central Finance Commission for Local Bodies to Receive Grants .....	66

Table 14: Status of Grants Recommended Vs Actual Releases .....	67
Table 15: Summary of Reforms in ULBs of Other States .....	69

**List of Figures**

Figure 1 :Status of Accounting Reforms in India.....	23
Figure 2: District-wise map of Haryana .....	28
Figure 3: Approach to the Study - Framework .....	29

## **ABBREVIATIONS**

AAR	Annual Administrative Report
ADB	Asian Development Bank
AG	Accountant General
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
ATIR	Annual Technical Inspection Report
ATR	Action Taken Reports
CA	Chartered Accountant
CAA	Constitutional Amendment Act
CASLB	Committee on Accounting Standards for Local Bodies
C&AG	Comptroller & Auditor General
CFC	Central Finance Commission
CPE	Continuing Professional Education
DULB	Directorate of Urban Local Body
FC	Finance Commission
GoH	Government of Haryana
Gol	Government of India
GP	Gram Panchayat
GSDP	Gross State Domestic Product
GPFRs	General-Purpose Financial Reports
HIPA	Haryana Institute of Public Administration
HIRD	Haryana Institute of Rural Development
HRMCA	Haryana Municipal Corporation Act
HRMA	Haryana Municipal Act
HRPRA	Haryana Panchayati Raj Act
HSFC	Haryana State Finance Commission
ICAI	Institute of Chartered Accountants of India
JNNURM	Jawahar Lal Nehru National Urban Reform Mission
KFRA	Karnataka Finance Regulatory Authority
KMABR	Karnataka Municipalities Accounting and Budgeting Rules
LAD	Local Audit Department
LB	Local Body
MAIMRE	Maharaja Agrasain Institute of Medical Research and Education
MoF	Ministry of Finance
MoUD	Ministry of Urban Development
MoHUA	Ministry of Housing and Urban Affairs
MoPRI	Ministry of Panchayati Raj Institutions
MTFP	Mid-term Fiscal Plan
NIUA	National Institute of Urban Affairs
NMAM	National Municipal Accounts Manual

NPAM	National Panchayati Accounting Manual
Pr. AG	Principal Accountant General
PRI	Panchayati Raj Institution
PS	Panchayat Samiti
PSU	Public Sector Undertaking
SFC	State Finance Commission
SC/ST	Scheduled Caste/Scheduled Tribes
SJHIFM	Swarn Jyanti Haryana Institute of Fiscal Management
TGS	Technical Guidance and Support
ToR	Terms of Reference
ULB	Urban Local Body
UT	Union Territories
ZP	Zila Parishad

## EXECUTIVE SUMMARY

*Local Bodies are accountable to resource providers, particularly to taxpayers and other stakeholders. One of the major areas, which at present does not exist or is grossly unattended, is internal financial management. And to perform its duties, local bodies must develop capacities, competencies and characteristics of efficiency, transparency and accountability in their operations, actions, deeds, service deliverance and resource management.*

*Rising population and the aspirations of people, are exerting more and more pressure on local resources. With constantly changing demographics, local bodies have to play much significant role than ever.*

*Further, with the emphasis of the citizens on value for money, higher capital investment and better management of existing resources, is absolutely essential for their sustainability, thus making public finance management increasingly vital.*

*Another integral part of governance is Public Information – without which there cannot be a meaningful participation or shared decision-making. The citizen expects a transparent account of how the government is faring in its job. It requires timely, meaningful and user-friendly reporting that provide reliable financial information and facilitate effective decision-making. Ensuring high quality of transparency and accountability is the very basis of any level of government.*

*Considering the benefits of accountability and transparency in the system of accounting, auditing and budgeting, the 6<sup>th</sup> State Finance Commission, Haryana has decided to get this study performed.*

*This report/study discusses the accountability framework of the local bodies in Haryana with a focus on presentation, availability, relevance, compliance with legislation and regulation and timeliness of financial reporting. It comprises study of systems of accounting, auditing and budgeting in the local bodies of Haryana State.*

*The study also includes review of existing systems, legal framework, adequacy of controls, decision-making, stakeholder participation, effectiveness of audit, staff competence and strength, capacity building and training, areas requiring strengthening and preparedness for grants eligibility as suggested by 15th Central Finance Commission (15th CFC). It also sheds light on the Public Financial Management practices implemented by other states in India. It includes analysis Of Account Statements and their compositions, the status of State Municipal Accounts Manual, maintenance of centralized database, use of Accounting Software, and recommendations to reform/modernize/upgrade the existing system.*

Based on the outcomes of the study, recommendations are made to the 6<sup>th</sup> State Finance Commission, Haryana for their consideration. The list of recommendations are as follows:

	<b>Accounting</b>	<b>Auditing</b>	<b>Budgeting</b>
	<b>Legal framework</b>		
<b>State Government</b>	<p>1. To amend the Haryana Municipal Act, 1973, the Haryana Municipal Corporation Act, 1994 and the Municipal Account Code, 1930 to provide for:</p> <p>(a) to adopt accrual-based double entry accounting system for preparation of financial statements by ULBs.</p> <p>(b) to define 'Financial Statements' of ULBs and to include at least Balance Sheet, Income and Expenditure Statement, Receipts and Payments Account/ Cash flow statement, Notes to Accounts, Schedules to Accounts and Significant Accounting Policies.</p> <p>(c) to introduce and adopt Haryana Municipal Account Manual for preparation and presentation of financial statements in a time bound manner.</p> <p>(d) that provisional financial statements for a financial year shall be prepared and published in public domain latest by 15<sup>th</sup></p>	<p>1. To amend the Haryana Municipal Act, 1973, the Haryana Municipal Corporation Act, 1994 and the Municipal Account Code, 1930 to provide for:</p> <p>(a) that audited financial statements shall mean financial statements audited by an independent Chartered Accountant. A supplementary audit shall be carried out by the Office of the C&amp;AG in line with the pattern adopted for the audit of Public Sector Undertakings (PSUs) Section 139 (5) of the Companies Act.</p> <p>(b) that for audit of a financial year, the independent chartered accountant will be appointed by the DULB 3 months before the conclusion of the financial year from a panel of reputed CA firms created for the purpose.</p> <p>(c) that fee for independent chartered accountant for audit of ULB will be determined by DULB in consultation with C&amp;AG and ICAI.</p> <p>(d) that the audit of financial statements</p>	<p>1. To amend the Haryana Municipal Act, 1973, the Haryana Municipal Corporation Act, 1994 and the Municipal Account Code, 1930 to provide for:</p> <p>(a) to introduce and adopt Haryana Municipal Budget Manual. The manual shall provide for the budget framework, citizen participation, formats, budget presentation, budget approval, reporting of capital expenditure and revenue expenditure, variation analysis and reasoning, etc. The budget format shall be aligned with the formats of financial statements and the manual needs to be in line with NMAM.</p> <p><b>However, in the interim, the ULBs, till such time the budget manual is prepared, the municipal accounts manual may contain a chapter on important aspects of budgeting.</b></p> <p>(b) to introduce the concept of output-outcome budget framework for ULBs</p>



	<b>Accounting</b>	<b>Auditing</b>	<b>Budgeting</b>
	<p>of May of the subsequent financial year. Action may be taken against the erring official in case of delay or late preparation and publishing of provisional accounts of the ULBs.</p> <p>2. To define 'Financial Statements' of PRIs and to include at least Balance Sheet, Income and Expenditure Statement, Receipts and Payments Account/Cash flow statement, Notes to Accounts, Schedules to Accounts and Significant Accounting Policies.</p> <p>3. To appoint a cadre of Municipal/Panchayati Finance Officers for ULBs/PRIs of the State.</p>	<p>will be completed by Chartered Accountants within three months from the conclusion of financial year and issue his/her audit report.</p> <p>(e) that the ULB official will provide response or action taken report within 3months/stipulated time from the date of receipt of audit report received from LAD or the Pr.AG/the Chartered Accountants.</p> <p>(f) to introduce and adopt Haryana Audit Manual. The manual shall govern the transaction audits of various departments by LAD as well as audits of financial statements by independent chartered accountants.</p> <p>(g) The municipal accounting staff and LAD staff be mandated to participate and attend online/offline training module and certificate courses.</p> <p>(h) To consult with C&amp;AG for strengthening institutions/empowered committee on audit observations and ATRs at district level which may help in monitoring and to ensure follow up action and accountability mechanism.</p>	<p>in line with State Government's policy.</p> <p>(c) that the approved budget shall be published in public domain within stipulated time/30 days from the date of approval.</p>
	<b>Capacity Building</b>		

	<b>Accounting</b>	<b>Auditing</b>	<b>Budgeting</b>
	<p>4. To entrust responsibility of capacity building and training on accounting aspects to Haryana Institute of Public Administration (HIPA)/Swarna Jayanti Haryana Institute of Fiscal Management (SJHIFM)/Haryana Institute for Rural Development (HIRD) or similar institution for PRIs and ULBs' staff and elected representatives. HIPA/SJHIFM/HIRD should introduce certificate courses for different aspects of accounting. The courses should be available both online and offline training modules and certificate courses.</p>	<p>2. To entrust responsibility of capacity building and training on auditing aspects to HIPA/SJHIFM/HIRD or similar institution for PRIs and ULBs' staff and elected representatives in consultation with Pr. AG and LAD. HIPA/SJHIFM/HIRD should introduce online and offline training modules and certificate courses in consultation with Pr. AG and LAD for different aspects of auditing.</p>	<p>2. To entrust responsibility of capacity building and training on budgeting aspects to HIPA/SJHIFM/HIRD or similar institution for PRIs and ULBs' staff and elected representatives. HIPA/SJHIFM/HIRD should introduce online and offline training modules and certificate courses for different aspects of budgeting.</p>
<b>The Directorate of Urban Local Bodies</b>	<p>1. To prepare and implement State Municipal Accounts Manual.</p> <p>2. Before actual implementation of accounts manual, ULBs are to update/prepare their fixed assets, property registers and records for their assets and liabilities.</p> <p>3. Sensitize and train each level of municipal staff on the accounts manual.</p> <p>4. To develop a strategy roadmap for implementation of State Accounts Manual. Introduction of IT based solution for timely and smooth</p>	<p>1. To issue instructions to the officials of ULBs to dispose-off previous years' pending audit paras, comments and, observations, etc., on or before 31<sup>st</sup> March of the following year.</p> <p>2. To take appropriate action against erring officials of ULBs in case of any audit paras, comments and, observations, etc., are made on pending audit paras by the auditor.</p> <p>3. Sensitize and train each level of municipal staff on the importance of audit, role and duties of ULBs' officials in</p>	<p>1. To prepare and implement State Budget Manual. Also, develop a strategy roadmap for timely implementation of State Budget Manual.</p> <p>2. Sensitize and train each level of municipal staff on the budget preparation, performance budget, Output-outcome budget framework.</p> <p>3. To ensure that the budgeting code are aligned/linked with accounting code.</p> <p>4. Introduction of IT based solution for timely and smooth preparation and presentation of budget.</p>

	<b>Accounting</b>	<b>Auditing</b>	<b>Budgeting</b>
	<p>implementation may be considered. The focus should be more on developing in-house capacities and competencies through trainings, etc., ensuring continuity of reform.</p> <p>5. To ensure creation of a panel of experienced CA firms for preparation of opening Balance Sheet in ULBs and subsequent financial statements till the in-house capacity and competence is developed at ULB level.</p> <p>6. To facilitate ULBs in publishing their provisional financial statements at DULB website.</p>	<p>audit.</p> <p>4. To issue instructions to the officials of ULBs to prepare and organize their registers and records for audit purposes before commencement of audit.</p> <p>5. To take appropriate action against erring officials of ULBs in case of any audit para, comment and observation etc., is made on non-submission of records, registers by ULBs to the auditor.</p> <p>6. To facilitate ULBs in publishing their audited financial statements at DULB website.</p>	<p>5. To facilitate ULBs in publishing their budget at DULB website.</p>
<b>The Development &amp; Panchayats Department</b>	<p>1. To prepare and implement State Panchayats Accounts Manual.</p> <p>2. Before actual implementation of accounts manual, PRIs are to be instructed to update/prepare their fixed assets, property registers and records for their assets and liabilities.</p> <p>3. Sensitize and train each level of PRIs' staff on the accounts manual.</p>	<p>1. To issue instructions to the officials of PRIs to dispose-off previous years' pending audit paras, comments and, observations, etc., on or before 31<sup>st</sup> March of the following year.</p> <p>2. To appoint the independent chartered accountants for audit of PRIs from a panel of reputed CA firms created for the purpose.</p> <p>3. To take appropriate action against erring</p>	<p>1. To prepare and implement State Municipal Budget Manual. Also, develop a strategy roadmap for timely implementation of State Budget Manual.</p> <p>2. Sensitize and train each level of PRIs' staff on the budget preparation, performance budget, Output-outcome budget framework.</p> <p>3. To ensure that the budgeting code are aligned/linked with accounting code.</p>

	<b>Accounting</b>	<b>Auditing</b>	<b>Budgeting</b>
	<p>4. To develop a strategy roadmap for implementation of State Accounts Manual. Introduction of IT based solution for timely and smooth implementation may be considered. The focus should be more on developing in-house capacities and competencies through trainings etc. ensuring continuity of reform.</p> <p>5. To ensure to create a panel of experienced firms CA firms for preparation of opening Balance Sheet in PRIs and subsequent financial statements till the in-house capacity and competence is developed at PRI level.</p> <p>6. To facilitate PRIs in publishing their provisional financial statements at the Development &amp; Panchayats Department's website.</p>	<p>officials of PRIs in case of any audit paras, comments and, observations, etc., are made on pending audit paras by the auditor.</p> <p>4. Sensitize and train each level of PRI staff on the importance of audit, role and duties of PRIs' officials in audit.</p> <p>5. To take appropriate action against erring officials of PRIs in case of any audit para, comment and observation etc., is made on non-submission of records, registers by PRIs to the auditor.</p> <p>6. To sensitize PRIs' officials on importance of audit and their duties to provide records, register to the auditor in a timely manner.</p> <p>7. To facilitate PRIs in publishing their audited financial statements at the Development &amp; Panchayats Department's website.</p>	<p>4. Introduction of IT based solution for timely and smooth preparation and presentation of budget.</p> <p>5. To facilitate PRIs in publishing their budget at the Development &amp; Panchayats Department's website.</p>
<b>Local Audit Department</b>		<p>1. The LAD should continue the pre-audit of local bodies as per existing practice.</p> <p>2. To prepare and implement State Audit</p>	

	<b>Accounting</b>	<b>Auditing</b>	<b>Budgeting</b>
		<p><i>Manual. It is suggested that the manual should prescribe guidelines for risk profiling of units/departments and to give appropriate attention to transactions related to expenditure, income, assets procurement and liabilities. Off Balance Sheet items like contingent liabilities, Notes to Accounts and Accounting Policies shall also need to be part of the audit.</i></p> <p>3. <i>Sensitize and train each level of municipal staff and LAD staff on the audit manual.</i></p>	
<b>Urban Local Bodies</b>	<p>1. <i>To depute teams to update/prepare fixed assets, property registers and records for its assets and liabilities.</i></p> <p>2. <i>To participate in capacity building programmes or trainings on accounting.</i></p> <p>3. <i>To prepare provisional financial statements and audited financial statements within the prescribed time.</i></p> <p>4. <i>To ensure publishing of provisional financial statements and audited financial statements in the public</i></p>	<p>1. <i>To provide records, registers, books of accounts to the auditor for audit.</i></p> <p>2. <i>To facilitate audit by LAD or Pr.AG or Chartered Accountants, as the case may be.</i></p> <p>3. <i>To participate in capacity building programmes or trainings.</i></p>	<p>1. <i>To participate in capacity building programmes or trainings.</i></p> <p>2. <i>To prepare budgets in the prescribed format within prescribed time and to ensure publishing of approved budget statements in the public domain or prescribed websites.</i></p>

	<b>Accounting</b>	<b>Auditing</b>	<b>Budgeting</b>
	<i>domain or prescribed websites.</i>		
<b>Panchayati Raj Institutions</b>	<ol style="list-style-type: none"> <li>1. <i>To depute teams to update/prepare fixed assets, property registers and records for its assets and liabilities.</i></li> <li>2. <i>To participate in capacity building programmes or trainings on accounting.</i></li> <li>3. <i>To prepare provisional financial statements and audited financial statements within the prescribed time.</i></li> <li>4. <i>To ensure publishing of provisional financial statements and audited financial statements in the public domain or prescribed websites.</i></li> </ol>	<ol style="list-style-type: none"> <li>1. <i>To provide records, registers, books of accounts to the auditor for audit.</i></li> <li>2. <i>To facilitate audit by LAD or Pr.AG or Chartered Accountants, as the case may be.</i></li> <li>3. <i>To participate in capacity building programmes or trainings on auditing.</i></li> </ol>	<ol style="list-style-type: none"> <li>1. <i>To participate in capacity building programmes or trainings on budgeting.</i></li> <li>2. <i>To prepare budgets in the prescribed format within prescribed time and to ensure publishing of approved budget statements in the public domain or prescribed websites.</i></li> </ol>

# **CHAPTER 1: INTRODUCTION**

# 1. Introduction

## 1.1. 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Act, 1992

1.1.1 The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as rural housing, poverty alleviation, water supply, planning for economic and social development, public health, sanitation conservancy and solid waste management, etc., prescribed for them. The State Governments are required to devolve powers and responsibilities upon the PRIs and the ULBs with respect to preparation of plans for economic development and social justice, and for the implementation of development schemes, as may be required, to enable them to function as institutions of self-government. Due to such devolution of powers and responsibilities, the role of the PRIs and ULBs varies across various States.

1.1.2 Article 243G and 243W of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts respectively deals with Powers, authority and responsibilities of Panchayat and Municipalities etc., subject to the provisions of this Constitution, the Legislature of a State may, by law, endow the following:

- (a) The Panchayat and Municipalities, etc., with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to:
  - (i) the preparation of plans for economic development and social justice; and
  - (ii) the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Eleventh and Twelfth Schedule respectively for Panchayat and Municipalities. The matters listed in the Eleventh Schedule and Twelfth Schedule are presented below in Table 1 and Table 2 respectively:

Table 1: Eleventh Schedule of the Constitution

1.	Agriculture, including agricultural extension.
2.	Land improvement, implementation of land reforms, land consolidation and soil conservation.
3.	Minor irrigation, water management and watershed development.



4. Animal husbandry, dairying and poultry.
5. Fisheries.
6. Social forestry and farm forestry.
7. Minor forest produce.
8. Small-scale industries, including food processing industries.
9. Khadi, village and cottage industries.
10. Rural housing.
11. Drinking water.
12. Fuel and fodder.
13. Roads, culverts, bridges, ferries, waterways and other means of communication.
14. Rural electrification, including distribution of electricity.
15. Non-conventional energy sources.
16. Poverty alleviation programme.
17. Education, including primary and secondary schools.
18. Technical training and vocational education.
19. Adult and non-formal education.
20. Libraries.
21. Cultural activities.
22. Markets and fairs.
23. Health and sanitation, including hospitals, primary health centres and dispensaries.
24. Family welfare.
25. Women and child development.
26. Social welfare, including welfare of the handicapped and mentally retarded.
27. Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.
28. Public distribution system.
29. Maintenance of community system.

*Table 2: Twelfth Schedule of the Constitution*

1. Urban planning including town planning.
2. Regulation of land-use and construction of buildings.
3. Planning for economic and social development.
4. Roads and bridges.
5. Water supply for domestic, industrial and commercial purposes.
6. Public health, sanitation conservancy and solid waste management.
7. Fire services.
8. Urban forestry, protection of the environment and promotion of ecological aspects.
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
10. Slum improvement and upgradation.
11. Urban poverty alleviation.
12. Provision of urban amenities and facilities such as parks, gardens, playgrounds.
13. Promotion of cultural, educational and aesthetic aspects.

