

Hand Book on Municipal Financial Accountability



Department of Municipal Administration &
Urban Development
Government of Andhra Pradesh



CENTRE FOR GOOD GOVERNANCE
Knowledge • Technology • People

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Koneru Ranga Rao
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MESSAGE

In the year 2001, Government of India (GoI), based on the recommendations of the Eleventh Finance Commission, issued guidelines to the Comptroller and Auditor General of India (CAG), to prescribe formats of Budget and Accounts for Panchyat Raj Institutions and Urban Local Bodies (ULBs) amenable to computerization.

In September, 2003, the GoI suggested to the CAG to develop National Municipal Accounts Manual (NMAM). In December, 2004, the NMAM developed by CAG was made available to State Governments across the country for development of State-specific Budget and Accounts Manuals to be used by the ULBs. Like many other ULBs in the country, ULBs in Andhra Pradesh have been following cash based single entry system of accounting, while the NAMM suggest accrual based double entry system of accounting.

The State Government has decided to introduce reforms in budgeting and accounting in all ULBs and desired the Centre for Good Governance (CGG) to develop state-specific accounts and budget manuals keeping the NMAM guidelines in view.

Centre for Good Governance has developed Manuals for Accounts, Budget, Audit, and Asset Management; and Handbook on Municipal Financial Accountability. I am confident that these manuals would facilitate better management of finance and accounts activities in the Urban Local Bodies (ULBs) and help in improved and efficient delivery of civic services.

Koneru Ranga Rao



K. Rosaiah

Minister for Finance, Planning & Legislative Affairs
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MESSAGE

Centre for Good Governance (CGG) was established by Government of Andhra Pradesh (GoAP) in October, 2001 to help it to achieve its goal of transforming governance. One of the focus areas of CGG is Financial Management – to improve planning, resource allocation, monitoring, management and accounting systems and access to information, so that accountability is clear, spending is transparent and public expenditure is more effectively controlled and more productively targeted.

Government of Andhra Pradesh in Municipal Administration and Urban Development department have issued orders (GO Ms. No.233 MA dated 22nd May, 2002) in 2002 that ULBs adopt with immediate effect accrual based accounting system within their jurisdiction.

Government of India made the National Municipal Accounts Manual (NMAM) available to State Governments during December, 2004 for development of state-specific accounts and budget manuals. The Government of Andhra Pradesh has decided to introduce reforms in budgeting and accounts in all ULBs and in January, 2006 entrusted the CGG the work relating to preparation of state specific accounting and budget manuals as per the guidelines in NMAM. CGG has immediately responded and developed the following manuals and handbook.

- Andhra Pradesh Municipal Accounts Manual;
- Andhra Pradesh Municipal Budget Manual;
- Andhra Pradesh Municipal Asset Management Manual;
- Andhra Pradesh Municipal Audit Manual;
- Andhra Pradesh Municipal Uniform Budget and Accounts Code; and
- Handbook on Municipal Financial Accountability.

The manuals were approved by Government recently in GO Ms. No.619 MA dated 21 August, 2007. I am glad that the manuals and handbook are being published and hope that they would be helpful to all ULBs to improve their performance and serve the people.

K. ROSAIAH

Preface

Urban local bodies provide certain basic civic infrastructure and services like roads, drains, street lighting, water supply, conservancy and solid waste management. They also perform certain regulatory functions such as licensing of trades, building permissions, land use, encroachments, etc. The 74th Constitution Amendment Act broadened the functional domain to include poverty alleviation, slum improvement, urban forestry and environmental protection. Thus, besides being institutions of local self governance, urban local bodies have to prepare plans for economic development and social justice. For realizing this, their financial base has also been broadened with liberal grant-in-aid policies of Government. The opening up of debt and capital market has also improved the financial base.

The total revenue base of all urban local bodies in Andhra Pradesh has increased from Rs.935 crores in 1999-2000 to Rs. 1960 crores in 2004-05. Similarly, the expenditure of Rs. 965 crores for the year 1999-2000 has increased to Rs. 2014 crores in the year 2004-05. In a span of five years, the income and expenditure have more than doubled. Such phenomenal growth in finances underpins the need for effective financial management.

The Government of A.P. endeavors to review and update the key areas of financial management and fix financial accountability norms. As a first step, it is felt necessary that all functionaries involved in collection and disbursement of municipal funds are made aware of their functions and responsibilities. Accordingly, the powers, functions, duties and responsibilities of various functionaries including elected representatives have been brought out in the shape of a handbook for their guidance. While the handbook is not an exhaustive document, it is hoped that it would serve as an easy reference guide for municipal functionaries in handling the finances.

This handbook is developed by a team consisting Sri D.V. Rao, Consultant, Sri N. Manmadha Rao, Internal Auditor and Sri M. Brahmaiah, Director (FMRG) of CGG. I would welcome any suggestions for improving the Handbook.

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Abbreviations

ADB	Asian Development Bank
AP	Andhra Pradesh
APM Act	Andhra Pradesh Municipalities Act, 1965
APURMSP	Andhra Pradesh Urban Reforms and Municipal Services Programme
APUSP	Andhra Pradesh Urban Services for the Poor
ARV	Annual Rental Value
CAA	74 th Constitution Amendment Act
DCB	Demand, Collection and Balance
GIS	Group insurance Scheme
Gol	Government of India
HRA	House Rent Allowance
HUDCO	Housing and Urban Development Corporation
IDSMT	Integrated Development of Small and Medium Towns
ILCS	Integrated Low Cost Sanitation
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
LIC	Life Insurance Corporation of India
MA	Municipal Administration
MIS	Management Information System
MRV	Monthly Rental Value
NSDP	National Slum Development Programmes
PF	Provident Fund
SJSRY	Swarna Jayanthi Shahari Rozgar Yojana
TA	Travelling Allowance
TTA	Transfer Travelling Allowance
ULB	Urban Local Body

Evolution

- 1.1 Municipal authority in India was as old as Indus civilization of 3000 BC. But, as a political institution, it is totally British in its origin and fame. The first (Municipal) Corporation was established in 1688 in the port town of Madras. Subsequently, Corporations were established in Bombay and Calcutta during the year 1726.
- 1.2 The next milestone in municipal administration is Lord Mayo's Resolution of 1870. Lord Mayo realized the need for popular association in civic functions. He conceived this in a broader setting of decentralization and as a measure of self-governance at the local level.

Local Governance

- 1.3 The next historic step in the development of local governance was taken by Lord Rippon with his celebrated Resolution in May, 1882. Lord Rippon decided to increase the scope of local governance. The two main objectives of the reforms were:
 - to decentralize more functions to local management, and
 - to make local government an instrument of political and popular education
- 1.4 Based on the resolution, the following functions were entrusted to the local bodies:
 - maintenance of roads
 - street lighting
 - upkeep of municipal property and buildings
 - public health, vaccination, measures against epidemics
 - sanitation
 - drainage
 - water supply
 - education
- 1.5 The local revenues entrusted to local bodies were:
 - octroi
 - property tax on houses and lands
 - tax on profession and trades
 - road tolls
 - taxes on carts and vehicles
 - rates and fees for services rendered like conservancy, water supply, markets etc.

- 1.6 With the passage of Government of India Act, 1919, local government became a provincial head (state subject). The local tax powers laid down under this Act were:
- Toll
 - Land tax and tax on land values
 - Tax on buildings
 - Tax on vehicles and boats
 - Tax on menial and domestic servants
 - Tax on animals
 - Octroi
 - Terminal tax on trade, profession and callings
 - Tax on private markets, and
 - Tax on municipal services - water supply, lighting, drainage, public conveniences
- 1.7 Subsequently, Government of India Act, 1935 was enacted. The reforms under the 1935 Act were (i) provincial autonomy and (ii) federal structure. In the 1935 Act, the local self-government received a set back in comparison with the earlier legislation. While the 1919 Act has detailed the resources assigned to municipalities, the 1935 Act listed the powers of the federation and provinces only. The local government's functions and tax powers were left to the provincial (state) governments. The same situation continued even after Independence and with the Constitution of India.

Legal Framework

- 1.8 The State Governments/Legislatures are making laws constituting the municipalities and entrusting them with functions and tax powers. Currently, the Municipalities and Municipal Corporations in Andhra Pradesh are governed under the following Acts.
- Andhra Pradesh Municipalities Act, 1965
 - Hyderabad Municipal Corporation Act, 1955
 - Visakhapatnam Municipal Corporation Act, 1979
 - Vijayawada Municipal Corporation Act, 1981
 - Andhra Pradesh Municipal Corporations Act, 1994

Constitution 74th Amendment Act

- 1.9 While the matter stands so, the Constitution of India has been amended by 74th Amendment in the year 1992 (CAA), popularly known as Nagarpalika Bill. The principal objectives of the amendment were to make the municipalities as institutions of self-government, to prepare plans for economic development and social justice, to ensure constitutional status to municipalities

and also to ensure uniformity of structure and composition of municipalities, and powers and functions of municipalities throughout the country. Besides the structure and composition, elections and reservation of seats of municipalities, the following provisions are also made with regard to functions, tax powers, accounts and audit.

Powers and responsibilities of municipalities	12 th schedule
Levy, collect and appropriate taxes, duties, tolls, fees	Art.243 X (a)
Assign taxes, duties, tolls and fees levied and collected by State Government	Art.243 X (b)
Grants by State Government	Art.243 X (c)
Providing constitution of funds	Art.243 X (d)
Maintenance of accounts and audit	Art.243 Z
Constitution of State Finance Commission to review financial position of municipalities and to make recommendation for distribution of revenues between State and municipalities etc	Art.243 Y

- 1.10 However, the basic federal structure has not been altered by the 74th CAA. It has been mentioned in the CAA that the State Legislature has to make/amend the law keeping the above provisions in view. It is also made clear through Art.243 ZF that the State Legislature has to amend or replace the existing law to bring it in conformity with the provisions of CAA within one year.
- 1.11 The Andhra Pradesh Legislature has amended the relevant provisions of Municipal Acts during 1994 and brought them in conformity with the provisions of CAA.
- 1.12As per CAA, a municipality includes a Nagar Panchayat for an area in transition from a rural area to an urban area, a Municipality for a smaller urban area and a Municipal Corporation for a larger urban area. For the sake of convenience, we refer the municipalities hereafter as urban local bodies (ULBs).

2 Urban Local Bodies

Functions

2.1 Broadly, the ULBs are entrusted with the infrastructure development of physical areas (civic amenities) and they include

- Construction and maintenance of roads, bridges, causeways and culverts
- Construction and maintenance of storm water and sullage water drains
- Supply of protected water
- Cleaning of streets, drains, removal of rubbish and scavenging
- Lighting of public streets
- Maintenance of burial grounds
- Maintenance of hospitals, dispensaries and maternity homes
- Maintenance of secondary/elementary schools
- Maintenance of markets and slaughter houses
- Maintenance of parks and play grounds

2.2 Of late, ULBs are also entrusted with various developmental schemes as well as the responsibility of looking after the socio and economic welfare of its people, particularly the poor. They are in the form of various schemes formulated by State as well as Central Governments. Some of them are

- Swarna Jayanthi Shahari Rozgar Yojana (SJSRY)
- National Slum Development Programme (NSDP)
- Integrated Development of Small & Medium Towns (IDSMT)
- Integrated Low Cost Sanitation (ILCS)
- AP Urban Services for the Poor (APUSP)
- AP Urban Reforms and Municipal Services Project (APURMSP)
- Rajiv Nagar Bata (RNB)
- Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

2.3 Besides these civic functions and welfare programmes, the ULBs are also entrusted with certain regulatory functions like

- Approval of layouts
- Approval of building plans

- Installation of factories/industries/machinery
- Licencing of trades
- Licencing of advertisements
- Regulation of encroachments

Finances

2.4 The following are the main sources of income to ULBs

- Taxes
 - Property tax (House tax, Vacant land tax)
 - Tax on carts, vehicles and animals
 - Advertisement tax
- Non taxes
 - Water charges
 - Rents from markets/slaughter houses
 - Rents from shop rooms
 - Trade Licence fees
 - Encroachment fees
 - Miscellaneous receipts
- Assigned revenues
 - Entertainment tax
 - Surcharge on stamp duty
 - Profession tax
- Non-Plan Grants from Government
 - Per capita grant
 - Motor Vehicle Tax Compensation
 - Octoi compensation
 - Property tax compensation
 - Education grant (in Andhra area)
- Plan Grants from Government
 - Swarna Jayanthi Shahari Rozgar Yojana (SJSRY)

- National Slum Development Programme (NSDP)
- Integrated Development of Small & Medium Towns (IDSMT)
- Integrated Low Cost Sanitation (ILCS)
- AP Urban Services for the Poor (APUSP)
- AP Urban Reforms and Municipal Services Project (APURMSP)
- Rajiv Nagar Bata (RNB)
- Jawaharlal Nehru National Urban Renewal Mission (JNNURM)
- Loans
 - Loans from Financial institutions
 - Loans from Banks
 - Loans from external funding agencies

Relativity/mismatch

- 2.5 The responsibilities entrusted to ULBs are more when compared to other local bodies, like zilla parishads, mandal parishads, agriculture market committees etc. To undertake these responsibilities, certain tax powers have been entrusted to the ULBs. It is understood that the ULBs have to earn the revenue by themselves to undertake the responsibilities entrusted to them. While the other local bodies are supported by the Government to a large extent to undertake their responsibilities, the support provided to the ULBs is very low.
- 2.6 While the expenditure on the performance of functions and responsibilities is increasing due to various reasons, the income base is remaining static. Due to increased living standards and urban growth in terms of population and living space, the expenditure on functions is increasing. Higher costs in providing services and higher administrative costs are adding to the increasing expenditure. Correspondingly, the income is not raising resulting in severe mismatch between the resources and responsibilities.
- 2.7 Further, the ULBs are traditionally mandated to undertake certain basic civic functions like water supply, roads, drainage, street lighting, conservancy and solid waste disposal. They also perform certain regulatory functions like registration of births and deaths, issue of licences to trades and businesses, regulation of building activity and land use. After 74th CAA, functional domain of ULBs was broadened including development functions like poverty alleviation, slum improvement, economic development, fire services, urban forestry and environmental protection. Added to this, happening globalization, liberalization and more critically the urban explosion demand a challenging development role for the ULBs. They are endowed with powers to levy and collect designated taxes and non-taxes. But many ULBs fail even to maintain the existing minimum civic services inviting the wrath of the urban communities often due to the increasing gap between the available finances and the functional responsibilities.
- 2.8 This is the crux of the urban financial crisis today in India. A synoptic account of the municipal revenues, revenue improvement opportunities and the aspect of effective financial management are necessary to meet the issue.

- 2.9 Besides the policy interventions, namely review of tax powers and responsibilities by the State Government, some of the reasons for mismatch are
- Existing revenues are not fully exploited
 - Lack of control over expenditure
 - Poor accounting/finance management knowledge
 - Failure in/belated account making
 - Improper budget making
 - Irresponsibility in reporting systems
 - Higher level leadership dealing with large sums of money have little knowledge of finance management
 - Lack of accountability
- 2.10 This Hand Book is an introduction to financial control and accountability for ULBs in Andhra Pradesh. This hand book is intended to provide some basic understanding of the concepts and approaches on the subject.

2.4 Financial Accountability

- 2.11 No doubt, the essential part of financial management and accountability is 'accounting'. Accounting is a system for keeping the records or registers of all that money that comes into the municipality and all that money that goes out of it. Apart from accounting, the financial management should also cover an understanding of how the money comes in and how it goes out.
- 2.12 A good accounting system, besides updating the money transactions should also enable the municipality to monitor whether financial activities are in line with the budget, whether initiatives and decisions are financially viable and able to sustain, and whether the money is being utilized to achieve the objectives of the municipality. It should enable the municipality to
- Understand exactly what the financial position is at a given point of time
 - Monitor income and expenditure against budget
 - Bring transparency in internal systems
 - Plan financial transaction on a reliable financial data
 - Detect financial irregularities, mismanagement, fraud, theft etc.
 - Provide appropriate reports to the concerned in time
 - Make informed decisions
 - Have documentary proof of receipts and payments of all monies.
- 2.13 The financial accountability in ULBs therefore is not limited to one arm, i.e. accounts section. All arms of the municipality, whether in tax section collecting taxes, estate section collecting rentals from municipal properties, health section regulating trades and collecting fees, water supply section collecting water charges etc. are also as important as a functionary in the account section. Similarly, many functionaries spend the municipal money. It may be a Public Works Engineer spending on works, a Water Works Engineer spending on water supply, a Health Officer spending on disinfectant material, a Store Keeper purchasing of stationery. All are accountable in collecting as well as in spending public money.

- 2.14 The responsibility to give an explanation to one's action is 'accountability' and the responsibility towards public money is called 'financial accountability'. The responsibility of a municipal official, who is entrusted with duties of dealing with public money is greater than his responsibility towards private money. This activity has different stages right from planning, budgeting, drawing, disbursing, accounting and reconciliation, till audit and replying to audit objections. Hence accountability of municipal finances covers all areas like Receipts, Payments, Budget, Accounts and Audit.
- 2.15 Therefore the roles and responsibilities of different functionaries in different sections have been discussed appropriately in the following chapters. However, there are certain basic principles in this regard.
- Control over finances should be divided so that one person does not have too much control or power over the money
 - It should be clear who is responsible for each task, so that mismanagement or mischief can be traced out immediately
 - There should be no overlapping of responsibilities to make it possible to blame each other or to avoid responsibility
 - Decisions to be taken by the right person as per the provisions of the Act and Rules
 - Required training/skills to be imparted to the personnel
 - Financial statements should be placed before the Council/Standing Committee.