14. Burials and burial grounds, cremations, cremation grounds and electric crematoriums.
15. Cattle pounds; prevention of cruelty to animals.
16. Vital statistics including registration of births and deaths.
17. Public amenities including street lighting, parking lots, bus stops and public conveniences.
18. Regulation of slaughter houses and tanneries.

(b) The Committees with such powers and authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the Twelfth Schedule.

1.1.3 Table 3 given below indicates the salient features of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts.

*Table 3: Salient feature of Constitutional Amendment Acts*

<b>73<sup>rd</sup> CAA</b>	<b>74<sup>th</sup> CAA</b>
<ul style="list-style-type: none"> <li>• Establishment of a three-tier system of Panchayat, at the village, intermediate and district levels, in all the States and Union Territories (UTs) except in those having a population of less than twenty lakhs where Panchayats at intermediate level need not be constituted.</li> <li>• All levels of Panchayats will consist of persons elected directly from the territorial constituencies in the Panchayat area.</li> <li>• All members of the Panchayat whether or not directly elected shall have the right to vote in the meetings of the Panchayats.</li> <li>• The chairperson of a Panchayat at the intermediate and district level shall be elected from among the directly elected members representing the territorial constituencies.</li> <li>• Reservation of seats for SCs/STs in proportion to their population in the Panchayat area and seats may be allotted by rotation.</li> <li>• One-third of the total number of seats, both in reserved and unreserved categories shall be apart for women in every Panchayat and seats may be allotted by rotation.</li> <li>• A fixed tenure of five years for Panchayats from the date appointed for its first</li> </ul>	<ul style="list-style-type: none"> <li>• Constitution of Municipalities. Three-tier system of Municipal Corporation, Municipal Council and Nagar Panchayat, based on area and population.</li> <li>• Composition of Municipalities. all the seats in a municipality shall be filled by persons chosen by direct election from the territorial constituencies in the municipal areas and for this purpose each municipal area shall be divided into territorial constituencies to be known as wards. Constitution of wards committees according to the provisions of the law made by state legislatures.</li> <li>• Reservation of seats for SCs/STs. Seats shall be reserved for the scheduled castes and scheduled tribes in every municipality and the number of seats so reserved shall bear, as nearly as may be, the same proportion to the total number of seats to be filled by direct election in that municipality as the population of the scheduled castes in the municipal area or of the scheduled tribes in the municipal area bears to the total population of that area and such seats may be allotted by rotation to different constituencies in a municipality.</li> <li>• Fixed duration of Municipalities. Every</li> </ul>

<p>meeting and the tenure cannot be extended. However, if a Panchayat is dissolved before the expiry of its term, election is to be conducted within a period of six months of the dissolution to reconstitute the Panchayat for the remainder of the term provided the remainder of the period is not less than six months.</p> <ul style="list-style-type: none"> <li>• Amendment of law to dissolve the Panchayats at any level is also prohibited.</li> <li>• A person who has attained twenty one years of age is eligible for a membership of a Panchayat.</li> <li>• Constitution of a Finance Commission in the State within one year from the commencement of the Constitution Amendment Act initially and thereafter every five years to review the finances of the Panchayats and recommend the principles on the basis of which the taxes to be appropriated by, or assigned to the Panchayats as also grant-in-aid to the Panchayats from the consolidated fund of the State.</li> <li>• Audit of the accounts of the Panchayats to be done.</li> <li>• A State Election Commission has to be constituted for the superintendence, direction and control of the Panchayats at all levels.</li> </ul>	<p>Municipality unless sooner dissolved under any law, shall continue for five years from the date appointed for its first meeting and no longer provided that a municipality shall be given a reasonable opportunity of being heard before its dissolution.</p> <ul style="list-style-type: none"> <li>• Power, Authority and responsibilities of Municipalities. The state legislature by law may authorize a municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits and provide for making such grants-in-aid to the municipalities from the consolidated fund of the state.</li> <li>• Constitution of Metropolitan and District Planning Committees.</li> <li>• State Finance Commission. All states set up their Finance Commissions for the term of five years. The Finance Commission shall also review the financial position of the municipalities and make recommendations to the Governor.</li> <li>• All State Governments/Union Territories set up their Election Commissions for conducting elections to urban Local Bodies.</li> </ul>
---	---

1.1.4 A review of these amendments indicates that most of the financial powers and authorities to be endowed on local bodies were left at the discretion of concerned state legislatures. Evidently, in some states, the financial powers and functions are not transferred to the local bodies even after three decades. Even core functions continued to be with the state government. Inherently, major financial decisions of municipal bodies are taken by state governments, and not by the local bodies themselves. This hampers the growth of local bodies in becoming self-sustainable institutions of economic growth. The lack of professionalism at local body level, inconsistent political follow-ups and lack of public awareness are other reasons that delayed the process of developing a responsive and effective local government.

1.1.5 India, a country with large population, which is increasing rapidly, all tiers of governance including local bodies, needs to be self-reliant and responsive. Rising population and aspirations of people are exerting more and more pressure on the local resources. With constantly changing demographics, local bodies have to play much more significant role than ever. Further, with the emphasis of the citizens on value for money, higher capital investment and better management of existing resources is absolutely essential for their sustainability, making public finance management increasingly vital. Local Bodies are accountable to resource providers, particularly to those that provide resources through taxes and other compulsory transactions. One of the major areas, which at present does not exist or is grossly unattended, is internal financial management. And to perform its duties, local bodies must develop capacities and competencies and to have characteristics of efficiency, transparency and accountability in their operations, actions, deeds, service deliverance and resource management. The key components of the financial management relevant for a local body would be as follows:

- (a) Accounting Practice;
- (b) Auditing Practice;
- (c) Budgetary Practice;
- (d) Public Disclosures;
- (e) Financial Reporting;
- (f) Responsiveness; and
- (g) Capacity Building.

1.1.6 Another integral part of expectations of governance is Public Information – without which there cannot be meaningful participation or shared decision-making. The citizen expects a fair account of how the government is faring in its job. It requires timely, meaningful and user-friendly reporting that provide reliable financial information and facilitate effective decision-making.

1.1.7 Ensuring high quality of transparency and accountability is the very basis of any level of government. Information disclosure and higher standards of accountability in local bodies, when accompanied by other governance reforms in accounting, auditing and budgeting, contribute to improved efficiency and performance. Information disclosure including both financial and non-financial data is essential for the local body, so that it can be an effective stakeholder; the legislature to evaluate the performance; the media to raise awareness on local body's efficiency; and taxpayers and the general public to have a comprehensive picture of local body's performance.

1.1.8 Finance is an all-pervading activity, that is a thread running through all affairs and as financial management is related to efficient augmentation and utilization of

resources, it should be an important area of reforms at local bodies level to improve its overall efficiency to cope with future challenges.

1.1.9 Financial reporting is intended to satisfy the information needs of users. This in turn, determine the objectives of financial reporting by any organization and depends upon its environment – economic, legal, social, and political – and may change, as the environment changes. The environment in which local bodies operate is complex. An understanding of the significant characteristics of environment surrounding local bodies is essential to determine the objectives of financial reporting by these bodies. Primarily, the objectives of financial reporting are to provide information about the local body that is useful to stakeholders for accountability purposes and for decision making purposes.

1.1.10 Moreover, the assessment of local bodies' capabilities and performance can be evaluated by examination of financial position, financial performance and cash flows or by examination of the General-Purpose Financial Reports (GPFRs). The GPFRs facilitates information and assessment thereof, to the stakeholders concerned such as:

- (a) assess the local body's overall financial position;
- (b) assess the allocation and use of resources;
- (c) assess the sources and types of revenues;
- (d) assess the extent to which costs of operations were recovered through revenues;
- (e) assess the financial performance of the local body in its use of resources;
- (f) evaluate local body's spending options and priorities;
- (g) predict the timing and amount of cash flows and future cash and borrowing requirements;
- (h) assess the local body's long-term ability to meet financial obligations, both short and long term; and
- (i) provide the public with information concerning ownership and control, composition, condition and maintenance of assets.

1.1.11 Financial reporting is intended primarily to provide useful information to a variety of external users, most of whom have limited authority, ability, or resources to obtain relevant and reliable information concerning the local body and who therefore rely on the financial reports as the principal, if not exclusive, source of relevant information. It is, therefore, important to consider who are the users of financial reports of the local bodies and what are the information needs of these users relating to governmental-type activities of local bodies that their financial reports

ought to satisfy. The following are the principal user-groups of financial reports relating to governmental-type activities of a local body:

- (a) Those to whom the local body is primarily accountable (the citizens);
- (b) those who directly represent the citizens, i.e., legislature; and
- (c) those who lend to the local body (creditors such as financing or lending institutions including international financial institutions).

1.1.12 The importance of preparation and presentation of General-Purpose Financial Reports (GPFs) is utmost for the citizens, legislature, and other stakeholders. It requires special attention of the 6<sup>th</sup> State Finance Commission, Haryana to lay down the contours around which the State of Haryana needs to work upon for developing capacities and competencies at the local body level.

1.1.13 Over the last three decades, several steps, guidelines and acts were formulated and introduced by the Central and State Governments, which were further advocated by the Central and State Finance Commissions, etc., to implement reforms in the financial management system at local bodies level. These are presented in Table 4 hereunder:

*Table 4: Financial Management Reforms at Local Bodies - Timeline*

Panchayati Raj Institutions	Urban Local Bodies
<ul style="list-style-type: none"> <li>• <b>Based on the recommendations of the Eleventh Finance Commission, the Ministry of Finance (MoF)</b> had issued guidelines for Utilization of Grants to Local bodies. Para 6.4 of the Ministry of Finance guidelines states that “The C&amp;AG shall be responsible for exercising proper control and supervision over the proper maintenance of accounts and their audit for all 3 tiers/levels of PRIs and ULBs (2001).</li> <li>• <b>The Twelfth Finance Commission</b> had strongly stressed the need for creating data base on finances of the PRIs at all levels, accessible on electronic media and earmarked substantial funds for it as well (2004).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>The Eleventh Finance Commission</b> recommended C&amp;AG’s oversight over accounts and audit of all ULBs (2000).</li> <li>• <b>ICAI</b> publishes Technical Guide on Accounting and Financial Reporting by ULBs (2000).</li> <li>• Local Bodies department established in the C&amp;AG (2001).</li> <li>• The Supreme Court ordered the GOI to develop guidelines for implementation of accrual-based accounting system (<b>Almitra Patel vs Union of India, (2002)</b>).</li> <li>• Model Municipal Law and NMAM issued by MoUD (2003, 2004).</li> </ul>

Panchayati Raj Institutions	Urban Local Bodies
<ul style="list-style-type: none"> <li>• For exercising proper control and securing better accountability, the formats for the preparation of Budget and Accounts and database on finances were prescribed by <b>C&amp;AG (2002)</b>.</li> <li>• 6th report of 2nd Administrative Reform Commission, “Local Governance- An inspiring journey into the future”, had recommended that there should be a clear-cut demarcation of functions of each tier of the government.</li> <li>• The <b>Technical Committee on Budget and Accounting Standards</b> in the meeting held on 4th August 2008 co-chaired by Secretary, Ministry of Panchayati Raj, Govt. of India and Deputy Comptroller and Auditor General (LB), considered the need for developing simple but robust format of accounts and constituted a Sub-Committee co-chaired by Director General (LB) and Principal Secretary, Panchayati Raj Department, Government of Gujarat, for the purpose. The mandate of the Sub-committee was to prescribe simple but robust accounting system for, comprehensible to the elected representatives and functionaries of and facilitates generation of financial reports through Information and Communication Technology. The simplified accounting formats or Model Accounting System was introduced among the members of the sub-committee, and were subsequently approved on <b>15th January, 2009</b>.</li> </ul>	<ul style="list-style-type: none"> <li>• The <b>Twelfth Finance Commission</b> recommended that GOI should gradually move towards accrual-based accounting system <b>(2004)</b>.</li> <li>• ICAI constitutes a full-fledged Committee on Accounting Standards for Local bodies (CASLB) <b>(2005)</b>.</li> <li>• The GOI launched reform-linked urban investment programme, <b>JNNURM</b>, to encourage reforms <b>(2005)</b>.</li> <li>• The <b>Thirteenth Finance Commission</b> recommended a cautious ‘Bubble up Approach’ from cash basis of accounting system to accrual-based accounting system <b>(2009)</b>.</li> <li>• <b>The 14th Report of the Second Administrative Reforms Commission</b>, recommended that task force should be set up to examine the costs and benefits of introducing the accrual-based accounting system <b>(2009)</b>.</li> <li>• <b>Fourteenth Finance Commission</b> endorsed the view that the transition to accrual-based accounting system by both the Union and State Governments is desirable. This transition can only be made in stages, as it requires considerable preparatory work and capacity building of accounting personnel <b>(2014)</b>.</li> <li>• <b>AMRUT</b> reform agenda includes migration to double entry accounting system and to obtain an audit certificate to that effect <b>(2015)</b>.</li> <li>• <b>Fifteenth Finance Commission</b> recommended publishing the audited and provisional financial statements online in the public domain. The financial statements should include minimum of a) Balance Sheet,</li> </ul>

Panchayati Raj Institutions	Urban Local Bodies
	b) Income and Expenditure Statement, c) Cash Flow Statement, d) schedules to Balance Sheet, Income and Expenditure Statement and Cash Flow Statement and e) Signed and stamped Auditor's report.

1.1.14 The above developments are the result of sustained efforts of both Central and State Governments. However, additional thrust on the need of reforming the financial management system of the local bodies cannot be ignored. Figure 1 given below indicates that accrual-based accounting system is implemented in ULBs of nine states across the country. However, ULBs of Haryana are yet to implement it.

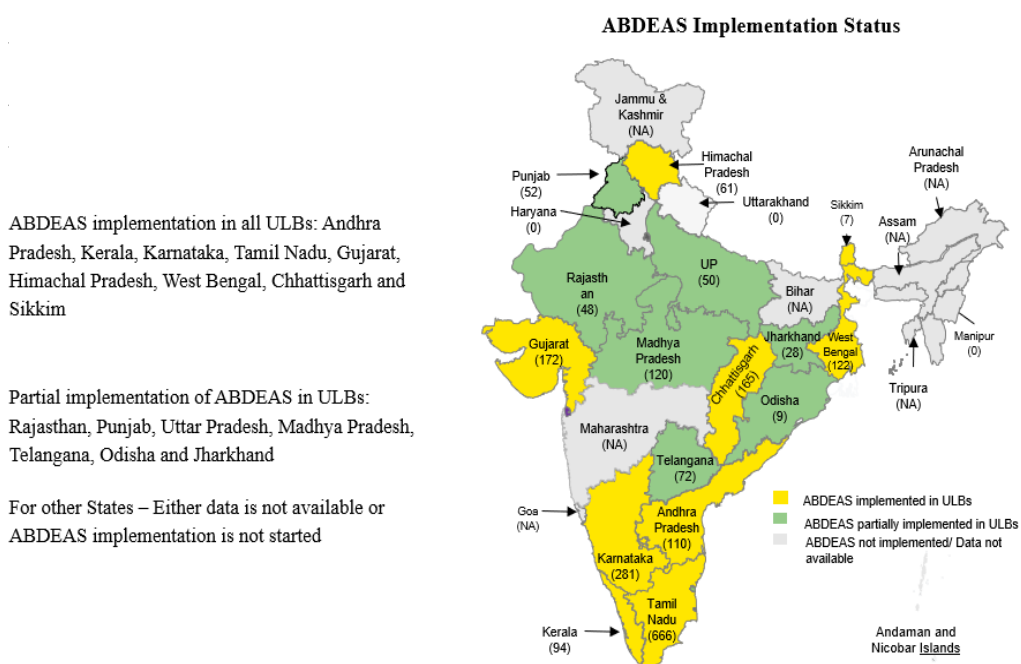


Figure 1 : Status of Accounting Reforms in India<sup>1</sup>

## 1.2. Constitution of the Commission

1.2.1. As mandated by the 73<sup>rd</sup> and 74<sup>th</sup>CAA, 1992, Government of Haryana (GoH) enacted appropriate legislation to make these Amendments effective. This is reflected in: (i) The Haryana Panchayati Raj Act, 1994 (HRPRA, 1994), (ii) The Haryana Municipal (Amendment) Act, 1994 (HRMA, 1994), (iii) and The Haryana Municipal Corporation Act, 1994 (HRMCA, 1994). In addition, the state government has framed the Haryana Finance Commission Rules, 1994. The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts provided for establishing of a State Finance Commission (SFC) within one year of the

<sup>1</sup> Study on "State of Municipal Finances in India" for Fifteenth Finance Commission by ICRIER



Constitutional Amendment, and thereafter at the expiry of every fifth year to review the financial position of the Panchayats and Municipalities.

1.2.2. In pursuance of the provisions of Articles 243-I and 243-Y of the Constitution of India and Section 213 of the Haryana Panchayati Raj Act 1994 (Act 11 of 1994) and Rule 3 of the Haryana Finance Commission Rules, 1994, the Governor of Haryana, vide notification no. 18/1/2010-POL (2P), dated 22nd September, 2020, constituted the Sixth State Finance Commission, Haryana consisting of Sh. P. Raghavendra Rao, IAS (Retd.), as the Chairman and Sh. Vikas Gupta IAS, as the Member Secretary of the Commission. This was with the stipulation that other Members would be appointed later on.

### **1.3. Terms of Reference of the 6<sup>th</sup> State Finance Commission - Haryana**

1.3.1. In this context, based on the aforementioned broad objectives, the Commission has to specifically make recommendations broadly on the following matters:

- (a) Improving the fiscal autonomy of all the three types (Gram Panchayats (GPs) at Village level), Panchayat Samitis (PSs) at Block level, and Zilla Parishads (ZPs) at District level) of Panchayati Raj Institutions (PRIs).
- (b) The specific measures needed to improve the fiscal health of the Urban Local Bodies i.e., Municipal Corporation, Municipal Committees and Municipal Councils.

1.3.2. In making its recommendations, the Commission shall have regard, among other considerations to:

- (a) The objective of balancing the receipts and expenditure of the State, and for generating surplus for capital investment;
- (b) The resources of the State Government and demands, thereon particularly in respect of expenditure on Civil Administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditure or liabilities of the State; and
- (c) The requirements of the PRIs and the ULBs, their potential for raising resources and for reducing expenditure.

# **CHAPTER 2: APPROACH, METHODOLOGY AND STRUCTURE OF THE REPORT**

## 2. Approach, Methodology and Structure of the Report

### 2.1. Scope of the Study

2.1.1. The 6<sup>th</sup> SFC, Haryana has followed a consultative approach, wherein it is consulting all the key stakeholders while preparing its report for the State Government. In order to improve accountability and transparency in functioning and reporting of the local bodies a study is envisaged on ***Accountability, Audit framework and Process in Local Bodies in Haryana.***

2.1.2. It is expected that this study would assist the 6<sup>th</sup> SFC, Haryana in formulating a feasible framework for Accountability and Audit mechanism in Local Bodies in Haryana. The 6<sup>th</sup> State Finance Commission – Haryana has awarded the study to accomplish the following objectives:

- (a) To study the utilization of Performance based grants in aid local bodies and its monitoring by the state level expert institution;
- (b) To study the Budget management to enhance fiduciary control.
- (c) To analyze the laws prescribing the resource-raising powers and budgeting, accounting, and auditing procedures to be followed by local bodies.
- (d) To study the Budget and financial control reforms for segregation of revenue and capital budgets, adoption of accrual-based accounts, cash planning and budgeting, centralized financial control, development of core investment plans to ensure adequate allocation of resources for priority projects. To examine the implementation status of Fifth State Finance Commission, Haryana - recommendations/ATR on the finances and governance structure of local bodies and its impact on delivery of services.
- (e) To study the efficacy of Internal Checks and Internal Control over financial transactions to minimize:
  - i. Unauthorized advances to various parties;
  - ii. Excess payments and unauthorized charges;
  - iii. Arrears of rents and taxes from various parties;
  - iv. Misappropriation and embezzlement of funds;
  - v. Short recoveries;
  - vi. Weak budgetary control and non-achievement of budgetary targets;

- vii. Irregular and avoidable expenditure to disregard for rules and regulations;
- viii. Non-maintenance of prescribed registers; and
- ix. Audit paras not responded and no action taken against erring officials.