Categories

3.1 The revenues of ULBs can be broadly categorised into the following major sources

A) Taxes

- Property tax (House tax, vacant land tax)
- Advertisement tax

B) Non-taxes

- Water charges
- Fees from markets and slaughter houses
- Rents from shop rooms and other municipal properties
- Trade licence fees
- Encroachment fees
- Other miscellaneous income

C) Assigned revenues

- Entertainment tax
- Surcharge on stamp duty
- Profession tax

D) Grants

- Non Pan grants
 - Per-capita grant
 - Motor Vehicle Tax compensation
 - Octroi compensation
 - Property tax compensation
 - Education grant (Andhra area)
- Plan grants
 - Swarna Jayanthi Shahari Rojgar Yojana (SJSRY)
 - National Slum Development Programme(NSDP)
 - Integrated Low Cost Sanitation (ILCS)
 - Integrated Development of Small and Medium Towns (IDSMT)

- Mega City grants
- Water supply improvement grants
- Andhra Pradesh Urban Services for the Poor (APUSP)
- Andhra Pradesh Urban Reforms and Municipal Services Programme (APURMSP)
- Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

E) Loans

- Financial Institutions
- Banks
- International funding agencies
- Public borrowing

3.2 The revenues can also be further classified as Ordinary and Capital.

A) Ordinary

All receipts excluding Government grants, donations, contributions, loans, advances and deposits. That means, receipts through taxes, fees, user charges, leases etc.

B) Capital

All receipts by way of Government grants, donations, contributions, endowments, loans, advances and deposits. Receipts derived from sale of capital assets are also classified as Capital revenue.

Registers

- 3.3 To watch the realization of revenues in the ULBs, various registers are prescribed. The important registers and their utility in revenue management are discussed.
- 3.4 Under tax related revenues, the most important registers are Demand Register and Arrear Demand Register. The registers in respect of house tax contain the details regarding House Number, Assessment Number, Name of Owner, Annual Rental Value, Amount of tax levied on the house (Demand), Collection (month-wise), Write-off of tax (if any) and Balance (amount of tax remained uncollected at the end of the year). The amount remained as balance at the end of an year becomes arrear demand of the following year. The Arrear Demand Register is separately maintained and it is maintained year-wise.
- 3.5 The Demand Register is opened after general revision and the demand is drawn from the assessment lists used in general revision. Similarly, whenever a new demand is raised due to new construction or extension of house, it should be added to the demand register through a monthly list. Similarly, the changes in demand due to reduction of tax as per Revision Petitions or Appeal Petitions, will also be incorporated in the Demand Register. The changes in increases or decreases of the amount of tax have to be tallied in the two years' demands and have to be watched through Mutation Register.

- 3.6 Collection columns in the Demand Register have to be posted from Challan Registers and Writes-off columns from the Register of Writes-off. The Demand, Collection and Balance details have to be worked out at the end of the year and to be certified by the Commissioner. The Arrear Demand Register should also be maintained like-wise. In the case of Arrear Demand Register, the demand is the balance in the Demand Register (current year balance).
- 3.7 Similar demand registers are to be maintained in respect of (i) Vacant land tax and (ii) Advertisement tax.
- 3.8 While house tax and vacant land tax registers are maintained in Tax section, advertisement tax register is maintained by Town Planning section. The demand of advertisement tax is fixed with reference to the advertisements permitted by the Town Planning section.
- 3.9 The other revenue registers under Tax matters are:
- Mutation Register of Property tax
 - Register of Transfer of Titles
 - Register of Vacancy Remissions
 - Register of Writes-off and Remissions
 - Register of Revision Petitions
 - Register of Appeals
 - Register of Bills Issued
 - Register of Warrants
 - Register of Distraigned Properties
 - Register of Prosecutions
 - Register of Suits
- 3.10 The objective and the maintenance of these registers will be discussed in the following paras on collection procedure
- 3.11 As regards non-tax revenues also, the most pivotal registers are Demand Register and Arrear Demand Register.
- 3.12 Demand Registers and Arrear Demand Registers are maintained for collection of the following revenues
- i) Water charges Demand Register – Water charges under tap rate basis
 - ii) Meter (water) Ledger – Water charges on meter basis
 - iii) Water charges Arrear Demand Register – Arrear demand register both for water charges on tap rate basis as well as meter basis
 - iv) Trade licence (D&O trade licence) fees Demand Register

- v) Trade licence (D&O trade licence) fees Arrear Demand Register
- vi) Encroachment Fee Demand Register
- vii) Encroachment Fee Arrear Demand Register
- viii) Miscellaneous Demand Register (There is no Arrear Miscellaneous Demand Register)

3.13 The above Demand and Arrear Demand Registers are maintained as in the case of tax demand registers. However, the relevant sections will maintain the relevant demand registers.

3.14 The other important registers under non-tax revenues are:

- House Service Connection Registers
- Meter Register
- Meter Reading Card
- Register of Miscellaneous Bills
- Register of Revenue Yielding Properties and miscellaneous sources of revenue
- Register of tickets in respect of departmental collections
- Register of Miscellaneous Receipts
- Register of Miscellaneous Licenses
- Register of Applications for construction, reconstruction, extension etc. of buildings
- Register of Applications for construction, reconstruction, extension etc. of buildings assessed to property tax
- Register of Miscellaneous Sales
- Register of Travellers Bungalow
- Register of Cheques
- Register of Money Orders

3.15 The objectives and the maintenance of these registers will be discussed in the next part, i.e. collection procedure

Collection procedure

Taxes

House tax

3.16 The assessment of property tax (house tax and vacant land tax) is governed under Andhra Pradesh Municipalities (Assessment of Taxes) Rules issued in GO Ms. No.438 MA dated 29-10-1990.

3.17 House tax is levied on the basis of Annual Rental Value (ARV). While the rate of tax is fixed by the Council, the ARV is fixed by Commissioner. The rate of tax (including education tax and library cess) should not exceed 25% of ARV in the case of residential buildings, and 33% in the case of non residential buildings. Rules relating to the manner of publication of notification levying

new taxes and enhancement of existing taxes are issued in GO Ms. No.1012 MA dated 25-11-1966.

- 3.18 Secondly, the ARV is fixed based on the plinth area, location of building, type of construction, nature of use and age of building.
- 3.19 The first step in the system is to divide the entire municipal area into convenient zones with reference to potential rental value, the factors being availability of civic amenities/conveniences, proximity to educational, marketing, health, public offices and institutions.
- 3.20 The next step is that all the buildings in a zone are classified into six major categories of construction like, (i) RCC posh, (ii) RCC ordinary, (iii) madras terrace, (iv) mangalore tiled; (v) country tiled and (vi) thatched roof buildings. They are further classified into six major usage of buildings like, (i) residential, (ii) shopping, (iii) public use, (iv) commercial, (v) industrial and (vi) cinema houses
- 3.21 All buildings located in a zone are thus classified into 36 categories based on the type of construction and nature of use. The Commissioner will conduct a sample survey and gather information relating to prevailing rental values of various categories of buildings in various zones, and arrive at the average monthly rent per square meter fixable for each category of building. He will issue a notification proposing the monthly rental values for various categories of buildings in all zones and call objections and suggestions from the public on the proposal. After due consideration of objections and suggestions, Commissioner will issue a notification fixing the MRV/ARV per square meter of plinth area.
- 3.22 Certain concessions with reference to age of buildings, buildings in towns abutting sea shore and houses constructed for urban poor are also provided. Certain buildings are exempt from payment of tax.
- 3.23 All the buildings are assessed on the above lines. There is a provision for intensive revision of taxes once in five years. But due to administrative reasons, the revision may not take place regularly every five years.
- 3.24 Vacant lands are assessed on the basis of capital value. Capital value means the market value fixed by Registration Department for the purpose of registration. The rate of tax should not exceed 1% of the capital value in the case of vacant lands in municipal limits and 0.50% of capital value on the lands in municipal corporation limits.

Mutation Register

- 3.25 A Demand Register is opened after general revision and the demand is drawn from the assessment lists used therein. Whenever a new demand is raised in view of new construction or extension of house, it should be added to the Demand Register through monthly list. Similarly, reduction of tax through revision petitions or appeal petitions will also be incorporated in the Demand Register. These changes in increases or decreases of tax have to be tallied in the demands of the two years (current year and previous year) through Mutation Register.

Register of Revision Petitions

3.26 After any building is assessed, the tax payer will be informed of the assessment and he will be informed to file a Revision Petition, if he has any objection on the assessment. There is also a provision to file revision petitions before 30 days of end of the half year. All such petitions are to be entered in the Register of Revision Petitions. The Revision Petitions will be disposed by Commissioner.

Register of Appeals

3.27 After disposal of revision petition, there is provision of appeal and all such petitions are entered in the Register of Appeals. Appeals will be disposed by Appellate Commissioner.

Register of Transfer of Titles

3.28 All applications received for transfer of titles (ownership of houses) are entered in this register. The relevant rules are Andhra Pradesh Municipalities (Alteration of ownership of property in assessment books) Rules issued in GO Ms. No.1059 MA dated 15-12-1966.

Register of Vacancy Remission

3.29 All applications received from owners of buildings for vacancy remission as per Section 92 of APM Act, 1965 are entered in the Register.

Register of Writes-off and Remissions

3.30 Under Section 124 of APM Act, 1965, the Council is competent to write off any sum due to it if it is established that the amount is irrecoverable. Whenever any tax or sum is found irrecoverable, the matter will be referred to the Council and the amount is written-off. All such details are recorded in this Register. Based on the entries in this Register, the relevant columns in the Demand Registers under Write-off will be entered.

Register of Bills

3.31 All tax payers should be informed about the dues through a bill/demand notice. The bills are prepared within 15/30 of beginning of the half year, entered in a register and delivered to the concerned staff for delivery to the tax payers. The service of bill/demand notice is mandatory before taking coercive steps for realization of taxes.

Register of Warrants

3.32 The Commissioner is empowered to distrain any movable property of the owner of a house, if he fails to pay tax within 15 days from the date of service of bill. If a tax payer is not paying the tax even after repeated demands, the Commissioner may issue a warrant and authorize a municipal official (Warrant Officer) to distrain movable property of the defaulting tax payer. Any movable property within the town may be distrained. All such warrants have to be entered in the Register.

Register of Distraigned Properties

3.33 If a warrant is executed and any property is distrained, the Warrant Officer will bring the property to the municipal office and hand it over to the Store keeper. He will make a record of the property in a Register called Register of Distraigned Property. An inventory of property will be issued to the tax payer. If that person does not pay the tax within seven days, the property will be sold in public auction and the proceeds will be adjusted to the tax.

Register of Prosecution

3.34 If distraint of property has become not possible, the Commissioner may prosecute the tax payer in a Magistrate's Court. All prosecutions launched will be entered in this Register. A reference of prosecution will be entered against the relevant assessment in the Demand Register.

Register of Suits

3.35 This register provides a record of all suits filed by or against the municipality. The register contains the following important details.

- Particulars of suit
- Name of Court and Number of Suit
- Whether decreed in favour of or against the municipality
- Amount decreed by the Court
- Particulars of Execution Petitions
- Amount recovered

3.36 The procedure for collection of taxes is detailed in Andhra Pradesh (Collection of Taxes) Rules issued in GO Ms. No.1468 MA dated 18-12-1965 and under Rules 29 to 38 of Taxation and Finance Rules (Schedule II) appended to the APM Act, 1965.

Advertisement Tax

3.37 Advertisement Tax is levied and managed in Town Planning section. ULBs levy advertisement tax on hoardings, cinema slides, shorts, trailer films etc. at the rates fixed by the Council. They are in terms of size (in sq. ft.) in respect of the hoardings or length of film (in feet) in respect of trailer films. The Commissioner has to approve the proposal and give a permit number. All these details have to be entered in the Demand Register. Rules relating to assessment, levy and collection of tax are issued in Andhra Pradesh Municipalities (Advertisement Tax) Rules issued un GO Ms. No.472 MA dated 24-7-1967

Non-taxes

3.38 As regards non-taxes, officials of various sections manage the revenues

Nature of non-tax	Responsible section of municipality
Water charges	Engineering/water works section
Fees from markets and slaughter houses	Estate/revenue/tax section
Rentals from shop rooms & other municipal properties	Estate/revenue/tax section
Trade licence fees	Licence/Public health section
Encroachment fees	Town planning section

Water charges

3.39 It is one of the major sources of non-tax revenue. It shall be paid as per the rates fixed by the Council. Besides other regulations, the charges are fixed as per the following categories:

Residential – on tap rate basis

Non-residential – on meter basis

Bulk supply to industrial units, residential complexes etc – on meter basis

3.40 In addition, contributions are also collected to defray the capital cost of water supply schemes.

3.41 Besides Demand and Arrear Demand Registers, the following registers have to be maintained in the management of water supply charges

3.42 The relevant rules are Andhra Pradesh Municipalities (Water supply house service connections) Rules are issued in GO Ms. No.487 MA dated 14-8-1977.

House Service Connection Register

3.43 It provides a record of house service connections given for supply of water. As soon as water supply connection is given to a house, the Municipal Engineer will forward to tax section by 10th of following month, a list of connections given during the month. The list includes connections given both on tap rate basis as well as on meter basis

Meter Register

3.44 Meters issued to various houses are entered in the Register. Among various details, the register includes date of application for meter, date of providing meter and diameter of meter.

Meter Reading Card

3.45 Wherever tap is provided on meter basis, it is necessary that the water consumed has to be recorded every month. This card provides a record of water consumed. The meters are read by Meter Reader once in a month and the readings (units) will be noted in the Meter Reading Cards. The Meter Reading Cards have to be maintained in duplicate, one card has to be given to the house owner and the other card will be sent to the municipal office.

Meter Ledger

3.46 Based on the entries in the Meter Reading Card, the demand will be fixed and entered in the relevant register, i.e., Meter Ledger.

Register of Miscellaneous Bills

3.47 This register is intended to record all transactions relating to miscellaneous dues for which bills are issued. There are certain bills which are not fixed, like water charges on meter basis. All such bills, on preparation, will be entered in the register and handed over to the concerned officials for service to the payers.

Income from markets and slaughter houses

3.48 ULBs maintain markets and slaughter houses and fix fees for using them. Generally, the right to collect fees in markets and slaughter houses for a year will be effected through public auction. The Commissioner will prepare a notification containing the regulations and get them approved by the Council. After the regulation for use of the markets and slaughter houses together with

fees to collect thereat are approved, the Commissioner will conduct a public auction for right to collect fees. The bid will be approved by the Council. On approval of the bid, an agreement will be entered and registered. Payment of monthly kist amounts will be watched through Miscellaneous Demand Register.

Rentals from shop rooms and buildings

- 3.49 The lease of buildings and shops will be affected through public auction. The Commissioner will prepare a notification containing regulations/conditions for lease of buildings/shop rooms and place them before the Council. Generally, the lease period will be three years. On approval of regulations by the Council, the Commissioner will put the right to occupy the buildings to public auction. The highest bid will be approved by the Council. On approval of the bid, a lease deed will be entered and registered.
- 3.50 There is provision for renewal of lease without auction. If the lessee agrees, it can be renewed by the Council without public auction with one-third excess over the existing lease amount. There is also a provision for allotment of shop(s) dispensing with public auction with the approval of Government. Payment of rentals is watched through Miscellaneous Demand Register.

Fishery tanks

- 3.51 The Council may also lease out the fishing rights in the municipal tanks. There is a provision to lease out the tanks dispensing with public auction. The tanks may be leased out to Fishermen's Cooperative Societies, Scheduled Castes/Tribes Cooperative Societies engaged in fishing operations without conducting public auction for a period of three years at the lease amount fixed by Director of Fisheries.
- 3.52 Rules relating to leasing of markets, shop rooms and fishing tanks are covered in Andhra Pradesh Municipalities (Regulation of Receipts and Expenditure) Rules issued in GO Ms. No.686 MA dated 30-7-1968.

Register of Revenue Yielding Properties and miscellaneous sources of revenue

- 3.53 The register is meant to guard against any revenue yielding municipal property being left out without yielding revenue. All these properties will be entered in the Miscellaneous Demand Register and the revenue thereon is watched.

Register of tickets in respect of departmental collections

- 3.54 Where any market, slaughter house, ferry, fishery etc. is managed departmentally, all fees levied in respect of the use thereof will be collected by means of tickets printed and supplied by the Commissioner. A record of tickets issued for departmental collection of revenues in respect of markets, slaughter houses etc., and the amounts collected from tickets are entered in this register.
- 3.55 The register contains two parts. The first part will be in the form of showing the number and value of tickets issued to various collection officers. This register is maintained in the municipal office. The second part will be the personal ledger account for each officer entrusted with the collection of fees by means of the tickets. The account will be debited with the number and value of tickets issued to the collecting officer and will be credited with the amount of collections (made and) paid in the municipal office.

Register of Miscellaneous Receipts

3.56 This register provides a record of all miscellaneous revenues collected in the municipal office through challans. This is one of the key registers under revenue. It shows an exhaustive list of miscellaneous items of revenue the municipality gets, like rentals on markets, shops and buildings, sale proceeds of old material, interest on investments, contributions, government grants, assigned revenues, charges for issue of certificates / municipal extracts etc. The register has to be written during the course of the day against each item of receipt issued.

Assigned Revenues

3.57 Entertainment tax, surcharge on stamp duty and profession tax are levied and collected by State Government. The collection proceeds minus administrative charges are transferred to ULBs. Ninety percent of entertainment tax and 95% of surcharge on stamp duty and profession tax are passed on to the ULBs.

Non-Plan Grants from Government

3.58 Non-plan grants are sanctioned by State Government. The ULBs can utilise the grants for ordinary expenditure and to meet basic financial requirements.

- Motor vehicles tax and octroi which were levied and collected by the municipalities were abolished long back. Certain exemptions are being granted under property tax. In lieu of the financial losses due to these steps, compensatory grants are being provided to the ULBs.
- Per capita grant at the rate of Rs.8.00 per head of population
- Education grant is being provided towards expenditure on the salaries of teaching staff to the municipalities in Andhra/Rayalaseema regions, where the municipalities run municipal schools.

Plan Grants from Government

3.59 Plan grants are provided under different schemes of the State and Central Governments to take up developmental activities in the towns. These grants are time specific, scheme specific and town specific. Financial pattern changes from scheme to scheme. Some of the important schemes are:

- Swarna Jayanthi Shahari Rozgar Yojana (SJSRY)
- National Slum Development Programme (NSDP)
- Integrated Development of Small & Medium Towns (IDSMT)
- Integrated Low Cost Sanitation (ILCS)
- AP Urban Services for the Poor (APUSP)
- AP Urban Reforms and Municipal Services Project (APURMSP)
- Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

Loans

3.60 Loans are raised to provide services and infrastructure in ULBs. They are raised to meet the long term financial requirements. Loans are raised from financial institutions like the Housing and Urban Development Corporation (HUDCO) and Life Insurance Corporation of India (LIC), banks and external funding agencies, like World Bank and Asian Development Bank (ADB).