(f) To study the effectiveness of Internal Audit system.

(g) To suggest measures to improve their performance.

2.1.3. The Commission appointed All India Institute of Local Self Governance to undertake the study. The study is to be completed within a period of four months.

## 2.2. Haryana – State Profile

2.2.1. Before framing the approach and methodology for the study, an understanding of the State of Haryana is undertaken by the team.

2.2.2. **State of Haryana** is located in the northern-part of India. It was carved out of the former state of East Punjab on 1 November 1966 on a linguistic basis. With just 1.37% of the total geographical area and less than 2% of India's population, Haryana has carved a place of distinction for itself during the past three decades. Whether it is agriculture or industry, canal irrigation or rural electrification, Haryana has marched towards modernity with leaps and bounds. Today, it enjoys the unique distinction in India of having provided electricity, metaled roads and potable drinking water to all its villages within record time. Haryana is among the most prosperous states in India, having one of the highest per-capita income.

*Table 5: Area & Population Statistic of Haryana*

Parameter	Unit	Figure (Per 2011 Census)
Area	Sq. Km.	44,212
Divisions	Number	6
Districts	Number	22
Sub-Divisions	Number	74
Tehsils	Number	94
Sub-Tehsils	Number	49
Blocks	Number	142
Towns (2011 Census)	Number	154
Total Villages (2011 Census)	Number	6,841
<b>2. Population (2011 Census)</b>		
(i) Total Population	Lakh	253.51
Male	Lakh	134.95

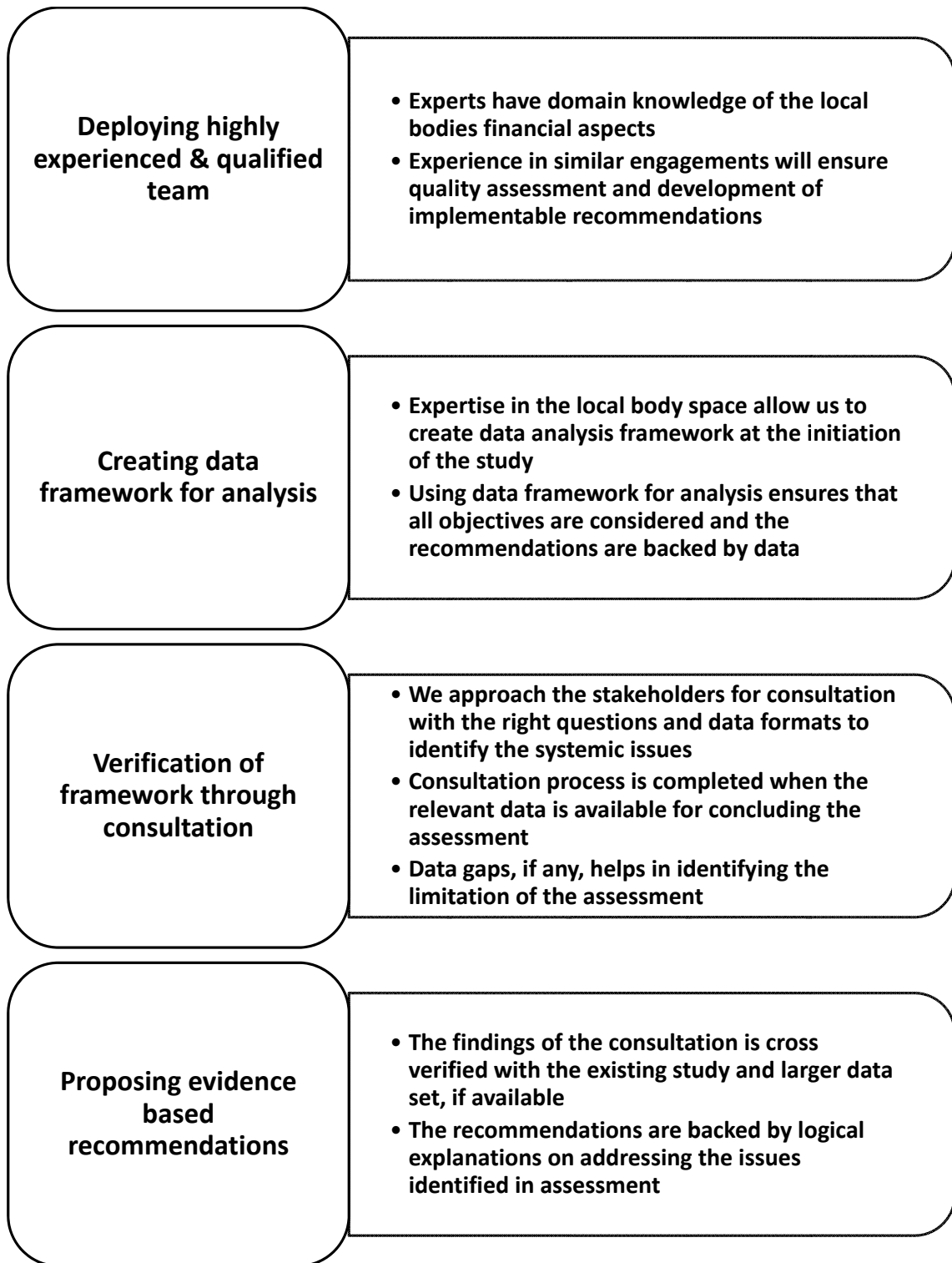
Parameter	Unit	Figure (Per 2011 Census)
Female	Lakh	118.56
(ii) (ii) Rural Population	Lakh	165.09
Percentage to total	Percentage	65.12
(iii) (iii) Urban Population	Lakh	88.42
Percentage to total	Percentage	34.88
(iv) Density (Total)	Per Sq. Km	573
Rural	Per Sq. Km	391
Urban	Per Sq. Km	4,475



Figure 2: District-wise map of Haryana

### 2.3. Approach and Methodology to the Study

2.3.1. The approach for the study is guided by the importance of providing workable solutions for the Local Body. Considering the achievement of the objective of the study within the allocated time of delivery of assignment, i.e., four months, a highly experienced team with strong relevant experience was assembled with a view to ensure that a report having high standards of data-backed analysis and recommendations can be submitted. A brief description of our approach is given below in Figure 2:



*Figure 3: Approach to the Study - Framework*

2.3.2. The study encompasses an analysis and assessment of following data points (not limited to):

- Books of Accounts- Data interpretation of annual accounts of all ULBs (including those prepared under Double entry accounting system) of Haryana;
- Current status of Haryana basis baseline targets and indicators laid down by XV Finance Commission;
- Mapping of Accounting policies in place across local bodies;
- Process of review and reconciled Balance Sheet; and
- Parameters captured by accounting system and software at local bodies' level.

2.3.3. The methodology depicts the different stages of the study and the interaction points through meetings with the Commission at the crucial stages of the study:

- (a) To understand the past reports & studies that needs to be considered and finalise the entities at State and local body level for consultation.
- (b) **Secondary Data Review:** Reports available with Directorate of Urban Local Bodies, 5<sup>th</sup> SFC and its ATR, rules and manuals on accounting and audit. Any other suggested report during consultation.
- (c) **Consultation & Examination Process:** Detailed questionnaire (Refer Annexure – II) for consultation was finalised addressing the objective of the study. The consultation at various forums was undertaken to understand the process and policy issues.
- (d) **Draft Report:** After verifying the ground situation, the findings and suggestions are presented. Post presentation, the draft report is submitted.
- (e) **Final Report:** After incorporating the suggestions on the draft report, final report is submitted.

## 2.4. Structure of the Report

2.4.1. Much deliberation and attention were put in the structuring of report to present the study in a simple, efficient and comprehensible way. Starting from deliberation regarding approach and methodology to follow, to the presentation of final report, all the key processes are broken into small steps and were discussed and deliberated in detail.

2.4.2. This report/study discusses the accountability framework of the local bodies in Haryana with a focus on presentation, availability, relevance, compliance with

legislation and regulation and timeliness of financial reporting. It comprises study of systems of accounting, auditing and budgeting in the local bodies of Haryana State. The study also includes review of existing systems, legal framework, adequacy of controls, decision-making, stakeholder participation, effectiveness of audit, staff competence and strength, capacity building and training, areas requiring strengthening and preparedness for grants eligibility as suggested by 15th Central Finance Commission (15th CFC). It also sheds light on the Public Financial Management practices implemented by other states in India. It includes discussion on Account Statements and their compositions, their status of State Municipal Accounts Manual, maintenance of centralized database, use of Accounting Software, and recommendations to reform/modernize/upgrade the existing system.

## **2.5. Issues**

2.5.1. While conducting this study, following issues were noted:

- (a) The report required extensive data and information on finances, services, structural composition and other important aspects of local bodies and also on other issues referred to in its TOR for which comprehensive formats and questionnaires had to be designed. Since the records of previous SFCs were not made available in a consistent format, a lot of valuable time was taken to re-design the necessary formats and questionnaires in order to get primary and secondary data from all the concerned quarters. If the record had been readily available, more time could have been spent on the cerebral part of the report.
- (b) There is no centralized agency at the state level to collect, compile, process and analyse the statistical data from where it could be made available to the study and the other stakeholders for use. Thus, there were serious problems in getting dependable and authentic data on local finances, civic services and other aspects from the departments of PRIs and ULBs and other related departments. We had made all out efforts to expedite the process of preparation and collection of data by issuing of reminders, telephonic conversations, personal visits and holding of meetings with the departmental officers. Despite all these efforts, the flow of information had not been encouraging. The quality of the data/information received varied across the local bodies which had to be made usable after cross-checking and reconciling with data from other sources.
- (c) The 11th, 12th and 13th CFCs have laid stress on creation of strong data base on finances and services of local bodies accessible on electronic media and also earmarked certain funds for this purpose. The previous SFCs of Haryana had also



made similar recommendations for strengthening of data base. But not much headway seemed to have been made in this regard. This is another area of serious concern as data in electronic form is not readily available.

## **2.6. Collection of Information**

2.6.1. The study team relied on the following sources of information for understanding of the situation, analysis of the situation, and proposing recommendations:

- (a) Data shared by 6th State Finance Commission - Haryana (past finance Commission reports, legislations, economic survey report, maps, budget, financial statements of local bodies, etc.);
- (b) Data shared by local bodies directly (budget documents, financial statements, responses to the field questionnaire mostly about the processes and procedures, audit reports – internal and external audit, etc.);
- (c) Secondary data from various websites (population data from Census, economic survey Reports, best practice reports, legislations of other states, etc);
- (d) Annual Inspection Report from the Pr. AG;
- (e) Audit reports by the Local Audit Department; and
- (f) Data in possession of the study team from past assignments in LBs across India.

## **2.7. Field Visits and Discussions**

2.7.1. Guidance of the Commission and C&AG, Pr. AG, insights provided by DULB's officials, LAD officials and others played an important role in accurate inception of this study. Following is a list of some of the meetings conducted to understand the current status of financial reporting in the State of Haryana:

- Weekly review meeting and discussion with the Commission (online as well as physical meeting);
- Discussions and meetings with Pr. AG, Haryana (meeting at Delhi as well as at Panchkula, Haryana);
- Meeting with Director, Local Audit Department (LAD) (meeting at Panchkula, Haryana);

- Discussion with Directorate Urban Local Bodies' (DULB) officials and municipalities' officials (online as well as physical meeting);
- Meeting attended at Gurugram, Rohtak, Ambala, etc.;
- Online meeting organized by HIPA for understanding perspectives of other state finance commissions' members/Chairman;
- Meeting with C&AG (at Delhi); and
- Meeting with Director, NIUA (at Delhi).

We would like to acknowledge the support and guidance received from the Commission, C&AG and its officials, Pr. AG Haryana, DULB and LAD Officials and other stakeholders. The discussions on accounting, auditing and budgeting aspects/issues related to the Local Bodies in Haryana are very insightful and extremely relevant for this report. We are thankful for their efforts and contribution.

## **2.8. Documents and Studies Referred**

2.8.1. The study team referred the following documents for the thematic study and preparation of the report. The following documents were sourced and referred:

- *Haryana Municipal Act (HMA), 1973*
- *Haryana Municipal Corporation Act (HRMCA), 1994*
- The Haryana Municipal Citizens Participation Act (HRMCP)
- The Haryana Municipalities Public Disclosure Act (HPDL)
- The Municipal Accounts Code, 1930
- Haryana Panchayati Raj Act, 1994
- Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996
- Haryana Panchayati Raj Rules, 1995
- The Finance Commission (Miscellaneous Provisions) Act, 1951;
- Guidelines for the State Finance Commission;
- Reports of the previous Haryana State Finance Commissions
  - ▶ First State Finance Commission Report;
  - ▶ Second State Finance Commission Report;
  - ▶ Third State Finance Commission Report;
  - ▶ Fourth State Finance Commission Report; and
  - ▶ Fifth State Finance Commission Report.
- Websites of all municipalities; (not all have websites);
- National Municipal Accounts Manual (NMAM);
- Other State Finance Commission reports;

- Best Practices in the financial Management of Urban Local Bodies in India;
- C&AG Act; and
- Report of the 11th, 12th, 13th, 14th and 15th CFC.

## **2.9. Design of the Report**

**Chapter 1** discusses the legal framework of the constitution of the Commission, terms of reference, scope of this study and the objectives of the study. It also provides insights into expected outcome of this study.

**Chapter 2** defines the structure of report in detail. It outlines the approach and methodology adopted to conduct the study. It also shed light on issues faced to conduct this study, along with various events and activities executed to provide accuracy and transparency to the study.

**Chapter 3** presents the current legal framework of Financial Reporting, vis-à-vis Accounting, Auditing and Budgeting practices followed by State of Haryana in detail. It also covers the observations noted with respect to accepted principles of financial management and recommendations by various FCs, C&AG, etc.

**Chapter 4** identifies the areas needed to be strengthen in the current practices of Accounting, Auditing and Budgeting as well as the Legal Framework that binds them and adopts these practices in the first place.

**Chapter 5** outlines the recommendation of Fifteenth Central Finance Commission and the grant eligibility conditions laid out by it for Urban Local Bodies and Panchayati Raj Institutions.

**Chapter 6** presents the best practices adopted by other state to report some important financial parameters. It also compares Haryana's current practices on some basic parameters with comparison to some other Indian States.

**Chapter 7** lists our recommendation to upgrade current practices in alignment with grant eligibility condition of Fifteenth Central Finance Commission, along with guidelines of C&AG, NMAM, etc.

# **CHAPTER 3: EXISTING SYSTEM OF FINANCIAL REPORTING IN LOCAL BODIES IN HARYANA**

### 3. Existing System of Financial Reporting in Local Bodies in Haryana

#### 3.1. Legal Framework of Financial Reporting

3.1.1. In India, local bodies are governed by respective state acts. The State Acts generally provides for areas such as financial control, budgeting and audit in the local bodies but gaps are highlighted by the auditors in procurement, monitoring, and enforcement. The present framework also shows weakness in aspects of participative planning; public accountability; and modern accounting in line with international good practice, audit, and management practices. Under the provisions mandated by Constitution of India, third tier of governance can be categorized into following two types of local bodies, namely Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs).

3.1.2. **Panchayati Raj Institutions** function as a system of governance in rural areas in which Panchayats are the basic units of local administration. The system has three levels: Gram Panchayat (Village level), Panchayat Samiti (Block level), and Zila Parishad (District level). Total numbers of local bodies at the lowest level, i.e. Gram Panchayat, are 6234, while there are 2997 Panchayat/Block Samities at mid-level and 416 Zila Parishads at the top level of local bodies in rural areas. In Haryana, provisions mandated by Constitution via the Article 243J are provided by **Haryana Panchayati Raj Act, 1994**. It provides for clear demarcation of three levels of PRIs as well as provisions for conduct of business, duties, functions and power. It also provides Constitution to all three levels, in terms of membership; elections and terms of office; finance and taxation along with the necessary controls.

3.1.3. **Urban Local Bodies** manage the governance in urban areas through three levels, **the Municipal Committee, Municipal Council and Municipal Corporation**, based on the area and population. As mandated by the provisions of 74<sup>th</sup> Constitution Amendment Act, Urban Local Bodies have three levels:

- a. Municipal Corporations;
- b. Municipal Councils; and
- c. Municipal Committees.

3.1.4. In Haryana, the classification and constitution of ULBs is provided under the Haryana Municipal Act, 1973. It provides for conduct of business, duties, functions and power to all three levels, in terms of representation, elections and terms of office; finance and taxation, along with the necessary internal and state controls. As per Section 2A

of the Haryana Municipal Act, 1973 following criteria is being used for determination of nature of Municipality:

*Table 6: Population criteria for Municipalities in Haryana<sup>2</sup>*

S. No.	Type of Municipality	Population
1	Municipal Committee	Upto 50,000
2	Municipal Council	More than 50,000 but not exceeding 5,00,000
3	Municipal Corporation	3,00,000 or more

3.1.5. Currently, there are 11 Municipal Corporations, 22 Municipal Councils and 60 Municipal Committees in State of Haryana (Refer **Annexure-I** for details).

3.1.6. Based on the recommendations of the Central and State Finance Commissions, State Government of Haryana passed and implemented several Acts to strengthen the process of accountability, efficiency and transparency for both PRIs and ULBs. Table 7 list out the details of important legal provisions implemented by the State Government of Haryana in relation to accounting, auditing and budgeting for PRIs:

*Table 7: Legal Provisions for Financial Reporting and Disclosure of PRIs in Haryana*

**The Haryana Panchayati Raj Act, 1994** provides that,

- *Accounts of the receipts and expenditure of every **Gram Panchayat** shall be made up in such form as may be prescribed and the Gram Panchayat shall make arrangements for the examination and audit of the accounts by such persons as the Government may appoint in this behalf. Every Gram Panchayat shall cause a copy of its budget considered under section 12 and of account made up under sub-section (1) to be kept at its office; and any member of Sabha Area may, at all reasonable times, inspect any such budget or account on payment of fee as may be prescribed. (Section 43).*
- *Every **Panchayat Samiti** shall on or before a prescribed day in each year hold a meeting at which the Committee for finance and taxation shall submit to the Panchayat Samiti an estimate of income and expenditure (hereinafter referred to as the "Budget") of the Panchayat Samiti for the next financial year in such form as may be prescribed. The Panchayat Samiti budget shall consist of two parts, Part (1) shall contain the budget of the Community Development Block and Part (2) the funds transferred from the other departments and income derived by the Panchayat Samiti from other sources (Section 102).*
- *Accounts of the receipts and expenditure of every Panchayat Samiti shall be made up in such form as may be prescribed and the Panchayat Samiti shall make arrangements for the examination and audit of the accounts by such persons as the Government appoints in this behalf (Section 105).*

<sup>2</sup>Section 2A of the Haryana Municipal Act, 1973

- Every **Zila Parishad**, shall, at such time and in such manner as may be prescribed, prepare in each year a budget of its estimated receipts and disbursements for the following year and submit it to the Government **(Section 152)**.
- A Zila Parishad shall keep such accounts in such manner as may be prescribed **(Section 153)**.
- The audit of the accounts of the Zila Parishad shall be carried out by the authority as may be prescribed by the Government and a copy of the audit note shall be forwarded to the Zila Parishad within one month of the completion of the audit. On receipt of the audit report, the Zila Parishad shall either remedy any defect or irregularities which have been pointed out in audit and send, to the Government within three months, an intimation of its having been done so or shall, within the said period, supply further explanation to the prescribed authority in regard to such defects or irregularities as it may wish to give **(Section 154)**.

**Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996**, provides that,

- The budget estimates of the Gram Panchayat and Panchayati Samiti shall be drawn up by Gram Sachiv and Executive Officer respectively and that of the Zila Parishad by the Accounts Officer of the Zila Parishad in Form1.
- The audit of accounts of all receipts and expenditure of every Gram Panchayat shall be conducted once after every two years and that of Panchayat Samiti and Zila Parishad after every year by such officer as may be appointed by the Secretary to Government Haryana, Finance Department and Director, Local Audit, Haryana.
- **Rule 12 of Haryana Panchayati Raj Rules, 1995**, GPs was required to maintain register.

3.1.7. Under the provisions contained in Article 243J of the Constitution of India, State Governments are mandated to conduct the audit of Panchayati Raj Institutions. State of Haryana has entrusted the Statutory Audit of Panchayati Raj Institutions to Local Audit Department under Rule 99 of the Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules.

3.1.8. Also, under the provisions contained in Article 243Z of the Constitution of India, State Governments are mandated to conduct the audit of Urban Local Bodies. The State Government of Haryana has entrusted the Statutory Audit of Urban Local bodies to Local Audit Department under Rule XVII.17 of the Municipal Account Code, 1930.

3.1.9. Table 8 list outs the details of important legal provisions implemented by the State Government of Haryana in relation to accounting, auditing and budgeting for ULBs:

*Table 8: Legal Provisions for Financial Reporting and Disclosure of ULBs in Haryana*

**Haryana Municipal Act (HMA), 1973** is enacted to consolidate and amend the law relating to municipalities in Haryana. It classified and constituted 3 classes of municipalities namely Municipal Committee, Municipal Council and Municipal Corporation. It provides that,

- *Audit of Account of Fund.* - The Directorate of Local Audit or the authority as specified by the State Government by order, shall audit the account of Fund annually **(Section 203N)**.

**Haryana Municipal Corporation Act (HRMCA), 1994** enacted for constitution of Municipal Corporation, their functions, funds, and accountability framework. It provides that,

- *There shall be kept in such manner and in such form as may be prescribed by regulations accounts of receipts and expenditure of the Corporation. Till regulations as mentioned in sub-section (1) are framed, the provisions of the Municipal Account Code, 1930, Presently. in force in respect of the Municipal Committees shall be applicable (Section 168).*
- *The Examiner, Local Fund Accounts, Haryana, shall conduct day to day examination and audit of the Corporation accounts and shall furnish monthly report thereon to the Corporation who shall publish monthly an abstract of the receipts and expenditure of the month last preceding (Section 168).*
- *The Corporation shall not later than the first week of February of every year, adopt for the ensuing year a budget estimate which shall be an estimate of the income and expenditure of the Corporation to be received and incurred on account of the Corporation. The budget estimate adopted under sub-section (1) shall be submitted to the Government not later than the last week of February preceding the year to which the budget estimate relates. The budget estimate received by the Government under sub-section (2), shall be returned to the Corporation before the 31<sup>st</sup> day of March after approval without any modification or with such modification as the Government may deem fit (Section 83).*

**The Haryana Municipal Citizens Participation Act (HRMCP)** approved institutionalization of citizen's participation in municipal functions by setting up of Area Sabha (2008).

**The Haryana Municipalities Public Disclosure Act (HPDL)** provides for transparency and accountability in the functioning of municipalities in the State of Haryana (2008).

**Para vii of the notification 14/78/2003-3FA dated 20.12.2011-** "The annual technical inspection report of C&AG as well as the annual audit report of the Director, Local Audit Haryana will be placed before the State Legislature and the Comptroller and Auditor General or his representative will have the right to report to the State Legislature the results of audit at his discretion".



*The Municipal Accounts Code, 1930 provides that,*

- *The committee shall on or before the [15 day of January] each year submit in duplicate through the Deputy Commissioner to the Commissioner an estimate of its income and expenditure in the ensuing financial year (hereinafter called the budget) in Form G. 1.(Clause II.1)*
- *For the purposes of classifying the income and expenditure, a Classified Abstract shall be maintained in Form G. 3 in two volumes, one for income and one for expenditure, a separate page of which shall be assigned to each head of account under which income or expenditure has been budgeted for, and the items appertaining to these heads shall be taken from the General Cash-book (Form G. 2) either as they occur or in the aggregate for the day and entered in the appropriate columns of the abstract, and at the end of each month the monthly and progressive totals shall be entered under each heads of the abstract (Clause III.2).*
- *After each audit of its accounts the committee shall deal promptly with the objection statement and audit note sent by the audit officers, and shall as soon as possible decide upon the action to be taken on the objections and suggestions made by the audit officer the action so taken shall be indicated on an interleaved copy of the audit note, and one copy of such annotated copy of the audit note shall be produced for the information of inspecting officers at their next visit, one copy shall be forwarded to the Examiner, Local Fund Accounts and one copy to the Deputy Commissioner for transmission to the Commissioner of the Division.*

### **3.2. Observations on Legal Framework of Financial Reporting in Local Bodies**

3.2.1. The public financial management and practices are an evolving field which support the government in public disclosures, transparency, accountability and decision making. The legal framework needs to support the public financial management practices. A holistic review of the existing legal framework for financial management practices in PRIs and ULBs sheds light on the key issues and limitations which are discussed hereunder:

- (a) The existing acts, rules and government guidelines do not mandate the PRIs and ULBs to prepare their financial statements on accrual-based accounting system. The Haryana Panchayati Raj Act, 1994 requires GPs, PSs and ZPs to prepare 'Accounts of Receipts and Expenditure' only. Similarly, section 168 of the Haryana Municipal Corporation Act (HRMCA), 1994 read with the Municipal Accounts Code, 1930 requires the Municipal Corporation, Councils and Committees to prepare 'Accounts of Receipts and Expenditure' only. Also, it does not recognise the concept of 'accrual' in presentation and preparation of accounts. The Acts do not provide for the preparation and presentation of assets

and liabilities and consequently, PRIs and ULBs do not prepare any Balance Sheet for the financial year.

**Box1: Accrual Accounting and its Benefits**

*Accrual accounting is an accounting methodology under which transactions are recognized as the underlying economic events occur, regardless of the timing of the related cash receipts and payments.*

*Advantages of Accrual Based Accounting* Passing to accrual accounting system is not a purpose in itself but rather a change of mentality regarding the budgetary process, by passing from a rigid situation of cashed incomes and paid expenses to a situation where the emphasis is on achievements and forecasts.

**Financial Position:** *Accrual accounting provides information on an entity's financial position and current assets and liabilities, based on the Balance Sheet. Public entities need this information to: make decisions about the feasibility of financing the provided services; plan the future funding requirements of asset maintenance and replacement; plan the repayment of existing liabilities and, thus, manage their cash position and financing requirements. Accrual accounting highlights the impact of financing decisions on net assets/equity, leading entities to take a longer term view when making financing decisions.*

**Financial Performance:** *Accrual accounting provides information on revenues and expenses, including the impact of transactions where cash has not yet been received/paid. Knowing revenues is essential for assessing the impact of taxation on the government's fiscal position and the need for borrowing in the long term. Knowing expenses is necessary to assess revenue requirements, the sustainability of existing programs, and the likely cost of proposed activities and services. The income statement helps governments to focus on management by results as well as management of resources, which become more useful because performance can be measured more reliably when full costs for a period are taken into account.*

- (b) There is no state specific manual for accounting by PRIs and accounting by ULBs. An Accounting Manual provides for standardised formats, accounting principles and practices, records and registers, policies etc. It also helps field level staff for day-to-day accounting transactions' reporting and presentation.

**Box 2: Need of State Specific Accounts Manual**

*Based on the recommendations of the Eleventh Finance Commission and the Guidelines issued by the Ministry of Finance, the C&AG constituted a Task Force to recommend budget and accounting formats for ULBs in India. The C&AG Task Force in its report, inter alia, suggested adoption of accrual-based system of accounting for ULBs.*

*Thereafter, MoUD formulated the National Municipal Accounts Manual (NMAM), based on Task Force recommendations so as to provide a generic framework of municipal accounting and a simplified toolkit to ULBs for recording the accounting entries. C&AG facilitated and oversaw the development of the Manual. The State Governments while drafting their state specific municipal accounts manuals are to adopt and follow the NMAM.*

*A Manual is comprehensively detailing the accounting policies, procedures, guidelines designed to ensure correct, complete and timely recording of municipal transactions and produce accurate and relevant financial reports. It helps State Governments, municipal administrators and accountants and other stakeholders in improved financial management and reporting practices, standardised formats, decision making, and ultimately to provide good urban governance.*

- (c) Financial statements for PRIs and ULBs do not include currently Balance Sheet, Income & Expenditure Statement, Receipts and Payments Account/Cash Flow Statement, etc.
- (d) There is no 'Chart of Accounts' prescribed in the present legal framework both for PRIs and ULBs. The 'Chart of Accounts' provides specific code or number to a head of account. It also helps in standardised naming of head of accounts. Presently, different PRIs are following different nomenclature for same head of account. Similar issue was also noted for ULBs, it is observed.
- (e) The Audited financial statements along with the report of independent auditor are not published or made available in public domain.
- (f) Approved budget statements of PRIs and ULBs are not published or made available in the public domain. Timeline for publishing the budget statement is not prescribed.
- (g) Continuing Professional Education (CPE) or certificate courses and minimum hours for training on accounting, auditing and budgeting aspects for the officials of PRIs, ULBs and the LAD are not prescribed.
- (h) The acts, rules and guidelines do not provide for appropriate action against officials for non-submission or delayed submission or faulty/insufficient submission of records, documents, vouchers, and registers, etc., for audit purposes. Moreover, the acts, rules and guidelines do not provide for appropriate action against officials for non-action or delayed action on audit observations/paras.
- (i) Distinction between Internal Audit, External Audit and Certification of Financial Statements is not provided. LAD conducts a pre-audit, which is in the nature of an internal audit. Pr.AG conducts an audit of selected PRIs and ULBs as part of their Technical Guidance and Support.

- (j) The Technical Guidance and Support reports of Pr. AG, Haryana and audit reports by LAD are placed before the legislatures. The status of placing of these reports and subsequent approval/discussion are not available in public domain.

### **3.3. Understanding the Accounting System**

- 3.3.1. Local Bodies in India have traditionally followed the single-entry cash basis of accounting. State of Haryana is no different in this regard. This system limits the ability to prepare meaningful performance reports and statements of financial position. Accounting work utilizes a predominantly manual system with a multiplicity of registers and limited staff capacity resulting in accounts in arrears for several years.
- 3.3.2. In PRIs, the accounts are prepared on cash basis, i.e., a transaction is only recorded when actual receipt or actual payment is made. Every day the details of transactions as recorded in the cash book, are transferred to either Register of Receipts or to Register of Payments, under the respective heads of account. At the end of the month, totals in Register of Receipts and Register of Payments are calculated. It provides the total expenditure under each head of account for the month.
- 3.3.3. In April, 2010, the State Government of Haryana adopted Model Accounting Structure, 2009 developed by Ministry of Panchayati Raj (MoPR) in consultation with the C&AG. A software PRIAsoft was also developed on the basis of Model Accounting Structure, 2009. To strengthen the e-Governance in Panchayati Raj Institutions (PRIs) across the country, in 2020 the Ministry of Panchayati Raj (MoPR) launched e-GramSwaraj, a user-friendly web-based portal, which covers the financial transaction being entered in PRIAsoft. E-GramSwaraj aims to bring in better transparency in the decentralised planning, progress reporting and work-based accounting. It is noted that e-GramSwaraj do not facilitate preparation of Balance Sheet presently.
- 3.3.4. With respect to accounting in ULBs of Haryana, the Municipal Account Code, 1930, is presently in force. The Clause III.2 of the Code requires ULBs to prepare monthly accounts and annual accounts and to record all of its receipts and payments. However, the Code does not prescribe preparation of Balance Sheet, Income and Expenditure Statement, Cash Flow Statements, presentation of Assets and Liabilities and to apply accrual-based double entry accounting system.

### 3.4. Observations on Accounting in Local Bodies

3.4.1. A detailed review of the existing system of accounting including reporting framework in PRIs and ULBs was undertaken, which provided the key issues and limitations of the present system of accounting. These are discussed hereunder:

- (a) A review of existing Statement of Accounts uploaded by the ULBs on the website on Directorate of Urban Local Bodies (DULB), shows that the ULBs are preparing their accounts on cash basis of accounting and terming the statement as 'Income and Expenditure Account'.
- (b) ULBs are not preparing their Balance Sheets and thus, not reporting the available assets/resources and liabilities/commitments, payable in future. This is not an appropriate and professional system of accounting for local bodies. Based on actual receipts collected during the year, the incomes of the local bodies are assessed and presented in the Income and Expenditure Account by the ULBs. Local bodies, in general, due to lack of professionally qualified staff/resources, do not capture the correct income and receivables for the year. Expenditures are captured on the basis of actual payment only and payables or liabilities are not recorded and presented. ULBs in Haryana are not following 'Accrual-based Accounting System' rather they are following 'Cash-based Accounting System'.

For example, a large Municipal Corporation of the State of Haryana projected high income and bid out large contracts for a several projects without having the resources and subsequently pressured the State Government to fund these contracts. This would not be possible if the Municipal Corporation followed accrual-based accounting as the receivable income would be shown in the Financial Statements. A comparison of budgeted receipts to the actual revenue is carried out. It is noted that over the years, this ratio has reduced significantly from 57 percent in 2016-17 to 19 percent in 2020-21. The analysis is shown below in Table 9 below:

*Table 9: Ratio of Budgeted Receipts to Actual Receipts*

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Own Source</b>					
<b>Total receipts</b>	0.57	0.72	0.47	0.37	0.19
Own tax revenue	0.82	0.65	0.57	0.52	0.29
Own non-tax revenue	0.40	0.55	0.46	0.29	0.22

Loan repayment	0.03	0.03	0.06	0.11	0.15
Any other	0.64	1.16	0.48	0.42	0.11
<b>Grant in Aid</b>					
Total Grants in Aid	0.67	0.77	0.79	0.79	0.87
CFC Grants	0.70	0.81	0.37	0.75	0.92
SFC Grants	1.08	1	0.45	1	1
Centrally sponsored schemes	0.60	0.50	0.54	0.23	0.82
State Budget Funds	1	0.81	0.99	0.31	0.56
AMRUT	0.26	0.31	0.50	1	0.70
SMART CITY	1	0.51	0.50	0.07	1

(Source: Department of Urban Local Bodies, Haryana)

The accrual basis recognizes transactions and events when they occur rather than when cash is paid or received. For example, a purchase is generally recognised when the delivery of the goods is made to the buyer, even though the payment may be made later. The cash-based accounting system recognizes transactions and events when cash is received or paid. It measures the overall financial result for a period as the difference between cash received and cash paid. It provides information about the sources of cash raised during the period, the uses to which cash funds were applied, and the cash balance at the reporting date. The accrual-based accounting system while retaining the advantages of the cash-based accounting system overcomes its limitations by inclusion of 'Cash Flow Statement' in the Financial Statements. The key advantages of accrual-based accounting system are as under:

- (i) allows the local body to demonstrate accountability for its management of all assets (and not just cash) as well as liabilities recognized in the financial statements;
- (ii) shows the financial position of the local body and changes in financial position;
- (iii) shows how the local body financed its activities and met its cash requirements;
- (iv) allows users to evaluate the local body's ongoing ability to finance its activities and to meet its liabilities and commitments; and

- (v) is useful in evaluating the local body's performance in terms of its service costs, efficiency and accomplishments.
- (c) PRIs and ULBs do not have information with respect to their Contingent liabilities.
- (d) Review of Statements of Accounts of PRIs and ULBs<sup>3</sup> in Haryana also highlights that there is lack of uniform and standardised formats of accounts. This is a major issue in annual accounts reporting. Not only there is a variation in reporting format of different local bodies, even the same local body sometimes uses different formats for different years. Inconsistent nomenclature for the same accounting head of income and expenditure is used by the local bodies while preparing and presenting accounts.
- (e) The review also highlights that currently, there is no codification structure or 'Chart of Accounts' for heads of income and expenditure for local bodies.
- (f) Most of the development works are being executed in ULBs/PRIs from grants received from the Centre/State Government but they don't have records regarding how many assets have been created out of these grants.<sup>4</sup>
- (g) After the 74<sup>th</sup> Constitution Amendment Act, several developments are made in the field of accounting, which covers reporting framework, IT enablement, preparation of accounts on accrual basis, continuous capacity building and trainings, etc. However, the ULBs in Haryana are found to be trailing when compared with ULBs of several other states in terms of accounting reforms. The NMAM was introduced by the MoUD in year 2004 and had mandated states to develop their 'State Municipal Accounts Manual' based on the NMAM and also, by incorporating local needs and compliance. But the State of Haryana is yet to prepare such a manual. The DULB has submitted that the draft of 'State Municipal Accounts Manual' is under review and will be approved in the next 6-8 months.
- (h) PRIs and ULBs are also marred with the problem of shortage of professional staff. The current staff is not trained or equipped with the new age accounting concepts such as preparation of the Balance Sheet and other financial statements on accrual-based accounting system. Existing training and capacity

---

<sup>3</sup> Review of select ULBs namely Gurugram, Faridabad, Panchkula, Karnal, Thanesar, Kaithal, Palwal, Narnaul, Pundri, Tauru, Pataudi, Ladwa

<sup>4</sup> From Memorandum of Local Audit Department (LAD)

building programmes are inadequate and ineffective. Thus, implementation of accrual-based accounting system at ULBs level will be a challenging task and cannot be achieved without engaging external professionals like Chartered Accountants (CAs). Also, preparation of financial statements by PRIs cannot be accomplished without engaging professionals like Chartered Accountants.

- (i) The usage of IT systems and applications for data capturing, preparation of accounts and reporting is very limited in practice in PRIs and ULBs. In ULBs, there are IT systems in place for property taxes, building permissions, etc., but they are working in a standalone mode without any communication or linkage with the accounting systems. Most of the records, registers and reports are either prepared manually or prepared by using basic IT application such as spreadsheets or document only.
- (j) Rule 5 of the Haryana Municipality Public Disclosure Rules, 2009 provides transparency and accountability for ULBs in Haryana and requires public disclosures of *Audited financial statements such as Balance Sheet, Receipts and Expenditures, and Cash Flow Statement on a quarterly basis, within two months of the end of each quarter; and statutorily audited financial statements for the full financial year.* However, as the data in Table 10 below highlights, during 2019-20 only 56 ULBs out of 81 ULBs uploaded their Income & Expenditure Statements on the website of DULB, which further reduced to only five ULBs during 2020-21.

Table 10: Status of Availability of Statement of Accounts on DULB Website

Municipality type	Year 2016-17		Year 2017-18		Year 2018-19		Year 2019-20		Year 2020-21	
	Uploaded	Not uploaded	Uploaded	Not uploaded	Uploaded	Not uploaded	Uploaded	Not uploaded	Uploaded	Not uploaded
Municipal Corporation	10	0	10	0	10	0	5	5	1	9
Municipal Council	16	0	16	0	16	0	11	5	0	16
Municipal Committee	53	2	53	2	53	2	40	15	4	51
<b>Total</b>	<b>79</b>	<b>2</b>	<b>79</b>	<b>2</b>	<b>79</b>	<b>2</b>	<b>56</b>	<b>25</b>	<b>5</b>	<b>76</b>

(Basis of Data available for 81 ULBs on DULB website <https://ulbharyana.gov.in>).