Of late, municipalities have also entered capital market to raise municipal bonds.

Register of Miscellaneous Licenses

3.61 This register provides a record of licences issued for various purposes together with licence fee collected. All revenues collected in the municipal office, which are not entered in the Register of Miscellaneous Receipts, will be entered in this register. Generally, licence fee will be collected in Public Health section towards trade licence fees and in the Town Planning section towards encroachment fee and building licence fee etc.

Trade licence fee

3.62 Various trades are identified for which licence fee is to be collected by the municipality. The Municipal Council will fix licence fee for various trades and issue a notification to the effect that no place/premises within municipal limits shall be used for any or more of the purposes specified therein without a licence from the municipality. The Public Health section is responsible to regulate the trades and ensure that no trade is run without a licence from the municipality

3.63 Andhra Pradesh Municipalities (Fees for grant of permission and licence for installation of machinery) Rules, 1968 issued in GO Ms. No.276 MA dated 21-3-1968 and Andhra Pradesh Municipalities (Publication of notification for purpose for which places may not be issued without a licence) Rules, 1967 issued in GO Ms. No.201 MA dated 28-3-1967 are relevant.

Encroachment fee

3.64 A municipality can impose a fee for temporary encroachments. The Town Planning section is responsible to ensure that all encroachments are licensed. All encroachments, objectionable from public health, safety and traffic point of view have to be removed and only unobjectionable encroachments will be permitted after collection of licence fee. The Andhra Pradesh Municipalities (Licences for projections and lease of road sides and street margins) Rules, 1969 issued in GO Ms. No.900 MA dated 26-11-1969 govern the issue.

Register of Applications for construction. Reconstruction, extension etc. of buildings

3.65 This register contains all applications received for sanction of building plans and it is maintained in Town Planning section. The amount collected towards building licence fee and other fees are also entered. The date of sanction is also to be entered in the register. A copy of the building permission has to be marked to the Revenue section to enable them to watch the progress of construction and to assess the building to tax on completion.

Building Permission fee

3.66 A municipality will issue a notification specifying the levy of building permission fee for construction of various categories of buildings. The notification will contain the following items also:

- Planning fee
- Betterment charges
- Security deposit (in case of apartments)
- Rain Water Harvesting Structure (RWHS) charges
- Any other fee

Register of Applications for construction. Reconstruction, extension etc. of buildings assessed to property tax

3.67 This register ensures that all new constructions, reconstructions or extension of buildings are assessed to tax. As soon as construction of a building is complete, the Town Planning section will send a completion report to Revenue section and the Revenue section will initiate action to include the building in the Monthly list and get it assessed to property tax.

Register of Miscellaneous Sales

3.68 The register is intended to record all the miscellaneous sales effected from time to time. All miscellaneous sales such as avenue clippings, old material/tools/plants, distrained property, compost etc. find place in the register. The total collection on account of each class of revenue has to agree with that noted in the Register of Miscellaneous Receipts.

Register of Travellers Bunglow

3.69 This register is intended to enter the names of all travellers occupying the Travellers Bunglow and the amount of charges paid therefor. This register is kept with the Caretaker of the Travellers Bunglow. The travelers who occupy the bunglow will enter the arrival and departure times and pay the charges as fixed by Council to the Caretaker and make a note of it in the Register. The Caretaker will make the remittance of such charges in the municipal office as per the instructions of the office.

Register of Cheques

3.70 This register provides a record of all cheques, demand drafts and pay orders received in the municipal office. The particulars regarding the name of the person, number and amount of the instrument, and the purpose for which the instrument is issued will be entered. The date of encashment will also be entered and the relevant receipt is issued to the person.

Register of Money Orders

3.71 This register provides a record of all money orders received in the municipal office. The name of the person who sent the money order, the amount and the purpose will be entered in the register. The amount will be entered in the chitta and a miscellaneous receipt will be sent to the person.

Demand, Collection and Balance

3.72 Demand, Collection and Balance (DCB) of all revenues have to be prepared to review and monitor the trend of collections at frequent intervals

3.73 The DCBs of the following revenues are particularly important, since the demand is fixed in advance.

- i) House tax
- ii) Vacant land tax
- iii) Advertisement tax
- iv) Market/slaughter house leases
- v) Shop room rentals
- vi) Trade licence fees
- vii) Encroachment licence fees
- viii) Water charges
- ix) Non Plan grants

3.74 The reviews may be made with the concerned section heads and the pivotal officials responsible for collection. They may be made at periodic intervals, like weekly, monthly and quarterly. Sometimes, the frequency changes from weekly to daily, particularly during the closure of financial year. They may also be reviewed ward-wise or circle-wise or an individual-wise.

Augmenting of revenues

As there are constraints to levy new taxes or fees, the ULBs should focus to augment the revenues within the existing sources by plugging the leakages, improving the collection mechanism and changes in the systems.

3.75 Some of the measures for augmenting the revenues are (i) detailed action plan, (ii) timely action, (iii) close monitoring and (iv) commitment.

3.76 To elaborate further, the measures are

- Identification of un-assessed and under-assessed properties and bring them to proper assessment
- Detailed survey of trades and encroachments (in the form of street survey)
- Detailed survey of all advertisements
- Detection of unauthorised constructions
- Computerization and updating of records/registers
- Out-sourcing the service of bills/notices through post or courier (no hand delivery by municipal functionaries)
- Door-to door collection to be stopped. Collection centres to be established in each ward/ circle and collections to be made there only. Collections may be permitted in banks, e-seva centres, on-line collections etc.
- Exercise all coercive steps
- Tax officials to meet tax payers not to collect, but only to execute warrants
- Interest on belated payments to be publicized and insisted
- Regular and close monitoring
- Micro analysis of all outstanding dues
- Compromising pending court cases - Council competent to compromise, else through Lok Adalat
- Sharing responsibility of collections by all Revenue/Tax section officials including Commissioner
- Orientation training to the tax/revenue officials
- Aim at cent per cent of collections

3.77 Apart from these steps, it is also necessary that the ULBs should

- Improve service delivery
- Establish credibility
- Maintain good public relations
- Be responsive and accountable
- Create awareness
- Be transparent

3.78 While the above measures are of internal revenue mobilization, going for external finances/ innovative measures can also be considered.

Self assessment scheme

3.79 Taking cue from income tax, a strategy of self assessment scheme can be adopted in ULBs to improve tax compliance and develop cordial relationships between tax officials and tax payers. The scheme is introduced in Hyderabad Municipal Corporation and it yielded good results.

Privatisation of municipal services

3.80 Privatisation has to be understood in a sense of public-private cooperation because the public (Government) involvement cannot completely be eliminated in the case of public goods and services. For instance, Government regulation and monitoring of the privatized services is essential to ensure the quality of service and pricing. At the same time, there should not be over regulation that could kill the private enterprise and initiatives. A careful and well designed policy of privatisation could

- encourage competitive spirit among the potential service providers,
- save costs on services, and
- improve the level of efficiency.

3.81 Privatisation of municipal services has already been initiated in some towns in the areas of solid waste management and street lighting.

Mobilising funds through capital market

3.82 Funds can be mobilized through market instruments such as municipal bonds, infrastructure bonds, commercial borrowing, pooled financing etc.

3.83 Municipal Bonds were successfully issued by several Municipal Corporations in the country including Hyderabad Municipal Corporation in Andhra Pradesh. Government of India had announced tax exemption in case of bonds issued by Municipal/Local Governments to promote municipal bonds and certain guidelines were issued during 2001. Under the guidelines, such bonds will be issued for raising resources for capital investment in creation of new infrastructure as well as augmentation of existing systems.

Pooled financing for municipal infrastructure

3.84 In view of huge resource gap, direct access to capital market would now be an accepted viable option. However, access to capital market requires financial discipline and enhanced credit rating. It has been the experience that only bigger Municipal Corporations are in a position to take the advantage of the resources available in capital market. Medium and smaller municipalities are unable to do so due to weak financial position and lack of capacity to prepare viable project proposals. A State level pooled finance mechanism will provide a cost-effective and efficient approach for smaller and medium sized ULBs to access the domestic capital markets for urban infrastructure. Government of Tamilnadu has adopted this method.

Raising of Loans

3.85 ULBs are already adopting rising of loans for infrastructure projects from LIC, HUDCO and commercial banks. International financial institutions like World Bank and Asia Development

Bank (ADB) are lending substantive funds for developing urban infrastructure like water supply, transport and solid waste management. The ULBs have to initiate proposals to raise loans from these institutes.

3.86 Further, Self-financing schemes for construction of shopping complexes or office complexes from the prospective beneficiaries can also be initiated.

Accountability

3.87 As discussed in the above paras, all sections in the municipality are accountable in matters relating to revenue collections.

3.88 As head of the institution and also as per the provisions of the Act, Commissioner is basically responsible for collection of taxes and non-taxes. He is empowered under the Act to take disciplinary action against any employee of the ULB, if he the latter is found negligent in discharge of duties. He is also empowered to order recovery of the loss caused to the municipality in full or part, if it is established that the loss is due to the negligence of the employee. If the Commissioner fails to take action to make good the loss, the Council/ Government may take action to file a suit against him for recovery of the loss.