### 3.5. Understanding the Auditing System

3.5.1. The State Government of Haryana entrusted the Statutory Audit of Panchayati Raj Institutions to Local Audit Department<sup>5</sup> under Rule 99 of the Haryana Panchayati Raj

<sup>5</sup> Referred as Examiner, Local Fund Accounts in the HRMCA, 1994



Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996. Further, the Statutory Audit of Urban Local Bodies was entrusted to the Local Audit Department under Rule XVII.17 of the Municipal Account Code, 1930.

3.5.2. Director, Local Audit Department (LAD), Haryana is the Statutory Auditor and conducts audit of local bodies. In August 2008, the State Government entrusted test audit of local bodies to the C&AG under Section 20 (1) of C&AG (DPC) Act, 1971 on the recommendations of 11<sup>th</sup> Central Finance Commission. In December 2011, the State Government notified that Annual Technical Inspection Report (ATIR) of C&AG as well as the Annual Report of LAD would be placed before the State Legislature on the recommendations of 13<sup>th</sup> Central Finance Commission. Section 120 of the Audit and Account Regulation, 2020 provides for the entrustment of functions of Technical Guidance and Support (TGS) to audit of Panchayati Raj Institutions and Urban Local Bodies to the C&AG under Section 20 (1) of the DPC Act.

3.5.3. Section 168(4) of the HRMCA, 1994 provides that the Examiner, Local Fund Accounts shall have access to all the ULB accounts and to all records and correspondence relating thereto and the Commissioner shall forthwith furnish to the Examiner, Local Fund Account, any explanation concerning any receipts or expenditure which they may call for and Examiner, Local Fund Account shall examine and audit the same.

3.5.4. Pre-audit is the preliminary examination of the financial document for ensuring the correctness of the information contained in the document, before making any payment against it. It is a kind of internal audit at transactional level. The Pre-audit system is enforced by the LAD in all Municipalities of the State. The Local Audit Department also conducts audit of 6444 Gram Panchayats and various other institutions under Post-audit System, which comprise the accounts of Zila Parishads, Panchayat Samities and Gram Panchayats.

3.5.5. The Annual Technical Inspection report, known as Annual Administrative Report (AAR) is prepared by C&AG. Both AAR and the Annual Report of Local Fund Audit are then placed before the State Legislature.

### **3.6. Observations on Audit in Local Bodies**

3.6.1. A comprehensive analysis of the existing system of auditing including reporting framework in PRIs and ULBs is undertaken which provides the key issues and limitations in the present system, these are discussed hereunder:

- (a) The purpose of audit is to bring to the notice of the administration, any shortcomings or weaknesses in the rules, regulations, procedure, accounts, etc.,

and to suggest, wherever possible, ways and means for the execution of plans and projects with greater expedition, efficiency and economy. In this regard, Auditor mentions Audit Paras, recommending actions, seeking information, etc. However, the indifferent attitude displayed by officials obstructs the purpose of the Audit.

A review of the audit reports issued by the Pr. AG and the LAD for local bodies indicates that audit objection/paras generally remain outstanding/unresolved for a long time. No action is taken on the audit paras by the concerned local bodies for several years. Refer Table 11 and Table 12 below.

*Table 11: Position of Outstanding IRs/Paragraphs of PRIs<sup>6</sup>*

S. No.	Year of issue of Inspection Reports (IR)	Op. Bal. of outstanding auditing objection		Addition		Total		No. of IRs/paras settled		No. of IRs/paras outstanding as on September 2016	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
i.	2011-12	92	761	43	301	135	1,062	-	7	135	1,055
ii.	2012-13	135	1,055	36	241	171	1,296	-	3	171	1,293
iii.	2013-14	171	1,293	63	452	234	1,745	-	-	234	1,745
iv.	2014-15	234	1,745	43	307	277	2,052	9	149	268	1,903
v.	2015-16	268	1,903	46	271	314	2,174	51	890	263	1,284
	<b>Total</b>	<b>900</b>	<b>6,57</b>	<b>231</b>	<b>1,572</b>	<b>1,131</b>	<b>8,329</b>	<b>60</b>	<b>1049</b>	<b>1071</b>	<b>7280</b>

*Table 12: Position of Outstanding IRs/Paragraphs of ULBs<sup>7</sup>*

S. No.	Year of issue of Inspection Reports (IR)	Op. Bal. of outstanding auditing objection		Addition		Total		No. of IRs/paras settled		No. of IRs/paras outstanding as on September 2016	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	2011-12	54	501	21	260	75	761	-	7	75	754
2.	2012-13	75	754	36	264	111	1,018	-	-	111	1,018
3.	2013-14	111	1,018	32	453	143	1,471	-	-	143	1,471
4.	2014-15	143	1,471	32	271	175	1,742	-	21	175	1,721
5.	2015-16	175	1,721	54	345	229	2,066	35	807	194	1,259
	<b>Total</b>	<b>558</b>	<b>5,465</b>	<b>175</b>	<b>1,593</b>	<b>733</b>	<b>7,058</b>	<b>35</b>	<b>835</b>	<b>698</b>	<b>6,223</b>

- (b) Another common problem observed is that the local bodies fail to provide all the records, registers, documents and, vouchers, etc., to the audit party for audit<sup>8</sup>. The list of records, registers, documents and, vouchers, etc., not produced for audit is increasing with the passing of each year. Records in respect of revenue

<sup>6</sup> Annual Technical Inspection Report on PRIs and ULBs for the year 2015-16

<sup>7</sup> Annual Technical Inspection Report on PRIs and ULBs for the year 2015-16

<sup>8</sup> From Memorandum of Local Audit Department (LAD)

generating assets are not generally put up in audit for verification by the ULBs/ PRIs such as records/registers of Property Tax, Building Application Fee, Road Cut Charges, etc.

- (c) *Office Manual followed by LAD for auditing was last updated in 1998. The Manual needs to be updated to incorporate new age auditing concepts, usage of IT tools and software for audit, risk profiling, audit documentation, standardised audit report format in different audit scenarios, etc. The updated manual shall help in strengthening the existing system of pre-audit/internal audit.*
- (d) Local Audit Department is also facing the problem of shortage of staff<sup>9</sup>. There are 93 ULBs and 6444 PRIs in the State of Haryana, which are required to be audited by LAD on a continuous basis. LAD is also required to audit of all 21 State Universities, Board of School Education, Haryana, Bhiwani, and Maharaja Agrasen Institute of Medical Research & Education (MAIMRE), Agroha, etc. But due to shortage of professional staff, timely and effective audit could not be carried out. The current staff is not trained or equipped with the new age accounting concepts such as preparation of the Balance Sheet and other financial statements on accrual-based accounting system. Thus, audit of accrual-based financial statements would be challenging for LAD staff. With the existing capacities and strengths, it appears that the LAD is not likely to conduct the audit of all the local bodies in time in Haryana in line with the recommendations of 15<sup>th</sup> CFC, for claiming grants.
- (e) A review of the audit reports issued by the Pr. AG and the LAD for local bodies indicates that the existing auditing system focuses more towards audit of expenditures and assets-side issues. Reporting on income, liabilities, procurement processes and post procurement executions needs more focussed attention.
- (f) The current reporting format also needs to be strengthened. It generally covers the observation found in a transaction which is linked with non-compliance of any act or rule. The reporting format does not provide for criteria of observation, condition, cause, effect, recommendation and auditee's comment on the observation specifically.

---

<sup>9</sup> From Memorandum of Local Audit Department (LAD)

- (g) Also, the existing training and capacity building programmes for audit staff are insufficient and ineffective in terms of online audit, risk-based assessments, effective reporting, and audit documentation, etc.

### **3.7. Understanding the Budgeting System**

3.7.1. Budgeting is a statutory activity for all the local bodies in India. Local self-government being a state subject as per the Indian Constitution, it is the state government which promulgates laws regarding existence, operation, powers, and responsibilities of local self-government. Budget is a financial plan, an expression of financial intent. It sets forth the expenditures that a local body is expected to incur during the year on various programmes and the means of financing them. At the same time, the budget is the principal means of control having the force of law. A budget thus provides both the authorizations of, and limitations on, the amounts that may be spent for particular purposes. The local body needs to demonstrate its accountability from both the authorization and the limitation perspectives. Generally, local bodies prepare annual budgets that are adopted by the legislature.

3.7.2. In local bodies, the budget is prepared with the active participation of the citizens, albeit indirectly through elected representatives. Once adopted, the budget becomes a formal expression of public policy, local body's objectives and priorities and on how resources will be provided to meet those objectives.

3.7.3. Budget also provides a basis for evaluating performance. Comparisons of actual results with the budget can provide information to help users assess whether resources were obtained and expended as anticipated. However, as far as performance evaluation is concerned, adherence to legislature-adopted budget cannot be used as the sole measure of performance. Proper performance evaluation requires the local bodies to establish service efforts and accomplishment goals and to accumulate actual data for comparison purposes.

#### **3.7.4. Budgeting – Tool for Financial Management**

- (a) Budget is a financial plan describing proposed expenditure and means of financing the same. It embodies the estimated receipts and expenditure (both capital and revenue) for a financial year;

(b) It is a proposal of how much money is to be spent on what and how much of it will be contributed by whom or how it would be raised during a financial year; and

(c) It plays an important role in planning and controlling operations of the ULBs.

### **3.7.5. Use of Budgeting**

#### **A. As a Policy Document**

- i. Long Term Financial and Program Policies and Goals – Multi Year Policies;
- ii. Short Term Financial and Operational Policies; and
- iii. Statement of Goals and Objectives of Organizational Units such as Departments, Divisions or Offices.

#### **B. As a Financial Plan**

- i. Overview of Total Resources Budgeted;
- ii. Underlying Assumption and Significant Trends for Revenue Estimates;
- iii. Distinction between Sources of Funds;
- iv. Budgeted Capital Expenditure with a List of Major Capital Projects;
- v. Impact of Capital Project Upon Current and Future Operating Budget; and
- vi. Financial Data on Current Debt Obligations.

#### **C. As a Operational Guide**

- i. Describe Activities, Services or Functions by Organizational Units;
- ii. Provide Methods to Measure Results; and
- iii. Include Organizational Chart.

#### **D. As a Communication Device**

- i. Overview of Budgetary Issues, Trends and Resource Choices;
- ii. Use Charts and Graphs;
- iii. Provide Narratives, Tables and Schedules; and
- iv. Include Statistical and Supplemental Data.

### **3.7.6. Preparation of Municipal Budget**

#### **A. Incremental Budgeting**

- i. When budgets are prepared based on what was budgeted or spent in the previous fiscal period as a starting point, the budgeting approach is often termed "incremental" budgeting;

- ii. Incremental budgeting usually follows a "bottom-up" approach, where the budget is prepared by department heads, then sent to the city or county administrators for review and analysis;
- iii. An advantage of incremental budgeting is that it is relatively easy to implement. It can provide a workable process to resolve the conflict between spenders and guardians. The spenders enjoy a sense of continuity for their base programs because the increases and decreases in their allocations are marginal. The guardians are assured that there is a ceiling on the growth of spending, if any; and
- iv. However, a disadvantage of the incremental approach is that certain programs or services may become entrenched and just be carried over from year to year without sufficient scrutiny.

#### **B. Performance Budgeting**

- i. Another budgeting approach, which is based on allocating resources (via budgets) to desired levels of support for government programs or services, is called performance budgeting, or performance-based budgeting;
- ii. Performance budgeting may attempt to identify desired levels of specific outcomes and then allocate funds to the program or service based on a per unit cost allocation;
- iii. The implementation of performance budgeting entails the constant use of performance information in the development, implementation, and evaluation phases of the budget; and
- iv. The performance-based budgeting has been criticized for being difficult to implement in practice. In addition, some governmental services are mandated by statute, and may not lend themselves to a "per unit" or other performance analysis.

#### **C. Zero-Based Budgeting**

- i. In Zero based budgeting, all departmental functions are reviewed on a comprehensive basis, ALL expenditures must be approved, not just increases. In other words, zero-based budgeting requires that each budget request be justified by each department manager starting form Zero-base;

- ii. When zero-based budgeting is used, all expenses must be justified for each new fiscal period, every function within a department or organization and the cost of providing the activity or service is analysed for its continued need;
- iii. Zero-based budgeting can potentially lower costs by carefully reviewing the need for expenditures. However, a fundamental criticism of zero-based budgeting is that it is unrealistic to believe that all programs can be effectively analysed from zero; and
- iv. Further, zero-based budgeting is a very time-consuming process that takes much longer than more traditional budgeting processes, such as incremental budgeting.

#### **D. Participatory Budgeting**

- i. The fundamental philosophy of participatory budgeting is that levels of government services are guided by the views and attitudes of the citizens residing in the community;
- ii. Citizens served by a municipality could participate in the budget process by answering surveys, selectively being included in focus groups or other strategic planning sessions, participating in public hearings, etc. However, citizens participating in the municipal budget process may not be representative of the community; and
- iii. Participatory budgeting is dependent on the culture and structure of municipalities and may not be a panacea for a particular municipality if it does not possess the requisite traits. It should also be noted that citizens who participate in budgeting decisions may only consider their own desires, not what is best for the majority of the constituency.

#### **3.7.7. Positive Aspects of Budgeting**

- i. Like any formal process, budgeting activities force city management and individual departments to confront the future and plan for it;
- ii. If a truly participative budgeting process is employed, it can encourage cooperation and coordination not only in resource allocation, but also in operations;
- iii. Budgeting can help in communicating the core objectives of the city council and administration to its employees and the community;

- iv. Budgeting can be an effective tool in compelling individual departments to make more rational resource allocation choices by asking them to justify their requests. Zero-Based Budgeting, if feasible, may lead to optimal budgets;
  - v. City budgeting can be an important internal control tool. External auditors evaluate the internal controls based on various factors, including a review of the budgeting process and the budget itself; and
  - vi. While investigating budget variances, auditors may require description and clarification of the processes utilized in developing budgeted numbers. This may force departments to use more rational and justifiable methods in future budget requests.
- 3.7.8. As per Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996, the budget estimates of the Gram Panchayat and Panchayati Samiti shall be drawn up by Gram Sachiv and Executive Officer respectively and that of the Zila Parishad by the Accounts Officer of the Zila Parishad in Form1. The PRIs are required to prepare Abstract of the Budget Estimates, the Budget Estimates of Receipts and Budget Estimates of the payments as per Form1. It is noted that these budget formats do not provide for comparison of budget estimates with the actual information of the corresponding previous year. The formats do not provide for the apparent distinction between capital expenditure and revenue expenditure.
- 3.7.9. As per section 139 of the Panchayati Raj Act, a Zila Parishad may constitute such Committees as it may deem necessary for executing its functions. This provision for formation of Committees enables the members to participate in the process of local governance, but none of the ZPs had made any efforts to form such Committees at its level.
- 3.7.10. As per Clause II.1 of the **Municipal Accounts Code, 1930**, the Committee shall on or before the [15 day of January] each year submit in duplicate through the Deputy Commissioner to the Commissioner an estimate of its income and expenditure in the ensuing financial year (hereinafter called the budget) in Form G. 1. Section 83 of the Haryana Municipal Corporation Act (HRMCA), 1994 provides that the Corporation shall not later than the first week of February of every year, adopt for the ensuing year a budget estimate which shall be an estimate of the income and expenditure of the Corporation to be received and incurred on account of the Corporation.



### **3.8. Observations on Budget in Local Bodies**

3.8.1. A detailed analysis of the budgeting system including reporting framework in PRIs and ULBs are undertaken, which highlighted the key issues and limitations in the present system. These are discussed hereunder:

- i. On review of select ULBs, it was noted that the Budget does not provide the apparent distinction between capital expenditure and revenue expenditure. Moreover, ULBs do not prepare capital budgets and long-term budgets to plan the capital expenditure in an appropriate manner.
- ii. There is no budget manual available to the PRIs and ULBs for preparation of their budgets. A budget manual prescribes the methodology for budget preparation in the Local bodies in Haryana. For active citizen participation, timely reporting is of utmost importance. Hence, manual should provide guidelines for timely reporting in public domain.
- iii. The changes in budget estimates and revised estimates are not explained. Comparison of budget estimates with the actuals of previous period though presented; but variances are not explained in the budget document.
- iv. Another area worth mentioning is requirement of capacity building for budget preparation and its usage as a tool of control, transparency and decision-making. The capacity building needs to be taken both for elected representatives as well as the executives of the local bodies. An elected representative needs to handle various important functions pertaining to decentralized governance, planning and development. Hence, the task of evolving a suitable future strategy for enhancing the capacity of elected representatives through training needs to be ensured.
- v. Citizens are the most important stakeholders in any government and their participation is an important part of budget making process. It is prescribed in the Haryana Municipal Citizens Participation Act, 2008 that the ward committee shall assist in preparation of ward budget in accordance with ward plans. However, this system is not followed in practice. Currently, details regarding different components of budget get uploaded on the website but initiating more direct consultations with RWAs, Housing committees, NGOs, prominent citizens is needed.

- vi. Haryana is one of the first few states to adopt the 'Output-Outcome Framework' at the state-level. However, adoption of 'Output-Outcome Framework' at local bodies level, in line with State Government's implementation, is yet to be adopted.

# **CHAPTER 4: IDENTIFIED AREAS THAT NEED STRENGTHENING**

## **4. Identified Areas that need Strengthening**

### **4.1. Legal Framework of Financial Reporting**

4.1.1. A sound legislative framework would imply a framework that is backed by comprehensive rules, and provides appropriate incentives for performance and penalties for non-performance. The Commission is of the view that the existing legal framework needs to be strengthened and it should provide for the following:

- (a) Adoption of accrual-based accounting system for accounting of ULBs.
- (b) Financial Statements should at least include Balance Sheet, Income and Expenditure Account, Receipts and Payments Account, Notes to Accounts, Schedules to Accounts and Significant Accounting Policies both for PRIs and ULBs.
- (c) For PRIs, to adopt National Panchayat Accounting Manual (NPAM) for preparation and presentation of the Financial Statements till state specific accounts manual is prepared and approved.
- (d) The State's Municipal Accounting Manual should be developed and the same should be incorporated in the State's Municipal Accounting Rules/Code, which should be drafted at the earliest.
- (e) The DULB should empanel and engage Chartered Accountants for handholding the ULBs in preparing their Opening Balance Sheets and switching over to accrual-based accounting system.
- (f) For ULBs, to adopt National Municipal Accounts Manual (NMAM) for preparation and presentation of the Financial Statements till state specific accounts manual is prepared and approved.
- (g) Presentation of audited financial statements and provisional financial statements on the website of Development & Panchayats Department for PRIs and of Directorate of Urban Local Bodies for ULBs. Auditors' report shall also accompany the audited financial statements. The format of the audit report shall form part of the State's Municipal Accounting Manual.
- (h) Audited financial statements and provisional financial statements must be uploaded within the time specified/recommended by the 15<sup>th</sup> CFC.