3.89 Various statutory rules issued under AP Municipalities Act, 1965 in matters relating to revenues of municipalities have already been referred at the relevant paras. However, they are consolidated and shown below.

Sl. No.	Statutory Rules	Government Orders
1	AP Municipalities (Assessment of Taxes) Rules, 1990	438 MA dt.29-10-1990
2	AP Municipalities (Manner of publication of notification levying new taxes and enhancement of existing taxes) Rules, 1966	1012 MA dt.25-11-1966
3	AP Municipalities (Alteration of ownership of property in assessment books) Rules, 1966	1059 MA dt.15-12-1966
4	AP Municipalities (Collection of Taxes) Rules, 1965	1468 MA dt.18-12-1965
5	AP Municipalities (Advertisement Taxes) Rules, 1967	472 MA dt.24-7-1967
6	AP Municipalities (Regulation of receipts and expenditure) Rules, 1968	686 MA dt.30-7-1968
7	AP Municipalities (Water supply house service connections) Rules, 1977	487 MA dt.14-8-1977
8	AP Municipalities (Publication of notification for purpose for which places may not be used without a licence) Rules, 1967	201 MA dt.28-3-1967
9	AP Municipalities (Fees for grant of permission and licences for installation of machinery) Rules, 1968	276 MA dt.21-3-1968
10	AP Municipalities (Licences for projections and lease of road sides and street margins) Rules, 1969	900 MA dt.26-11-1969

4 Expenditure

Categories

4.1 Municipal Expenditure is of two categories, namely (i) Ordinary/Revenue expenditure and (ii) Capital expenditure

Ordinary/Revenue expenditure

4.2 Ordinary/Revenue expenditure is of recurring nature and charged against an operation as stated below:

- Expenses incurred in the normal course of administration. i.e. expenditure on establishment, pension, TA bills, contingent expenditure, office expenses, vehicles, telephones etc.
- Expenses incurred on maintenance of civic services, namely water supply, drainage, sanitation, roads, buildings and street lighting.

Capital expenditure

4.3 Capital expenditure is non-recurring in nature and an addition to a capital asset as stated below:

- expenditure resulting in the acquisition of long lived fixed assets, ie., land, building, machinery, furniture, vehicles
- expenses on the construction of overhead tank, summer storage tanks, pumping stations, pumping mains, water supply distribution lines, laying of new roads and drains, construction of a school building, office building, commercial complex, provision of new street lights etc.

4.4 The Ordinary expenditure generally consist the following items:

a. Salaries

Salaries of establishment not only cover the monthly salaries like pay and allowances, but also include leave salary and monthly pensions. They also cover leave salary contribution, and provident fund /pensionary contributions. While making payment under salaries, it is necessary to verify the (i) sanction for the posts (ii) scale of pay for the posts (iii) eligible allowances. Personal details of employees like date of appointment/promotion/reversion, date of joining, date of relief etc. are also important. In salary bills, the details of recoveries are also important. Various amounts of recoveries like Provident Fund, LIC premium, Income tax, Profession tax, personal advances etc. have to be effected

b. Contingencies

Contingent expenditure includes TA and TTA bills, petty office expenses, public health material, water supply material etc.

c. Administrative

Expenses relating to telephone charges, postage charges, power charges, fuel charges to vehicles, stationery etc.

d. O & M

Expenses incurred on maintenance of civic services, namely roads, bridges, culverts, buildings, street lighting, water supply, drainage, sewerage, sanitation, parks and playgrounds etc.

4.5 Capital expenditure generally covers the following:

- a. Acquisition of items having fixed asset value, like land, buildings, machinery, vehicles, furniture, tools and plant etc
- b. Construction/Laying/ Provision of civic amenities, namely, roads, bridges, culverts, buildings, street lighting, water supply, drainage, sewerage, sanitation, parks and playgrounds etc.

Registers

4.6 Normal procedure and corresponding accountability in making expenditure will be discussed below together with the registers relating to expenditure.

4.7 The following registers are in use in municipalities under Expenditure:

- i) Vouchers
- ii) Register of Bills passed for payment
- iii) Cheques
- iv) Establishment Audit Register
- v) Register of Estimates and Allotment
- vi) Register of Works
- vii) Contractors Ledger
- viii) Measurement Book
- ix) Register of Tools and Plants
- x) Register of Stock Accounts
- xi) Stationery Account
- xii) Payment to contractors and contract certificates
- xiii) Register of Imprest Amount
- xiv) Order Book
- xv) Service Book
- xvi) Office Order Book

4.8 The details of various registers, the objective and the accountability of various functionaries are discussed below.

Vouchers

- 4.9 Every person having a claim against the municipal fund has to present a bill in the municipal office. All payments out of municipal fund will be made only after the bills are passed by the Commissioner or by some person duly authorized by him in this behalf.
- 4.10 The bill after it is passed for payment is called a voucher. The amount of each voucher has to be entered in figures as well as in words. Beneath the pass order of each voucher, the Head of Account to which the expenditure has to be debitted should be noted. This will facilitate accurate accounting.
- 4.11 The voucher will be entered in the Cash Book on debit side by giving a serial number starting from the first day of the financial year and ending at the last day of the year. The vouchers together with their sub vouchers, if any, will be kept in bundles. In respect of all vouchers, where deductions are made, schedules for deductions like PF, LIC, APGIS, Profession tax, Income tax, Advances etc. shall be enclosed. The voucher numbers shall be noted on the schedules and these schedules shall be detached from the vouchers and shall be sent to the concerned sections, which shall credit the amounts to the respective accounts of the employees or send to the concerned authorities/ organizations. The recoveries so made should agree with the Voucher Adjustment Register

Register of Bills passed for payment

- 4.12 This register shows a record of all bills and claims received for payment from the office. The register contains the date when the bill is presented, amount of the bill and date of payment and reasons for delay, if any. The payment order should contain the amount of payment and also the head of account (major, minor and detailed) to which the amount has to be debitted. Whenever, adjustments are made in the bill, the amount of adjustment together with debit and credit heads of accounts (major, minor and detailed) should also be noted.
- 4.13 The mode of payment, by cash or in cheque has also be noted in the Register of Bills passed for payment. When payment (smaller amounts) is ordered to be paid by cash, it will be paid by Shroff/Cashier from the Permanent Advance. The Shroff/Cashier, after payment, stamps the voucher with the words 'paid in cash'.

Cheques

- 4.14 The cheque book shall be in the personal custody of the Commissioner. It can be made over to the Manager or Accountant whenever required. If payment is ordered to be paid by cheque, a cheque will be drawn on the treasury/bank where the municipal funds are lodged.
- 4.15 The amount of cheque will be entered in the Cash book. Both the bill and the cheque have to be sent to the Commissioner for verification of the bill and the amount on the cheque and to sign the cheque. The adjustments, if any, will also be entered in the Cash book, both on debit side and credit side.

- 4.16 Every payment made, either in cash or cheque should be covered with a receipt. Where payments have to be made in cash mainly to the employees, cheque will be drawn in favour of the drawer himself. All such sums will be noted in the Petty Cash Book maintained by the Shroff and paid to the employees. In all other cases, cheques will be drawn in favour of the persons to whom the money is to be actually paid.
- 4.17 When payment has been made either in cash or cheque, it will be noted in the Register of Bills.

Establishment Audit Register

- 4.18 This register will facilitate the check of monthly bills of employees' salaries. One page has to be set apart for each section of the establishment. All sections in the establishment will be entered consecutively in individual pages and one page will be left for total establishment. The sections have to correspond with the establishment bills. The establishments will be arranged in the order of major and minor heads of account and a page will be left blank after each major head to enable entry of subsequent sanctions.
- 4.19 The details of various posts, sanction orders, scale of pay of each post, eligible allowances etc. have to be entered. Similarly, the details of each person, his date of appointment/ promotion/ reversion/transfer, date of relief, date of joining etc. shall also be noted. The 'gross' bill amount has to be noted in the register. The payments made on establishment bills will be entered in the Establishment Audit Register immediately after the bills are checked (with reference to sanction orders, scale of pay etc. as per the register) and passed for payment. This practice ensures the objective of preventing double payment.

Register of Estimates and Allotments

- 4.20 This register provides a record of all estimates and allotments sanctioned by Council. All estimates and allotments will be entered in this Register. Separate pages have to be set apart for works falling under each budget head.

Register of Works

- 4.21 This register will enable to compare the expenditure against the sanction of various works. The register will be maintained to record the expenditure of works, whose estimated cost is more than Rs.500/-. It shows comparison of the sanctioned estimate with the expenditure incurred from time to time. Separate pages will be set apart according to requirement for each major head.

Contractors Ledger

- 4.22 This Ledger provides the details of payments made to various contractors. The accounts relating to contractors are kept as personal accounts and separate pages will be opened for each contractor. The entries in the debtor side show the payments made to the contractor and those on creditor side show the value of work done as per the contract certificates passed from time to time. The account has to embrace all transactions to which the contractor is a party, whether relating to works or supplies. The entries will also show the number and amount of each passed bill and certificate, a brief narration of work, payment details, balance due to contractor etc.

4.23 The contractor has to acknowledge the correctness of the account by signing the ledger at convenient intervals. The accounts of contractors, however, have to be closed without delay on completion of contract

Measurement Book

4.24 This is a key register/record. It records the measurement of the works done. All measurements of work done (whether by means of daily labour, or by contract, or of material received or issued) will be recorded in the measurement book. The measurement book has to be looked upon as a very important record, since it is the basis of all accounts of quantities. The cover of the book should contain the period to which it relates. All pages have to be machine-numbered and no page has to be torn. No entry should be erased or effaced and made illegible. If any mistake is made, it should be corrected by crossing out the incorrect figures and words and the corrections made thereon should be initialed.

4.25 The location/place of work has to be clearly described to enable easy identification. The measurement is considered complete, only when the quantities are calculated.

4.26 From the measurement book, all quantities have to be brought to the bill (contract certificate) on which payment is made. No contract certificate or bill has to be signed without crossing off the connected entry in the measurement book. The bill on which payment is made will bear a reference to the number and pages of the measurement book.

4.27 All works executed or supplies made have to be check-measured. The fact of check-measurement has to be entered in the measurement book by the officer concerned together with signature and date. The Commissioner will make the pass order on the contract certificate, when a voucher number will be assigned. The fact of payment of the work bill shall also be recorded on the note file of the concerned work file to check and avoid double payment.

Register of Tools and Plants

4.28 The register accounts for all tools and plants belonging to the municipality. Separate pages have to be set apart for different classes of articles, such as office furniture, school furniture, survey equipment, vehicles etc. It shows all articles in store at the beginning of the year and all purchases made during the year. Only the cases of losses or sales have to be deleted. At the end of the year, verification of tools and plants has to be made by Municipal Engineer or any officer designated by the Commissioner for the purpose and a certificate to that effect has to be appended in the register.

Register of Stock Accounts

4.29 It records various articles purchased and used as and when required. Separate pages will be set apart for various articles, like public health articles, water supply articles, street lighting articles etc. (For stationery articles, separate register is maintained). All articles purchased will be accounted at the appropriate page/register. The receipt of the articles has to be entered in the appropriate column, and voucher number wherein payment is made has also to be entered. Similarly, the issues will be entered and balances struck. The acknowledgement of the persons who receive the articles is also to be obtained.

4.30 The balances have to be verified by an officer authorized by Commissioner periodically and a certificate of verification be appended.

Stationery Account

4.31 A separate stock register has to be maintained exclusively for stationery articles. Purchase of stationery articles has to be made once in a year or half-year, after calling for tenders and their acceptance. The officer/employee who receives the article has to acknowledge in the register. The balances have to be struck every half-year and verified by an officer authorized by Commissioner and a certificate of verification has to be appended in the register.

Payment to contractors and contract certificates

4.32 It enables payment for the works executed or materials supplied by the contractors. Payments for works done or materials supplied have to be made on a contract certificate, showing the quantities and value of work executed. The quantities entered in the certificate have to be attested by the Municipal Engineer. The quantities will be brought to this certificate from the entries in the measurement book. No payment should be made in anticipation of measurements. The fact of check-measurement has also to be entered in the contract certificate. Contract certificate should not be signed, unless they are carefully checked in regard to measurements recorded in the measurement books and in other respects with estimates and agreements.

Register of Imprest Amount

4.33 This register records the cash transactions of imprest amount. This is not the Register of Permanent Advance maintained by Shroff. This register is maintained in engineering section. When works are not executed by contractors and are taken up departmentally, and when disbursements have to be made by Engineers/Assistant Engineers, the Engineer will be provided with an imprest amount. The amount of imprest will be fixed by the Municipal Council. The disbursement entries have to be made daily with reference to the actual cash transactions. No other transactions will be entered in the register. Even petty contingent expenditure of engineering section will have to be met from the Petty Cash available with Shroff. The imprest amount will be recouped from time to time by means of bills prepared from the imprest cash account and supported by imprest sub-vouchers.

Order Book

4.34 All orders for supplies or miscellaneous works will be issued in the form provided in the Order Book. Bills have to be made for payment immediately after close of the month or the completion of the work, as the case may be supported by the order. Only one bill has to be made for all orders received during the month.

Service Book

4.35 This Book is to record the history of the service of an employee holding an employment on the establishment of a municipality. A Service Book has to be maintained for each of the employees, including those on officiating service and the Service Registers (Books) have to be maintained in the personal custody of Commissioner.

4.36 The Service Register is a contemporary record of an employee's official life, including leave of every description except casual leave. All entries relating to pay scale, promotion, transfer, punishment, suspension, increment etc. will have to be written legibly and attested by Commissioner. Certificate of verification of service every year shall also be recorded in the Service Book under proper attestation. The employee is equally responsible to ensure that all entries are properly entered in the register and got attested.

Office Order Book

4.37 This book records all orders regarding office arrangements and all office orders have to be signed by Commissioner.

Accountability

4.38 As seen above, functionaries of all sections are involved in spending the municipal funds and as such are accountable in the process.

Basically, to commit expenditure, the following norms have to be observed

- Sanction from competent authorities
- Availability of funds in the budget for the current year
- Adherence to budget allotment
- Adherence to statutory/tender rules
- Normal financial discipline.

Expenditure management

4.39 Finance Rules (Part II) under Taxation and Finance Rules appended as Schedule II of APM Act, 1965 are relevant in the matter. It is mentioned therein that the purposes to which the municipal fund may be applied include all objects expressly declared obligatory by law or rules, and in general everything necessary for or conducive to the safety, health, convenience or education of the inhabitants or to the amenities of the municipality and everything incidental to administration.

4.40 The purposes/objects under (i) obligatory expenditure for public safety, public health, public convenience, education and amenities; and (ii) incidental to administration have also been detailed

4.41 In addition to the above statutory provisions, rules regulating receipts and expenditure issued in GO Ms. No.686 MA dated 30-7-1968 (Part II – Expenditure) are also relevant in expenditure management.

4.42 Expenditure management may be broadly described as a system, which aims at minimizing, if not avoiding completely, any wasteful expenditure. This can be achieved by adopting a system, which covers all essentials of good governance of finances. The basic concept of a good system involves in appraisal of the potentiality for evolving a scientific procedure of budgeting the expenditure against the anticipated income in a judicious manner, so that the activities for which the ULBs are set up do not starve of timely finances and the expenditure is monitored to ensure

that the funds are neither misused nor wasted. It is imperative that the system in operation ensures an effective internal control mechanism to effectively check misuse or abuse in incurring expenditure.

- 4.43 Under known standards of financial propriety, no public servant should incur any item of expenditure
- unless the expenditure is sanctioned by a general or special order by an authority competent to sanction such expenditure, and
 - sufficient funds are provided for the expenditure in the budget for the current year.
- 4.44 Similarly, every public servant who incurs or authorizes incurring of any expenditure from public funds should
- see that the expenditure should not *prima-facie* be more than the occasion demands.
 - exercise the same vigilance as a person of ordinary prudence would exercise in respect of expenditure of his own money.
 - not sanction the expenditure which will benefit him directly or indirectly, and
 - not only observe complete integrity in financial matters, but also constantly watch that the best possible value is obtained for the money spent by him.
- 4.45 Further, he should ensure that it should not be utilized for the benefit of a particular person or section of community unless:
- The expenditure involved is insignificant, or
 - A claim for the amount could be enforced in a Court of Law, or
 - The expenditure is in pursuance of a recognized policy or custom.
- 4.46 The power to sanction the incurring of expenditure from public funds is to be exercised by ensuring that –
- There is budget provision under the relevant head of account
 - No expenditure can be incurred over and above the budget provision
 - No sanction is accorded in anticipation of re-appropriation of funds
 - Estimates for purchase of articles or execution of works are not split up in order to avoid higher sanctions
 - Relevant procedure such as calling for tenders/quotations etc., as prescribed in the Tender Rules is followed.
 - The claims are genuine and relate to the persons who are entitled to receive them.
 - The claims including refunds if any have been preferred in time, scrutinized and payments

arranged to the persons concerned without much delay, so that the problems arising out of dealing with arrear claims can be avoided.

- Proper acknowledgements have been obtained from the persons concerned in complete and full settlement of dues, so that a second claim is not made/paid on the same account.
- Statutory recoveries such as Income Tax, Sales Tax, Profession Tax etc., have been recovered and other recoveries including court attachments, if any, are effected.
- All transactions have been accounted for immediately in concerned record/ register while preferring the claim and making payments.

4.47 Accountability would thus mean that the officer sanctioning /spending the funds would not only follow the financial provisions as prescribed, but also give evidence having done so by maintaining proper records to the satisfaction of an outside agency such as audit or inspection. It should be shown to the satisfaction of the audit that the amount paid has been a genuine one, that acknowledgement has been taken from the recipient, that the second claim on this account is not possible and that the accounting of the transactions has been properly done.

4.48 Every officer who draws money is primarily responsible for correctness of the amounts drawn on bills. If any amount is drawn in excess of what is actually due, he will be required to make good the excess amount so drawn either by recovery from the person who received it or by paying it himself. If the excess amount drawn cannot for any reason be recovered from the drawing officer, the higher officer who countersigns the bill will be liable to make good the loss arising out of negligence on his part.