- (i) With the recommendation of 15<sup>th</sup> CFC, acts/rules need to be amended to provide definition of audit and certification of year-end financial statements of the local bodies. Engagement of Chartered Accountants (CAs) for audit of year-end Financial Statements of the local bodies also needs to be specified.
- (j) Appointment of CAs for audit of the PRIs and ULBs. However, it should be ensured that the same CAs appointed for audit are/were not engaged or involved in preparation of financial statements of the same PRI/ULB in any manner, to avoid any “conflict of interest”.
- (k) Budget formats need to be aligned with the accounting formats and presentation. It should be mandatory for local bodies to provide reasons for variation between budgeted estimates and actuals. A State level Budget Manual needs to be prepared, which should provide for the format of budget, timeline of budget preparation, disclosure to be made, presentation of budget covering concepts like performance budgeting, Output outcome framework and citizen participation in budget preparation, etc.
- (l) Delay in preparation of accounts, budgets or other guidelines should be viewed seriously and appropriate action may be proposed for erring officials.
- (m) Minimum training to be attended by each level of officials of the local bodies on topics relating to accounting practices, presentations, disclosures, decision making, budget preparation and analysis, etc., should be fixed and mandated.
- (n) Non-submission or delay in submission or faulty/insufficient submission of records, documents, vouchers, and registers, etc., for audit purposes should be viewed seriously and appropriate action may be proposed for erring officials.
- (o) Delay in responding or lack of action to audit paras/reporting should be taken up seriously and appropriate action may be proposed for erring officials.
- (p) The State Government should ensure the placing of and subsequent approval/discussion on Technical Guidance and Support reports by Pr. AG and audit reports by LAD in public domain.

## **4.2. Areas of Improvement in Accounting System**

4.2.1. Based on issues observed, the existing system of accounting needs to be strengthened and following steps need to be taken:

- (a) The Development & Panchayats Department, Haryana should prepare a State Panchayats Accounting Manual in line with NPAM.
- (b) To facilitate for publication of audited financial statements and provisional financial statements of PRIs on yearly basis on the website of The Development & Panchayats Department, Haryana.
- (c) To empanel Chartered Accountants firms for preparation of financial statements and assign Panchayats to them three months before closing of the financial year.
- (d) For capacity building at PRIs level, mandatory training for executive level staff needs to be carried out on quarterly basis. Both online and offline/residential trainings need to be mandated.
- (e) The DULB should prepare a State Municipal Accounts Manual in line with NMAM, incorporating appropriate internal controls.
- (f) To facilitate for publication of audited financial statements and provisional financial statements on yearly basis on the website of the DULB, Haryana.
- (g) To introduce IT enabled accounting system for capturing of data at transaction level, preparation of accounts and reporting thereof. Another key aspect is to ensure that various IT system already in use need to be linked with the accounting system to avoid any duplication of work.
- (h) For capacity building at ULBs level, mandatory training for executive level staff needs to be carried out on quarterly basis. Both online and offline/residential trainings need to be mandated.
- (i) Haryana Institute of Public Administration (HIPA)/Swarna Jayanti Haryana Institute of Fiscal Management (SJHIFM) or any other agency engaged in providing training in Haryana to officials of PRIs and ULBs should be mandated to prepare online and offline courses, training material for officials. Dedicated website should be launched to provide for online training programmes and it should also help in monitoring of training and capacity building activities.

### **4.3. Areas of Improvement in Auditing System**

4.3.1. Based on the observations, the existing system of auditing needs to be strengthened and following steps need to be taken:

- (a) The LAD should continue audit of transactions as per existing practice.
- (b) Reporting format of audit reports by LAD needs to be standardised.
- (c) To urgently prepare/update the Audit manual for ULBs with clearly defined policy, system and procedure, timelines, roles and responsibilities, etc., for both Internal and External Audits. Timeline for each procedure should also be clearly stated. It should give directions for standardizing process, reporting formats, timely audits, report framework, presentation to state legislature, timely action taken. Manual should lay out clear mechanism for timely action on question raised on audit paras and to fix responsibility for non-adherence and non-response on audit paras.
- (d) It is suggested that the manual should prescribe guidelines for risk profiling of units/departments and to give appropriate attention to transactions related to expenditure, income, assets procurement and Liabilities. Off Balance Sheet items like contingent liabilities, Notes to Accounts and Accounting Policies shall also need to be part of the audit. The format of reporting by auditor also needs to be provided in the manual covering different type of audits.
- (e) CAs empanelled with the C&AG need to be introduced in the current system of auditing similar to the pattern adopted for the audit of Public Sector Undertakings (PSUs), wherein audit of financial statements is conducted by Chartered Accountants and the supplementary audit is carried out by the Office of C&AG. CAs will carry out the audit of the financial statements of the local bodies and Pr. AG will carry out the supplementary audit.
- (f) Haryana Institute of Public Administration (HIPA)/Swarna Jayanti Haryana Institute of Fiscal Management (SJHIFM) or other similar agency engaged in providing training in Haryana to officials of PRIs and ULBs should be mandated to prepare online and offline courses, training material for officials on auditing systems and practices. Dedicated website should be launched to provide for online training programmes and it should also help in monitoring of training and capacity building activities.

#### **4.4. Areas of Improvement in Budgeting System**

4.4.1. In view of the observations discussed earlier, the existing system of budgeting needs to be strengthened and following steps need to be taken:

- (a) Alignment of budgeting formats with the formats of Financial Statements both for PRIs and ULBs.
- (b) To standardise the practice of budget preparation and analysis, budget manuals for PRIs and ULBs need to be developed and introduced. The Manual should also incorporate appropriate formats and procedures for preparing capital budgets and long-term budgets for local bodies.
- (c) The Development & Panchayats Department, Haryana is to facilitate PRIs for publication of the budget for the year on its website within 15 days from the date of approval of the budget.
- (d) DULB, Haryana is to facilitate ULBs for publication of the budget for the year on its website within 15 days from the date of approval of the budget.
- (e) To adopt Output-Outcome Framework soon as it helps to achieve greater transparency about financial outlays, targets and development outcomes, promote better understanding among stakeholders about the government's use of funds, allows for better fiscal management and oversight, which in turn allows for a targeted approach towards the Sustainable Development Goals.
- (f) Haryana Institute of Public Administration (HIPA)/Swarna Jayanti Haryana Institute of Fiscal Management (SJHIFM) and other similar agency engaged in providing training in Haryana to officials of PRIs and ULBs should be mandated to prepare online and offline courses, training material for officials as well as elected representatives on budgeting systems and practices. Dedicated website should be launched to provide for online training programmes and it should also help in monitoring of training and capacity building activities.



# **CHAPTER 5: 15<sup>TH</sup> CFC - GUIDING PRINCIPLES AND ENTRY LEVEL CONDITIONS**

## 5. 15<sup>th</sup> CFC and Guiding Principles and Entry Level Conditions

### 5.1. Guiding Principles

5.1.1. The 15<sup>th</sup> CFC highlighted the issues pertaining to Local bodies like non-maintenance of appropriate records, registers, financial statements, improper audits and unavailability of the financial statements in public domain. The 15<sup>th</sup> CFC has enumerated nine key guiding principles while proposing their recommendations. This Commission while framing its recommendations also need to consider those principles. These are as follows:

- (a) *Relevant ToR and the Constitutional provisions.*
- (b) *Pre-requisite of timely online availability in the public domain of both the accounts of the previous year and audited accounts of the year before the previous year for availing of grants for both rural and urban local bodies.*
- (c) *Pre-requisite of notifying minimum floor on property tax rates by States in order to increase the buoyancy of revenue of urban local bodies.*
- (d) *Inclusive and uniform approach for all three tiers within rural local bodies, Excluded Areas and cantonment areas.*
- (e) *Inter se rural and urban share of devolution in the context of the evolving urban complexities and challenges.*
- (f) *Differential needs of urban habitations, including the special needs of emerging large urban areas as “agglomeration economies”.*
- (g) *Air pollution in Million-Plus urban agglomerations.*
- (h) *Focus on national priorities related to (a) strengthening of primary health care and creation of diagnostics infrastructure for management of disease and epidemics at the local level; (b) solid waste management; (c) provisioning for drinking water and sanitation; and (d) promoting and incentivising water recycling, rejuvenation and rainwater harvesting.*
- (i) *Importance of generation of internal resources like revenues from property taxation and tax on professions.*

## 5.2. Entry Level Conditions

5.2.1. Based on the above, the 15<sup>th</sup> CFC recommended following entry-level conditions for local bodies to receive grants:

*Table 13: Entry-level conditions prescribed by 15th Central Finance Commission for LocalBodies to Receive Grants*

Panchayati Raj Institutions	Urban Local Bodies
<p><b>2021-22 and 2022-23</b></p> <p>In the first and second year of the award period (2021-22 and 2022-23), States need to ensure that at least 25 per cent of the rural local bodies have both their provisional accounts for the previous year and audited accounts for the year before the previous year available online in the public domain.</p> <p><b>2023-24, 2024-25 and 2025-26</b></p> <p>From the third year (2023-24) onwards, States will receive total grants due to the rural local bodies having both provisional accounts of the previous year and audited accounts for the year before previous and making these available online.</p>	<p><b>2021-22 and 2022-23</b></p> <p>In the first year of the award period, that is 2021-22, a State needs to ensure online availability of at least 25 per cent of both unaudited urban local body accounts for the previous year and audited accounts for the year before the previous to avail the full grants in that year.</p> <p>States are also expected to notify the floor rates of property tax and operationalise the relevant arrangements in 2021-22. The condition of notifying the floor rates of property tax will apply for eligibility of grants from 2022-23 along with which a State needs to ensure online availability of at least 25 per cent of both unaudited urban local body accounts for the previous year and audited accounts for the year before the previous to avail the full grants in that year.</p> <p><b>2023-24, 2024-25 and 2025-26</b></p> <p>Unaudited annual accounts of the previous year and audited online accounts for year before the previous year available.</p> <p>Fix minimum floor for property tax rates followed by consistent improvement in the collection of property taxes in tandem with the growth rate of State's own GSDP.</p>

5.2.2. Local bodies need to consider that due to non-compliance or non-adherence to the conditions imposed by the earlier Central Finance Commissions, they have lost significant amount of grants.

*Table 14: Status of Grants Recommended Vs Actual Releases<sup>10</sup>*

Grants	Rural Local Bodies			Urban Local Bodies		
	Recommended	Released	Released %	Recommended	Released	Released %
FC-X	4381	3576	81.6	1000	834	83.4
FC-XI	8000	6602	82.5	2000	1752	87.6
FC-XII	20000	18927	94.6	5000	4470	89.4
FC-XIII	64408	58257	90.7	23111	18980	82.1
FC-XIV	200292	179491	89.6	87144	74259	85.2

As per the report of 15<sup>th</sup> CFC, the actual amounts disbursed have fallen short of the amounts recommended by the Commissions. The shortfall has fluctuated between 5 per cent and 18 per cent for the rural local bodies and between 10 per cent and 18 per cent for urban local bodies as seen in the above Table 14.

<sup>10</sup> 15<sup>th</sup> Central Finance Commission Report

# **CHAPTER 6: FINANCIAL MANAGEMENT PRACTICES OF ULBs IN OTHER STATES**

## 6. Financial Management Practices of ULBs in Other States

Amid the tussle of devolution of power between State Government and Local Bodies, different states are at different levels of reforms when comes to reforms in Public Finance management. Each state is following their own trajectory in this matter and while some like Gujarat and Karnataka have made substantial progress, State of Haryana has lot of work to do.

### 6.1. In Comparison with Other States

The following Table 15 shows the summary of current practices followed in other states and a comparison with Haryana:

*Table 15: Summary of Reforms in ULBs of Other States<sup>11</sup>*

S. No.	Practices	States	Activities
1	Status of Accrual Basis of Double Entry Accounting System	Gujarat	The Municipal Councils and Nagar Parishads have adopted Accrual-Based Double Entry Accounting system from 2006-07 onwards.
		Jharkhand	All ULBs are following Accrual Basis of Accounting System since 2012-13.
		Karnataka	ULBs are preparing fund-based accounts in double entry system from 2017-18 onwards.
		Odisha	All ULBs are following Accrual Basis of Accounting System.
		Tamil Nadu	All ULBs are following Accrual Basis of Accounting System (revised) 2014-15 onwards.
		Uttarakhand	Most of the ULBs are following Accrual Basis of Accounting System.
		Haryana	None of the ULB is following Accrual Basis of Accounting System.
2	States Municipal Accounts Manual	Maharashtra	Government of Maharashtra published (January 2013) the Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements for the Municipal Councils only.
		Gujarat	The draft Municipal Accounts Manual approved by the Government.
		Jharkhand	State Municipal Accounts Manual developed in

<sup>11</sup>Extract from 'State of Municipal Finances in India' study by ICRIER for 15<sup>th</sup> CFC

S. No.	Practices	States	Activities
			accordance with NMAM, was approved by the state government in October, 2012.
		Karnataka	State Government brought out the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), based on NMAM with effect from 01.04.2006.
		Odisha	The draft Municipal Accounts Manual prepared by the Government of Odisha in April 2012.
		Tamil Nadu	State brought a new manual based on the needs of ULBs and principle of NMAM and accounts were compiled based on this newly updated Municipal Accounting Manual from 2014-15 onwards.
		Uttarakhand	The Municipal Accounts Manual based on NMAM prepared by the Government of Uttarakhand.
		Haryana	Under advance stage of preparation.
3	Authority that maintains the accounts of ULBs	Maharashtra	Account Officer of ULBs under the supervision of Chief Officer
		Gujarat	ULB maintains own accounts
		Jharkhand	ULB maintains own accounts
		Karnataka	ULB maintains own accounts
		Odisha	Executive officer, concerned ULB
		Tamil Nadu	Financial Advisor in Chennai Corporation; AC (Accounts) in all other Corporations; Accountants in Municipalities; Executive Officer - Town Panchayats
		Uttarakhand	Few ULBs maintain own accounts through their employees (permanent/outsourced staff). However, most of the ULBs have appointed CAs firms.
		Haryana	The accounts of the ULBs are maintained by the staff of ULBs.
4	Whether revised formats revised by CAG adopted for accounting purpose	Maharashtra	Yes
		Gujarat	Yes
		Jharkhand	Yes
		Karnataka	Yes
		Odisha	Yes
		Tamil Nadu	Yes
		Uttarakhand	Approval for the Revised Manual is awaited.
		Haryana	No.
5	Latest year up	Maharashtra	2016-17

S. No.	Practices	States	Activities
	to which accounts maintained	Gujarat	2015-16
		Jharkhand	2017-18
		Karnataka	2016-17
		Odisha	2017-18
		Tamil Nadu	2017-18
		Uttarakhand	2019-20
		Haryana	Data of 79 ULBs uploaded at DULB website for 2018-19.
6	Details of Auditing Authority	Maharashtra	Directorate, Local Fund Audit
		Gujarat	The Examiner, Local Fund Accounts
		Jharkhand	CA Firms
		Karnataka	Karnataka State Audit & Accounts Department and Accountant General, Karnataka
		Odisha	The Director, Local Fund Audit
		Tamil Nadu	Local Fund Audit Department & Accountant General
		Uttarakhand	The Director, Local Fund Audit
		Haryana	The Examiner, Local Fund Accounts

## 6.2. Best Financial Reporting Practices in Other States

Some of the best practices are discussed hereunder:

### (a) Basis of Accounting

The basis of accounting refers to the methodology under which revenues and expenses are recognized in the financial statements of a business. The cash basis and the accrual basis are the two primary methods of tracking income and expenses in accounting. Because of its simplicity, many small businesses, individuals, and certain professionals, such as doctors, lawyers, and accountants, use the cash basis of accounting to maintain their books and records. Accrual basis accounting is more complex than cash basis accounting. It requires a greater knowledge of accounting principles and procedures. However, it provides more accurate financial information, which is useful for more effective management of the business. As discussed in previous chapters too, double-entry system of accounting or bookkeeping means that for every business transaction, amounts must be recorded in a minimum of two accounts. The double-entry system also requires that for all transactions, the amounts entered as debits must be equal to the amounts entered as credits.



Many states in India are in the process of adopting accrual-based accounting system, as prescribed in the NMAM and several states are successful in adopting it completely. In Gujarat, the Municipal Councils and Nagar Parishads have adopted accrual-based double entry accounting system from 2006-07 onwards. All the ULBs in Karnataka are preparing fund-based accounts in double entry system from 2017-18 onwards. In Tamil Nadu also, all ULBs are following accrual basis of accounting system. Of the 24 states with available data, nine states have completely adopted accrual-based double entry accounting system and other states are in the process of adopting it completely.

**(b) State Accounts Manual – Status in Other States**

The National Municipal Accounting Manual (NMAM) comprehensively details the accounting principles, procedures and guidelines designed to ensure correct, complete and timely recording of municipal transactions and produce accurate and relevant financial reports. It was prepared by the Ministry of Urban Development on the basis of recommendations by C&AG task force.

In Karnataka, the state government brought out the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), based on NMAM with effect from 01.04.2006. KMABR was introduced in a phased manner in all ULBs. Tamil Nadu Commissionerate of Municipal Administration (CMA) stated (December 2017) that consequent upon the introduction of NMAM, Government of Tamil Nadu prepared a new Municipal Accounting Manual incorporating the principles laid down in NMAM, to suit the requirement of ULBs in Tamil Nadu on the principles of needs basis and not merely to coincide with NMAM. CMA further stated that accounts from 2014-15 were compiled based on this newly updated Municipal Accounting Manual. Assam state account manual which follows NMAM was accepted in 2011 and is in effect since 2015. Jharkhand Municipal Accounts Manual (JMAM), which was developed in accordance with NMAM was approved by the state government in October, 2012.

**(c) Content of Annual Accounts**

As per NMAM, annual accounts must include the following records:

- (i) Balance Sheet;
- (ii) Income and Expenditure Statement;
- (iii) Statement of Cash flows;
- (iv) Receipts and Payments Account;
- (v) Notes to Accounts; and
- (vi) Financial Performance Indicators.

In Andhra Pradesh, accounts department under Municipal Commissioner is prescribed to prepare it at the earliest after 1<sup>st</sup> April. Chhattisgarh allows timeframe of 4 months from the end of financial year. Jharkhand completely follows NMAM guidelines for preparation of Annual Accounts.

#### **(d) Contingent Liabilities**

Contingent liability is a liability that may occur depending on the outcome of an uncertain future event. It is a good indicator of financial health and helps with credit rating. Under GAAP, a contingent liability is defined as any potential future loss that depends on a "triggering event" to turn into an actual expense. It's important that shareholders and lenders be warned about possible losses, an otherwise sound investment, like Municipal Bonds, might look foolish after an undisclosed contingent liability is realized.

Uttarakhand Municipal Accounts Manual requires contingent liability to be disclosed as a note in the Financial Statements. Qualifying contingent liabilities are recorded as an expense on the income statement and a liability on the Balance Sheet.

#### **(e) Mid-term Fiscal Plan (MTFP)**

Mid-term Fiscal Plan (MTFP) is an important function of Fiscal responsibility and Budget Management<sup>12</sup>. It is an important indicator of Financial Accountability. State of Karnataka has also adopted MTFP and according to their instruction to State's ULBs, the MTFP should be the source document for the preparation of the annual budget. Karnataka state was one of the first Indian states to formulate the Medium-term fiscal plan based on the broad parameters suggested by the Eleventh Finance Commission for fiscal correction. A statutory back up to MTFP was provided with the framing of Karnataka Fiscal Responsibility Act (KFRA) in September 2002. Furthermore, it says that every local body shall publish the MTFP, the Annual Budget, Annual Accounts, the Annual report together with the certified accounts and the MTFP shall set forth a four-year rolling target for fiscal indicators.

The fiscal and revenue deficit targets were achieved well within the stipulated time frame. State achieved revenue surplus by 2004-05 itself thus generating more resources for capital investment. In addition, MTFP helps arguing that the committed grants-in-aid

---

<sup>12</sup> Study Report on 'Evaluation of State Finances of Karnataka' submitted to 14<sup>th</sup> Central Finance Commission by Institute for Social and Economic Change

and the stipulated transfers to the local bodies too reduce the scope for expenditure by the state government.

**(f) Centralized Municipal Database**

A centralized database can help greatly in achieving efficiency and transparency in public financial management. ULBs of Karnataka along with Directorate of Municipal Administration created a centralized system of Municipal Finance Statistics of ULBs using financial process reforms and eGovernance tools. It enables ULBs to identify the un-assessed properties and bring them under tax net using GIS based property tax information system. Fixed Assets worth crores of rupees otherwise remain unnoticed and physically identified, enumerated and brought into records. Further, eGovernance has resulted in higher transparency, general awareness about ULB administration and increased accountability.

All the ULBs share the same software, and accounting data is stored on a central server maintained by the Karnataka Municipal Reform Cell (KMRC)<sup>13</sup>. At any point in time, the accounts of the ULBs can be reviewed by MRC staff. This special feature of the accounting system has the following distinct advantages:

- A single set of accounting policies and guidelines is followed by all the ULBs in the state, leading to unified system of accounting across the ULBs;
- Computer software and information technology (IT) systems can be maintained and monitored by a centralized team located at the MRC office;
- Centralized training facilities are available to all ULB staff, and their knowledge can be utilized in any other ULB in case of staff transfers;
- All the ULBs have a similar set of records, which could lead to the consolidation of information and data for policy reviews and accounting reforms; and
- The centralized database can be subjected to analysis and reviews for management information and overall state-wide monitoring and benchmarking.

**(g) Accounting Software**

Eight states are using standalone accounting software/package like Tally, e-biz, etc., or some other customised accounting software/package, while another thirteen states are using them partially.

---

<sup>13</sup> ADB South Asia Working Paper Series 'Municipal Accounting Reforms in India' by C.T. Abraham, October 2013

The Asian Development Bank (ADB) technical assistance (TA) project "Capacity Building for Municipal Service Delivery in State of Kerala" assisted municipal corporations and selected municipalities to do the following:

- Improve their capacity to organize, record, update, and manage financial and other information on a routine basis;
- Increase the efficiency and integrity of the data being collected; and
- Promote good governance in relation to financial management.

In as much as twenty months into the project, seven pilot ULBs were transitioned to Accrual Based Double Entry System of Accounting and prepared their Budget and the Annual Financial Statements as per the new system of accounting. Also, more than 130 staff of the Accounts Department has been trained in the new system of accounting in this period. Further, the members of the Finance Standing Committee were trained on the new system of accounting and the reports that are generated from the system.

Tamil Nadu's Commissionerate of Municipal Administration (CMA) further stated that accounts from 2014-15 were compiled based on this newly updated Municipal Accounting Manual adopting new accounting software created on the basis of new coding structure. Tamil Nadu has also spent a significant amount on training of these accounting software to achieve efficient utilization of the software and trained as much as 325 professionals in a year.

Gujarat adopted transparency and audit measures through E-governance. Its primary objective is to make citizen's transaction with municipal offices hassle-free and to make the functioning of ULBs efficient, effective, transparent and citizen-friendly through E-governance. Elements of quality and timeliness are quintessential features of Urban Governance, wherein IT-enabled services and e-Governance play a stellar role, and have significantly enhanced the citizen-friendliness of the Urban Local Bodies (ULBs). Gujarat has been one of the front-runners in the implementation of e-Infrastructure policies and projects. Independent agencies have rated Gujarat amongst the most e-prepared states in the country.

# **CHAPTER 7: RECOMMENDATIONS AND WAY FORWARD**

## 7. Recommendations and Way Forward

### 7.1. Recommendations to Amend Existing Legal framework

7.1.1. To improve the existing system of accounting, auditing and budgeting and to bring more transparency and accountability the legal framework needs to be strengthened. Thus, following recommendations are suggested to the Commission for the State Government of Haryana:

- (a) *To adopt accrual-based double entry accounting system for preparation of financial statements by ULBs.*
- (b) *To define 'Financial Statements' of ULBs and PRIs and to include at least Balance Sheet, Income and Expenditure Statement, Receipts and Payments Account/Cash flow statement, Notes to Accounts, Schedules to Accounts and Significant Accounting Policies.*
- (c) *To introduce and adopt Haryana Municipal Account Manual for preparation and presentation of financial statement in a time-bound manner.*
- (d) *That provisional financial statements for a financial year shall be prepared and published in public domain latest by 15<sup>th</sup> of May of the subsequent financial year. Action may be taken against the erring official in case of delay or late preparation and publishing of provisional accounts of the ULBs.*
- (e) *That audited financial statements shall mean financial statements audited by an independent Chartered Accountant. A supplementary audit shall be carried out by the Office of the C&AG/LAD in line with the pattern adopted for the audit of Public Sector Undertakings (PSUs) Section 139 (5) of the Companies Act.*
- (f) *That for audit of a financial year, the independent chartered accountant will be appointed by the DULB, 3 months before the conclusion of the financial year from a panel of reputed CA firms created for the purpose.*
- (g) *That fee for independent chartered accountant for audit of ULB will be determined by DULB in consultation with C&AG and ICAI.*
- (h) *That the audit of financial statements will be completed by Chartered Accountants within 3 months from the conclusion of financial year and issue his/her audit report.*

- (i) *That the ULB official will provide response or action taken report within 3 months/stipulated time from the date of receipt of audit report received from LAD or Pr.AG/Chartered Accountants.*
- (j) *To introduce and adopt Haryana Audit Manual. The manual shall govern the transaction audits of various departments by LAD as well as audits of financial statements by independent chartered accountants.*
- (k) *To consult with C&AG for strengthening institutions/empowered committee on audit observations and ATRs at district level which may help in monitoring and to ensure follow up action and accountability mechanism.*
- (l) *To introduce and adopt Haryana Municipal Budget Manual. The manual shall provide for the budget framework, citizen participation, formats, budget presentation, budget approval, reporting of capital expenditure and revenue expenditure, variation analysis and reasoning, etc. The budget format shall be aligned with the formats of financial statements and the manual needs to be in line with NMAM.*

***However, in the interim, the ULBs, till such time the budget manual is prepared, the municipal accounts manual may contain a chapter on important aspects of budget preparation and management. In this context, the National Municipal Accounts Manual (NMAM) may be referred as it contains a chapter on budgeting covering all the important aspects of budgeting. ULBs may prepare BUD-1, BUD-2, BUD-3, BUD-4, BUD-5 and BUD-6 statements (Refer Annexure-3) on a periodical basis and submit them to the various governing committees for review, analysis and decision-making purposes. These formats are presented in NMAM.***

- (m) *To introduce and adopt the concept of output-outcome budget framework for PRIs and ULBs in line with State Government's policy.*
- (n) *That the approved budget shall be published in public domain within stipulated time/30 days from the date of approval.*
- (o) *To appoint a cadre of Municipal/Panchayati Finance Officers for ULBs/PRIs of the State.*
- (p) *To entrust responsibility of capacity building and training on accounting and budgeting aspects to Haryana Institute of Public Administration (HIPA)/Swarna Jayanti Haryana Institute of Fiscal Management (SJHIFM)/Haryana Institute for Rural Development (HIRD) or similar institution for PRIs and ULBs' staff and elected representative. HIPA/SJHIFM/HIRD should also introduce certificate*

*courses for different aspects of accounting and budgeting. The courses should be available both online and offline training modules and certificate courses.*

- (q) To entrust responsibility of capacity building and training on auditing aspects to HIPA/SJHIFM/HIRD or similar institution for PRIs and ULBs' staff and elected representatives in consultation with Pr. AG and LAD. HIPA/SJHIFM/HIRD should also introduce online and offline training modules and certificate courses in consultation with Pr. AG and LAD for different aspects of auditing.*

## **7.2. Recommendations to Improve the Existing System of Accounting**

7.2.1. Based on issues observed, to improve and strengthen the existing system of accounting following actions are recommended:

### **A. For the Directorate of Urban Local Bodies**

- 1. To prepare and implement State Municipal Accounts Manual.*
- 2. Before actual implementation of accounts manual, ULBs are to update/prepare their fixed assets, property registers and records for their assets and liabilities.*
- 3. Sensitize and train each level of municipal staff on the accounts manual.*
- 4. To develop a strategy roadmap for implementation of State Accounts Manual. Introduction of IT based solution for timely and smooth implementation may be considered. The focus should be more on developing in-house capacities and competencies through trainings, etc., ensuring continuity of reform.*
- 5. To ensure creation of a panel of experienced CA firms for preparation of opening Balance Sheet in ULBs and subsequent financial statements till the in-house capacity and competence is developed at ULB level.*
- 6. To facilitate ULBs in publishing their provisional financial statements at DULB website.*

### **B. For the Development and Panchayat Department**

- 1. To prepare and implement State Panchayats Accounts Manual.*



2. *Before actual implementation of accounts manual, PRIs are to be instructed to update/prepare their fixed assets, property registers and records for their assets and liabilities.*
3. *Sensitize and train each level of PRIs' staff on the accounts manual.*
4. *To develop a strategy roadmap for implementation of State Accounts Manual. Introduction of IT based solution for timely and smooth implementation may be considered. The focus should be more on developing in-house capacities and competencies through trainings etc. ensuring continuity of reform.*
5. *To ensure to create a panel of experienced firms CA firms for preparation of opening Balance Sheet in PRIs and subsequent financial statements till the in-house capacity and competence is developed at PRI level.*
6. *To facilitate PRIs in publishing their provisional financial statements at the Development & Panchayats Department's website.*

**C. For Urban Local Bodies**

1. *To depute teams to update/prepare fixed assets, property registers and records for its assets and liabilities.*
2. *To participate in capacity building programmes or trainings on accounting.*
3. *To prepare provisional financial statements and audited financial statements within the prescribed time.*
4. *To ensure publishing of provisional financial statements and audited financial statements in the public domain or prescribed websites.*

**D. For Panchayati Raj Institutions**

1. *To depute teams to update/prepare fixed assets, property registers and records for its assets and liabilities.*
2. *To participate in capacity building programmes or trainings on accounting.*

3. *To prepare provisional financial statements and audited financial statements within the prescribed time.*
4. *To ensure publishing of provisional financial statements and audited financial statements in the public domain or prescribed websites.*

### **7.3. Recommendations to Improve the Existing System of Auditing**

7.3.1. Based on issues observed, to improve and strengthen the existing system of auditing following are recommended:

#### **A. For the Directorate of Urban Local Bodies**

1. *To issue instructions to the officials of ULBs to dispose-off previous years' pending audit paras, comments and, observations, etc., on or before 31<sup>st</sup> March of the following year.*
2. *To take appropriate action against erring officials of ULBs in case of any audit paras, comments and, observations, etc., are made on pending audit paras by the auditor.*
3. *Sensitize and train each level of municipal staff on the importance of audit, role and duties of ULBs' officials in audit.*
4. *To issue instructions to the officials of ULBs to prepare and organize their registers and records for audit purposes before commencement of audit.*
5. *To take appropriate action against erring officials of ULBs in case of any audit para, comment and observation etc., is made on non-submission of records, registers by ULBs to the auditor.*
6. *To facilitate ULBs in publishing their audited financial statements at DULB website.*

#### **B. For the Development and Panchayat Department**

1. *To issue instructions to the officials of PRIs to dispose-off previous years' pending audit paras, comments and, observations, etc., on or before 31<sup>st</sup> March of the following year.*

2. *To appoint the independent chartered accountants for audit of PRIs from a panel of reputed CA firms created for the purpose.*
3. *To take appropriate action against erring officials of PRIs in case of any audit paras, comments and, observations, etc., are made on pending audit paras by the auditor.*
4. *Sensitize and train each level of PRI staff on the importance of audit, role and duties of PRIs' officials in audit.*
5. *To take appropriate action against erring officials of PRIs in case of any audit para, comment and observation etc., is made on non-submission of records, registers by PRIs to the auditor.*
6. *To sensitize PRIs' officials on importance of audit and their duties to provide records, register to the auditor in a timely manner.*
7. *To facilitate PRIs in publishing their audited financial statements at the Development & Panchayats Department's website.*

**C. For Local Audit Department**

1. *The LAD should continue the pre-audit of local bodies as per existing practice.*
2. *To prepare and implement State Audit Manual. It is suggested that the manual should prescribe guidelines for risk profiling of units/departments and to give appropriate attention to transactions related to expenditure, income, assets procurement and liabilities. Off Balance Sheet items like contingent liabilities, Notes to Accounts and Accounting Policies shall also need to be part of the audit.*
3. *Sensitize and train each level of municipal staff and LAD staff on the audit manual.*

**D. For Urban Local Bodies**

1. *To provide records, registers, books of accounts to the auditor for audit.*
2. *To facilitate audit by LAD or Pr.AG or Chartered Accountants, as the case may be.*
3. *To participate in capacity building programmes or trainings.*

**E. For Panchayati Raj Institutions**

1. *To provide records, registers, books of accounts to the auditor for audit.*
2. *To facilitate audit by LAD or Pr.AG or Chartered Accountants, as the case may be.*
3. *To participate in capacity building programmes or trainings on auditing.*

**7.4. Recommendations to Improve the Existing System of Budgeting**

7.4.1. Based on issues observed, to improve and strengthen the existing system of budgeting following are recommended:

**A. For the Directorate of Urban Local Bodies**

1. *To prepare and implement State Budget Manual. Also, develop a strategy roadmap for timely implementation of State Budget Manual.*
2. *To appoint a cadre of Municipal/Panchayati Finance Officers for ULBs/PRIs of the State*
3. *Sensitize and train each level of municipal staff on the budget preparation, performance budget, and Output-outcome budget framework.*
4. *To ensure that the budgeting codes are aligned/linked with the accounting codes.*
5. *Introduction of IT based solution for timely and smooth preparation and presentation of budget.*
6. *To facilitate ULBs in publishing their budget at DULB website.*

**B. For the Development and Panchayat Department**

1. *To prepare and implement State Budget Manual. Also, develop a strategy roadmap for timely implementation of State Budget Manual.*
2. *Sensitize and train each level of PRIs' staff on the budget preparation, performance budget, and Output-outcome budget framework.*

3. *To ensure that the budgeting codes are aligned/linked with the accounting codes.*
4. *Introduction of IT based solution for timely and smooth preparation and presentation of budget.*
5. *To facilitate PRIs in publishing their budget at the Development & Panchayats Department's website*

**C. For Urban Local Bodies**

1. *To participate in capacity building programmes or trainings.*
2. *To prepare budgets in the prescribed format within the prescribed time and to ensure publishing of approved budget statements in public domain or prescribed websites.*

**D. For Panchayati Raj Institutions**

1. *To participate in capacity building programmes or trainings on budgeting.*
2. *To prepare budgets in the prescribed format within prescribed time and to ensure publishing of approved budget statements in public domain or prescribed websites.*

# ANNEXURES

**Annexure – I: List of ULBs in Haryana**

<b>ULB Name</b>	<b>ULB Type</b>	<b>Population (Census2011)</b>	<b>District Name</b>	<b>Division Name</b>
Panchkula	Municipal Corporation	2,11,355	Panchkula	Ambala
Kalka	Municipal Council	32,255	Panchkula	Ambala
Ambala	Municipal Corporation	1,95,153	Ambala	Ambala
Ambala-Sadar	Municipal Council	1,03,093	Ambala	Ambala
Naraingarh	Municipal Committee	22,832	Ambala	Ambala
Barara	Municipal Committee	21,545	Ambala	Ambala
Yamuna Nagar	Municipal Corporation	2,16,677	Yamuna Nagar	Ambala
Radaur	Municipal Committee	13,690	Yamuna Nagar	Ambala
Sadhaura	Municipal Committee	14,818	Yamuna Nagar	Ambala
Thanesar	Municipal Council	1,55,152	Kurukshetra	Ambala
Shahabad	Municipal Committee	42,607	Kurukshetra	Ambala
Ismailabad	Municipal Committee	13,726	Kurukshetra	Ambala
Ladwa	Municipal Committee	28,887	Kurukshetra	Ambala
Pehowa	Municipal Committee	38,853	Kurukshetra	Ambala
Karnal	Municipal Corporation	2,86,827	Karnal	Karnal
Taraori	Municipal Committee	25,944	Karnal	Karnal
Nilokheri	Municipal Committee	17,938	Karnal	Karnal
Gharaunda	Municipal Committee	37,816	Karnal	Karnal
Assandh	Municipal Committee	27,125	Karnal	Karnal
Indri	Municipal Committee	17,487	Karnal	Karnal
Nissing	Municipal Committee	17,438	Karnal	Karnal
Kaithal	Municipal Council	1,44,915	Kaithal	Karnal
Pundri	Municipal Committee	18,872	Kaithal	Karnal
Cheeka	Municipal Committee	38,952	Kaithal	Karnal
Kalayat	Municipal Committee	18,660	Kaithal	Karnal
Rajound	Municipal Committee	17,434	Kaithal	Karnal
Siwan	Municipal Committee	NA	Kaithal	Karnal
Panipat	Municipal Corporation	2,94,292	Panipat	Karnal
Samalkha	Municipal Committee	38,675	Panipat	Karnal
Rohtak	Municipal Corporation	3,74,292	Rohtak	Rohtak
Meham	Municipal Committee	20,484	Rohtak	Rohtak
Kalanaur	Municipal Committee	23,319	Rohtak	Rohtak
Sampla	Municipal Committee	20,563	Rohtak	Rohtak
Sonepat	Municipal Corporation	2,78,149	Sonepat	Rohtak
Gohana	Municipal Council	65,708	Sonepat	Rohtak

<b>ULB Name</b>	<b>ULB Type</b>	<b>Population (Census2011)</b>	<b>District Name</b>	<b>Division Name</b>
Gannaur	Municipal Committee	35,603	Sonepat	Rohtak
Kharkhoda	Municipal Committee	25,051	Sonepat	Rohtak
Kundli	Municipal Committee	21,633	Sonepat	Rohtak
Jhajjar	Municipal Council	48,424	Jhajjar	Rohtak
Bahadurgarh	Municipal Council	1,70,767	Jhajjar	Rohtak
Beri	Municipal Committee	15,934	Jhajjar	Rohtak
Badli	Municipal Committee	NA	Jhajjar	Rohtak
Bhiwani	Municipal Council	1,96,057	Bhiwani	Rohtak
Siwani	Municipal Committee	19,143	Bhiwani	Rohtak
Bawani Khera	Municipal Committee	20,289	Bhiwani	Rohtak
Loharu	Municipal Committee	13,937	Bhiwani	Rohtak
Charkhi Dadri	Municipal Council	56,337	Charkhi Dadri	Rohtak
Faridabad	Municipal Corporation	14,14,050	Faridabad	Faridabad
Palwal	Municipal Council	1,28,730	Palwal	Faridabad
Hodal	Municipal Council	50,143	Palwal	Faridabad
Hathin	Municipal Committee	14,421	Palwal	Faridabad
Nuh	Municipal Council	16,260	Nuh	Faridabad
Ferozpur Jhirkha	Municipal Committee	24,750	Nuh	Faridabad
Taoru	Municipal Committee	22,599	Nuh	Faridabad
Punhana	Municipal Committee	24,734	Nuh	Faridabad
Gurugram	Municipal Corporation	8,76,969	Gurugram	Gurugram
Manesar	Municipal Corporation	23,448	Gurugram	Gurugram
Sohna	Municipal Council	36,552	Gurugram	Gurugram
Haily Mandi	Municipal Committee	20,906	Gurugram	Gurugram
Pataudi	Municipal Committee	20,418	Gurugram	Gurugram
Farukh Nagar	Municipal Committee	13,513	Gurugram	Gurugram
Rewari	Municipal Council	1,43,021	Rewari	Gurugram
Bawal	Municipal Committee	16,776	Rewari	Gurugram
Dharuhera	Municipal Committee	30,344	Rewari	Gurugram
Narnaul	Municipal Council	74,581	Mohindergarh	Gurugram
Mohindergarh	Municipal Committee	29,128	Mohindergarh	Gurugram
Kanina	Municipal Committee	12,989	Mohindergarh	Gurugram
Ateli Mandi	Municipal Committee	7,619	Mohindergarh	Gurugram
Nangal Chaudhary	Municipal Committee	8,538	Mohindergarh	Gurugram
Hisar	Municipal Corporation	3,01,383	Hisar	Hisar
Hansi	Municipal Council	86,770	Hisar	Hisar
Barwala	Municipal Committee	43,384	Hisar	Hisar



<b>ULB Name</b>	<b>ULB Type</b>	<b>Population (Census2011)</b>	<b>District Name</b>	<b>Division Name</b>
Narnaund	Municipal Committee	17,242	Hisar	Hisar
Uklana	Municipal Committee	13,219	Hisar	Hisar
Bass	Municipal Committee	18,656	Hisar	Hisar
Sisai	Municipal Committee	-	Hisar	Hisar
Adampur	Municipal Committee	25,531	Hisar	Hisar
Fatehbad	Municipal Council	70,777	Fatehbad	Hisar
Tohana	Municipal Council	63,871	Fatehbad	Hisar
Ratia	Municipal Committee	37,152	Fatehbad	Hisar
Bhuna	Municipal Committee	18,000	Fatehbad	Hisar
Jakhal Mandi	Municipal Committee	7,788	Fatehbad	Hisar
Sirsa	Municipal Council	1,82,534	Sirsa	Hisar
Mandi Dabwali	Municipal Council	52,873	Sirsa	Hisar
Rania	Municipal Committee	25,123	Sirsa	Hisar
Kalanwali	Municipal Committee	22,095	Sirsa	Hisar
Ellenabad	Municipal Committee	36,623	Sirsa	Hisar
Jind	Municipal Council	1,67,592	Jind	Hisar
Narwana	Municipal Council	62,090	Jind	Hisar
Safidon	Municipal Committee	34,728	Jind	Hisar
Uchana	Municipal Committee	16,815	Jind	Hisar
Julana	Municipal Committee	18,755	Jind	Hisar

**Annexure - II: Questionnaire**

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
<b>A</b>	<b>OBJECTIVE WISE REQUIREMENTS</b>			
1	<p><b>Objective 1</b> To Study the utilization of Performance based grants in aid to ULB's and its monitoring by the state level expert institution.</p>	<p>1. Name and nature of each performance-based GIA to ULBs (during the period of study).</p> <p>2. Also, corresponding circular/notification related to such grants shall be required.</p> <p>3. Is there any state level expert institution for monitoring of utilization of aforesaid GIA.</p> <p>4. If yes, its role authority responsibility, scope, accountability, reporting powers etc. needs to be provided.</p> <p>5. Is there any system of accounting followed by the ULBs to present income and expenditure of a particular GIA?</p> <p>6. If yes, provide details of such system with Statement of Accounts for such grants?</p> <p>7. How do we ensure that a particular is being used only for the defined purposes only?</p>	<p>1. Directorate of Urban Local Bodies</p> <p>2. ULBs</p>	

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
2	<p><b>Objective 2</b> Study the Budget management to enhance fiduciary control.</p>	<p>8. Understanding of budget management at ULB level and its linkage with fiduciary control. (Current system of budgeting needs to be elaborated)</p> <p>9. Is there any budget manual for the ULBs to follow for its budget preparation and submission?</p> <p>10. If yes, please provide copy of the same.</p> <p>11. Is there any uniform format for budget of ULBs?</p> <p>12. Do the LBs prepare a long-term budget?</p> <p>13. Do ULBs follow any budgeting codes? If yes, please share the same.</p> <p>14. Are the budgeting codes aligned to the accounting codes?</p>	<p>1. Directorate of Urban Local Bodies</p> <p>2. ULBs</p>	
3	<p><b>Objective 3</b> To analyze the Municipal laws prescribing the resource-raising powers and budgeting, accounting, and auditing procedures to be followed by ULBs.</p>	<p>15. Understanding of Municipal laws in relation to resource raising powers, budgeting related provisions, accounting and auditing relating law and procedures.</p> <p>16. What are the relevant legal provisions/statutes in relation to aforesaid?</p>	<p>1. Directorate of Urban Local Bodies</p> <p>2. Team discussion</p>	

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
4	<p><b>Objective 4</b>  Study the Budget and financial control reforms for segregation of revenue and capital budgets, adoption of accrual based accounts, cash planning and budgeting, centralized financial control, development of core investment plans to ensure adequate allocation of resources for priority projects. To examine the implementation status of 5th SFC - H recommendations / ATR on the finances and governance structure of ULBs and its impact on delivery of services.</p>	<p>17. Understanding of budget and financial control reform for segregation of revenue and capital budgets</p> <p>a. Check actual implementation of aforesaid reform</p> <p>b. Discrepancies, if any, to be listed down</p> <p>c. Suggestions/way forward.</p> <p>18. Status of implementation of accrual based accounting system</p> <p>a. ULB-wise information is required for the above.</p> <p>b. What is the first year of implementation?</p> <p>c. Is there any consistency in selection of year, selection of accounting policies, selection of formats, auditing practice and continuity of systems.</p> <p>d. Identification of current challenges in implementation</p> <p>19. Development of core investment plans for adequate allocation of resources</p> <p>a. Is there any system of investments by ULBs?</p>	<p>1. Directorate of Urban Local Bodies</p> <p>2. ULBs</p>	

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
		<p>b. What are the Municipal laws relating to investments by ULBs?</p> <p>c. How ULBs allocate resources and in case of excess resources, what are legal provisions for utilisation and for investments?</p> <p>20. Provide 5th SFC-H recommendations/ATR on the finances and governance structure of ULBs and its impact on delivery of services. (A Table may be developed)</p>		
5	<p><b>Objective 5</b> To study the efficacy of Internal Checks and Internal Control over financial transactions to minimize:</p> <p>i) Unauthorized advances to various parties.</p> <p>ii) Excess payments and unauthorized charges.</p> <p>iii) Arrears of rents and taxes from various parties.</p> <p>iv) Misappropriation and embezzlement of funds.</p> <p>v) Short recoveries</p>	<p>21. Understanding of efficacy of Internal checks and Internal controls over financial transaction</p> <p>22. Is there any Internal Audit Manual for audits of ULBs?</p> <p>23. If yes, please provide copy of the same.</p> <p>24. In case there is no Internal Audit Manual, provide the basis through which efficacy of internal controls and internal checks over financial transaction are ensured?</p> <p>25. Was any financial fraud reported/detected in any ULB?</p> <p>26. If yes, please provide the</p>	<p>1. Directorate of Urban Local Bodies</p> <p>2. ULBs</p>	

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
	vi) Weak budgetary control and non achievement of budgetary targets. vii) Irregular and avoidable expenditure to disregard for rules and regulations. viii) Non-maintenance of prescribed registers; and ix) Audit paras not responded, and no action taken against erring officials.	summary of such frauds, weakness identified in the existing system due to which such fraud happened and action taken to stop occurrence of such fraud in future in same ULB and other ULBs.  27. Is there any system in place which detects:  i) Unauthorized advances to various parties.  ii) Excess payments and unauthorized charges.  iii) Arrears of rents and taxes from various parties.  iv) Misappropriation and embezzlement of funds.  v) Short recoveries  vi) Weak budgetary control and non achievement of budgetary targets.  vii) Irregular and avoidable expenditure to disregard for rules and regulations.  viii) Non-maintenance of prescribed registers; and  ix) Audit paras not responded, and no action taken against		

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
		erring officials.		
6	<b>Objective 6</b> To study the effectiveness of Internal Audit system.	28. Is there any system of independent Internal Audit system? 29. What are the qualifications and training provided to the Internal Auditors? 30. Who appoints the Internal Auditors? 31. Do CAs conduct the Internal audit of ULBs of Haryana? 32. Is the CAG providing Technical Supervision & Guidance to ULBs of Haryana? 33. What is the frequency of independent internal audit system?	1. Directorate of Urban Local Bodies 2. Directorate of Local Audit Department 3. ULBs	
7	<b>Objective 7</b> To suggest measures to improve their performance.	34. Best practices in any ULBs (within State)	1. Directorate of Urban Local Bodies 2. Directorate of Local Audit Department 3. ULBs	
<b>B.</b>	<b>Initial Questionnaires Regarding Municipal Accounting, Accounting and Budgeting</b>			
8	Regarding Municipal accounting, auditing, budgeting software, skill and strength, status of	35. Number of ULBs using standalone accounting package like tally, busy, etc. Provide name of the ULB and name of the software. 36. Are ULBs using a common	1. Directorate of Urban Local Bodies 2. ULBs 1. Directorate of	

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
	accounting manual, Chart of accounts, reconciliations, following accrual basis of accounting	Accounting Software/Package? If yes, provide name of the same.	Urban Local Bodies	
		37. Number of ULBs using web-based centralized accounting software	1. Directorate of Urban Local Bodies	
		38. How many ULBs have no computer?	1. Directorate of Urban Local Bodies	
		39. How many ULBs have no internet connection facility?	2. ULBs	
		40. How many ULBs have no computer skilled person?		
		41. How many ULBs are not making any accounts using computers?		
		42. How many ULBs are making their accounts using outsourced services?		
		43. Whether all ULBs have accounting manpower?		
		44. What is the qualification requirement of Municipal Accountants?		
		45. Can all ULBs provide single data sheet in MS excel?		
		46. How many ULBs are making digital payments? Please provide ULB wise information.		
		47. Whether ULBs have been mandated to follow accrual system of accounting?		
		48. Are Accounts of ULBs based on cash-based system? If yes, how many follow cash system?		



S. No.	Particulars	Requirement	Response Requested From	Response/ Status
		49. Time lag in annual and monthly account submission.		
		50. How many ULBs are following NMAM based accounting system		
		51. Has the State developed a State-specific Municipal Accounting Manual based on NMAM		
		52. Are all ULBs following the State-specific Municipal Accounting Manual based on NMAM? If not, what are the problems in implementation?		
		53. Are consultants appointed for supporting the implementation of above stated manual? If not, what are the issues in appointment?		
		54. In line with the recommendations of the XV FC, are the accounts of the ULBs available on a State-wide Platform both before and after audit?		
		55. Can the data be derived and is it available anywhere?		
		56. Is the State Finance Code updated? When was the Code last updated? Does it mandate the implementation of Accrual Accounting Manual?		
		57. Is there a Software platform that enables data sharing by ULBs?		
		58. Are the Municipal Accounts reconciled with the State		

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
		Government Accounts?		
		59. How much time do ULBs take to finalize their Annual Accounts?		
		60. Are bank accounts reconciled by ULBs regularly?		
		61. Are IFMIS/PFMS used by the State/ULBs?		
		62. Whether Financial Statements uploaded by ULBs on their website? If yes, whether any timeframe within which financial statements are to be uploaded on yearly basis?		
		63. What is the legal requirement with respect to the uploading of the FS?		
		64. Is daily collection Register Maintained for the Revenue Collection?		
		65. Can the data be derived and available at any time?		
		66. Is there a system of Internal Audit? Who conducts such audit? How have the observation made by Internal Audit responded by the ULBs?		
		67. Is any Action Taken Report (ATR) prepared in response to the Audit Reports?		
		68. Do the Internal Audit have knowledge of accrual account and procurement procedures?		
		69. Is there a system of pre audit prevalent in ULBs of Haryana? If yes, please provide relevant legal position.		

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
		70.Do CAs conduct the Internal audit of ULBs of Haryana?		
		71. Is the CAG providing Technical Supervision & Guidance to ULBs of Haryana?		
		72. Is the Director Local Fund Audit the statutory Auditor?		
		73. What are the legal provisions for conduct of Statutory Audit?		
		74. Status of External audit of financial Statement of above stated ULBs.		
		75.What are the procurement procedures? Who evaluates that they are followed?		
		76. Do the ULBs prepare a CDP?		
		77. Is the CDP followed by the ULB?		
<b>C</b>	<b>Other requirements</b>			
		78. Demographic profile of Haryana State.		Statistics handbook 2019-20
		79. Demographic Profile of each ULB in Haryana(tabulate): 10 Municipal Corporations, 18 Municipal Councils & Municipal Committee.	Refer Commission questionnaire's reply	
		80. Financial Statement of ULBs (above stated) for FY 2011-12 to latest available	ULBs	
		81. List of registers, records are to be maintained by ULB's status of actual maintenances ULB wise.	ULBs	

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
		82. Do ULBs prepare any records/ register to capture its fixed assets? a. If yes, whether the format is uniform across all ULBs in the state.  b. Also, share the format of the fixed assets register used by the ULB.		
		83. Whether ULBs prepare any register of its properties, establishments etc. from where it generates income in form of property tax, or other form of receipts?  a. If yes, what is the frequency of updating the same.  b. And if no, what mechanism ULB follows to ensure safeguarding its such properties and to capture revenue from them in its books of accounts.		
		82. Compilation of previous SFC's recommendation their implementation /ATR by states and by ULBs into two parts. a. Finances b. Governance	1. Directorate of Urban Local Bodies	
		83. Status of Audit paras: ULB wise Resolved and pending paras.	1. ULBs 2. Directorate of Local Audit Department	
		84. Literature/ Content/Data/Information on the existing accounting,	1. Directorate of Urban Local Bodies	

S. No.	Particulars	Requirement	Response Requested From	Response/ Status
		budgeting, investment, auditing systems in ULBs functioning. Provide list of relevant websites, Acts, Rules, etc in this regard		
		85. Municipal laws and State laws: Roles, responsibility, administration and financial powers, etc. in perspective of accounts maintenance, external audits, internal audits, existing internal control systems.	1. Directorate of Urban Local Bodies	

\_\_\_\_\_ Name of the ULB  
**Budget Estimation Sheets format**

Name of the Functionary : \_\_\_\_\_

Name of the Function : \_\_\_\_\_

Budgeting Year : \_\_\_\_\_

Field	Head of Account – Description of Item*	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
1	2	3	4	5	6
	<b>REVENUS</b>				
Ward 1	<b>Tax Revenues</b>				
	Property & Other Taxes				
	Water Taxes				
	” ” ” ”				
	” ” ” ”				
	Sub-total (Tax Revenues)				
Ward 1	<b>Fees &amp; User Charges</b>				
	License Fees				
	Advertisement Taxes				
	” ” ” ”				
	Sub-total (Fees & User Charges)				
Ward 1	<b>Interest Income</b>				
	Interest from Bank Deposits				
	Interest from Post Office Deposits				
	” ” ” ”				
	Sub-total (Interest Income)				

\_\_\_\_\_ Name of the ULB

**Budget estimate Consolidation format**

**Budgeting Year: \_\_\_\_\_**

<b>Function</b>	<b>Functionary</b>	<b>Field</b>	<b>Head of Account- Description of items</b>	<b>Actual for the Previous year</b>	<b>Budget Estimates for the current year</b>	<b>Revised Estimates for the current year</b>	<b>Budget Estimates for the next year</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>

**Consolidation shall be made for every item of detailed heads of account.**

\_\_\_\_\_ Name of the ULB

**SUMMARY OF BUDGET FOR THE PERIOD**

Particulars	Actual for the previous year Rs.	Budget Estimates for the current year Rs.	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
1	2	3	4	5
Opening Balance*				
<b>Add:</b> Revenue Receipts Capital Receipts				
<b>Less:</b> Revenue Expenditure Capital Expenditure				
Closing Balance*				

*\* Balances denote cash and bank balance*

**Form BUD -4**

\_\_\_\_\_ Name of the ULB



**MAJOR ACCOUNT HEAD WISE BUDGET FOR THE PERIOD**

S. No.	Major Account Head	Code	Actual for the previous year Rs.	Budget Estimates for the current year Rs	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
	<b>1</b>		<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	<b>REVENUE RECEIPTS</b>					
	Tax Revenue	110				
	Assigned Revenue and Compensation	120				
	Rental Income- Municipal Properties	130				
	Fee and User Charges	140				
	Sales Hire Charges	150				
	Revenue Grants, Contribution and subsidies	160				
	Income for Investment	170				
	Interest Earned	171				
	Other Income	181				
	<b>Total</b>					
	<b>REVENUE EXPENDITURE</b>					
	Establishment Expenses	210				
	Administrative Expenses	220				
	Operation And Maintenance	230				
	Interest and Finance Charges	240				
	Program Expenses	250				
	Revenue Grants, Contribution and subsidies	260				
	Miscellaneous Expenses	271				
	Prior Period item	280				
	<b>Total</b>					

S. No.	Major Account Head	Code	Actual for the previous year Rs.	Budget Estimates for the current year Rs	Revised Estimates for the current year Rs.	Budget Estimates for the next year Rs.
1			2	3	4	5
	<b><u>CAPITAL RECEIPTS</u></b>					
	Grants, Contribution for Specific purpose	320				
	Secured Loan	330				
	Unsecured Loan	331				
	Deposit Received	340				
	Deposit Work	341				
	Other Liabilities	350				
	<b>Total</b>					
	<b><u>CAPITAL EXPENDITURE</u></b>					
	Fixed Assets	410				
	Capital Work in Progress	412				
	Investment- General Fund	420				
	Investment- Other Fund	421				
	Stock in hand	430				
	Prepaid Expenses	440				
	Loans, advances and deposits	460				
	Other Assets	470				
	<b>Total</b>					

**Note: These totals shall be tallied with the totals in Forms BUD 5- 7**

\_\_\_\_\_ Name of the ULB

**SUMMARY OF FUNCTION WISE BUDGET FOR THE PERIOD**

S No	Function	Code	Revenue Receipt Rs.	Revenue Expenses Rs.	Capital Receipts Rs.	Capital Expenditure Rs.	Net Inflow/ (Outflow) Rs.
1	2	3	4	5	6	7	8
	General Administration	00					
	Planning & Regulation	10					
	Public Works	20					
	Heath	30					
	Sanitation & Solid Waste Management	40					
	Civic Amenities	50					
	Urban Forestry	60					
	Urban Poverty Alleviation & Social Welfare	70					
	Other Services	80					
	Revenues	90					
	<b>Total**</b>						

Name of the ULB \_\_\_\_\_

SUMMARY OF FIELD WISE BUDGET FOR THE PERIOD \_\_\_\_\_

S No	Function	Code	Revenue Receipt Rs.	Revenue Expenses Rs.	Capital Receipts Rs.	Capital Expenditure Rs.	Net Inflow/ (Outflow) Rs.
1	2	3	4	5	6	7	8
	Field 1						
	Field 2						
	Field 3						
	.....						
	.....						
	Ward n						
	Total*						

Note: Field could be lowest level at which ULB likes to budget. Ideally this should be done at the ward level

\*The total of columns 4 to 7 shall be tallied with those in Form BUD - 3.

## BIBLIOGRAPHY

- ADB South Asia Working Paper Series 'Municipal Accounting Reforms in India' by C.T. Abraham, October 2013
- Study on 'State of Municipal Finances in India' by ICRIER submitted to 15<sup>th</sup> CFC
- Study Report on 'Evaluation of State Finances of Karnataka' submitted to 14<sup>th</sup> CFC by Institute for Social and Economic Change
- <https://ulbharyana.gov.in/>
- <https://cag.gov.in/ae/haryana/en>
- [www.gasab.gov.in](http://www.gasab.gov.in)
- <http://www.cityfinance.in/home>
- [www.icaai.in](http://www.icaai.in)
- [www.mohua.gov.in](http://www.mohua.gov.in)
- <https://www.panchayat.gov.in/web/ministry-of-panchayati-raj-2>
- <https://niua.org/>
- Research Study on Accounting Reforms in Urban Local Bodies in India by the Institute of Chartered Accountants of India
- National Municipal Accounts Manual (2004)
- 'Mobilisation and Management of Financial Resources by Panchayati Raj Institutions – A Study of Haryana State' by Mahipal, Assistant Professor
- <https://fincomindia.nic.in/>
- Municipal Finances and Service Delivery in India by Administrative Staff College of India, Hyderabad (2014)