4.49 The following are the responsibilities of the Commissioner/ other officers while incurring expenditure

- The expenditure should have been sanctioned by a general or a special order of competent authority
- Sufficient funds must have been provided for incurring expenditure as per budget or by way of re-appropriation
- For want of sanction from the competent authority, payment actually made should not be delayed in entering the accounts. Under no circumstances, any payment actually made should be kept out of account.
- All appropriations lapse at the end of the financial year. On no account should funds be reserved or appropriated by transfer to a Deposit Head of Account or kept in the cash chest to prevent lapse of appropriation.
- There should be no undue rush of expenditure during March.
- Drawal of funds in advance of requirements when they are not required for immediate payment is irregular.

- 4.50 The officers will be held personally responsible for any loss that may be found due to any neglect of duties. The fact that the officer has been misled or deceived by the subordinates do not in any way mitigate his personal responsibility.
- 4.51 Every officer dealing with sanction and expenditure of public funds is required to be familiar with Finance Rules, so that they can have a close control over the work of his subordinates in regard to use of public funds and maintenance of proper accounts.
- 4.52 Besides the above aspects, the Commissioners shall scrupulously observe the following guidelines while spending the municipal funds.

i) Budget

It is a statutory document. It casts a responsibility on the Commissioner to limit his activities within the allotments of the approved budget. He is prohibited from over-spending on an approved item or spending on an unauthorized item of expenditure.

ii) Sanctions

Mere budget provisions is no authority for drawal of funds. Every item of expenditure needs to be covered by a specific sanction of the competent authority i.e. the Council/Standing Committee/Commissioner.

iii) Purchases

The Commissioner has to resort to purchase of stores and equipment for maintenance of water supply, public health, street lighting, dispensaries and schools etc., besides stationary and other items for running the office. It is necessary that tender rules are followed. The tender rules are intended to ensure legality, objectivity and transparency.

iv) Salary Bills

The Commissioner shall satisfy that all posts for which salary is drawn are covered by sanctions of Government or other competent authorities. It should be ensured that the pay claimed in the bills are as per the entries recorded in the Service Books and allowances claimed are as per the rates prescribed by Government from time to time. The leave salaries shall be drawn and paid only after leaves have been sanctioned. The Increment Certificates in original shall be enclosed to the pay bills when increments are claimed for the first time. The pay of the employees who are transferred from other municipalities shall not be drawn, unless such pay bills are accompanied by Last Pay Certificates issued by the Commissioners of the municipalities from where they are transferred. While claiming amounts on account of pay fixations/advance increments/incentive increments, copies of the relevant orders of the competent authorities shall be enclosed to the bills. While drawing arrears, the arrears upto the previous month shall not be included in the current month's bill, but shall be drawn in a separate bill.

v) Pension Bills

The claims on account of pensions, family pensions, retirement gratuities and commutation amounts shall be strictly as per the authorizations issued by the District Audit Officer / Pension Payment Authorities. The procedure laid down in the AP Municipalities (Pension cum Gratuity

Fund) Rules, 1969 issued in GO Ms. No.799 MA dated 17-10-1969 shall be followed. The rates of Dearness Relief on pensions and family pensions shall be as per G.Os issued by Government from time to time.

vi) Contingencies

Various items such as stationary, postage, printing charges, telephone and telegram charges, advertisements, livery to Attenders, etc. come under contingencies. The Commissioner shall assess the annual requirements for each item, prepare estimates and purchase them by following tender rules. Due care shall be taken in preparation of the estimates as per realistic terms. It should be ensured that bulk purchases are not resorted to which results in locking up of municipal funds.

vii) Work Bills

Work Bills are of several types i.e. roads, culverts, bridges, water supply, drains, lighting etc. Each of these works will again be categorized into ordinary/ maintenance and capital. The ordinary works are for maintenance of the assets to keep them in their original state of efficiency. The capital works result in creation of new assets. The Commissioner shall follow the budgetary allocations, AP Municipalities (Municipal Works) Rules, 1961 issued in GO Ms. No.114 MA dated 28-2-1967, AP Municipalities (Check-measurement of works) Rules, 1972 issued in GO Ms. No.12 MA dated 17-1-1973, and AP Municipalities Tender Rules, 1967 issued in GO Ms. No.620 MA dated 7-10-1967 while incurring expenditure for execution of works.

viii) Expenditure for specific purpose grants and loans:

It should be ensured that specific purpose grants and loans should be spent for the purposes for which they are meant and also by following the usual procedure. In respect of loan amounts, the loan annuities shall be repaid promptly to the funding agencies. The Utilisation Certificates shall be furnished soon after the works are executed and the amounts spent completely.

ix) Earmarked Funds for Weaker Sections

The earmarked funds for SCs, STs and Women and Children are at 15%, 7.5% and 5% of the development expenditure respectively as per GO Ms. No.41 MA dated 24-1-1977. Further, 40% of net funds available for development works have to be utilized for slum upgradation, priority being for water supply and sanitation as per GO Ms. No.265 MA dated 19.7.2004.

4.53 The following statutory rules issued under AP Municipalities Act, 1965 will have to be carefully followed while incurring expenditure from municipal funds.

Sl. No.	Statutory Rules	Government Orders
1	AP Municipalities (Appointment of standing counsels, payment of fees and traveling allowances etc.) Rules	706 MA dated 3-8-1968
2	AP Municipalities (Educational and medical institutions) Rules	831 MA dated 3-11-1969
3	AP Municipalities (Grant-in-aid to educational and medical institutions etc.) Rules	666 MA dated 22-11-1967
4	AP Municipalities (Transactions relating to deposits etc.) Rules	519 MA dated 4-7-1970
5	AP Municipalities (Grant of remissions to contractors and lessees of municipalities) Rules, 1965	1323 MA dated 3.11.1965
6	AP Municipalities (Preparation of budget allotment and transfer of funds) Rules, 1967	619 MA dated 7-10-1967
7	AP Municipalities (Check measurement of works) Rules, 1972	12 MA dated 17-1-1973
8	AP Municipalities (Municipal works) Rules, 1967	114 MA dated 28-2-1967
9	AP Municipalities Tender Rules, 1967	620 MA dated 7-10-1967
10	AP Municipalities (Payment of honorarium to Chairperson & conveyance allowance to Chairperson and Members including ex-officio Members) Rules, 1965	1178 MA dated 20-9-1965
11	AP Municipalities (Payment of TA & DA to Chairperson, Vice-chairperson and members including ex-officio members) Rules, 1988	52 MA dated 27-1-1988
12	AP Municipalities (Pension-cum-Gratuity Fund) Rules, 1969	799 MA dated 17-10-1969
13	AP Municipalities (Payment of arrears) Rules, 1967	552 MA dated 5-9-1967
14	AP Municipalities (Regulations of receipts and expenditure) Rules, 1968	686 MA dated 30-7-1968
15	AP Municipalities (Temporary diversion of earmarked funds) Rules, 1965	1886 MA dated 22-11-1965
16	AP Municipalities (Purchase, maintenance, and accounting of forms) Rules, 1968	751 MA dated 23-8-1968
17	AP Municipalities (Recovery of pay and allowances of Commissioners etc.) Rules, 1969	194 MA dated 3-3-1969
18	AP Municipalities (Payment of charges for obsequies or transport of the body of the deceased municipal officers or employees) Rules, 1969	532 MA dated 1-7-1969

5 Accounts

Registers

- 5.1 Accounting is an essential part of financial management and accountability. It is a system for keeping the books or records of all money that comes in and all money that goes out of the municipality.
- 5.2 ULBs need an accounting system to:
- understand exactly what the financial position is
 - monitor income and expenditure against the budget
 - bring transparency and accountability
 - plan financial matters on a reliable financial data
 - ensure internal controls for prevention of early detection of mismanagement, corruption, or theft.
- 5.3 Presently, municipalities are following Cash based, Single entry system of accounting. A Cash based system of accounting is one, in which the receipts are entered only after cash is received and the expenditures are recorded only after the amount is actually spent. Detailed rules have been issued in the matter in Andhra Pradesh (Preparation and submission of accounts and abstract) Rules issued in GO Ms. No.42 MA dated 20-1-1970.
- 5.4 The various registers referred in Chapter 3 (Revenues) and Chapter 4 (Expenditure) are important in preparing municipal accounts. In addition to those registers, the other registers useful in account making are:
- registers relating to debt heads (containing both revenues as well as expenditures)
 - main books of account
- 5.5 Before, going into actual account making, it is necessary to discuss about these registers also.

Registers relating to Debt-heads

- 5.6 The following registers are classified as registers relating to debt heads. These registers contain both revenue as well as expenditure details.
- Register of Advances
 - Register of Deposits
 - Register of Investments
 - Register of Loans
 - Registers relating to Provident Fund
 - Register relating to Pension

The details of various registers are discussed.

Register of Advances

- 5.7 The following are the registers classified under Register of Advances:

a) Permanent Advances

This register shows permanent advances sanctioned to various officers, who have to incur petty expenses, and where it is not possible to claim the amount through a bill every time. The amount of permanent advance will be fixed by the Council with reference to the average expenses to cover for a fortnight. The officers holding permanent advance have to prepare a contingent bill for recoupment once in a month or whenever the permanent advance runs short. All sub vouchers have to be stamped as 'cancelled' after payment.

b) Other Advances

To record the advances paid to various officers and to watch their recoveries. Other advances have to be made only in rare cases and with the sanction of the Council. Examples are, advances to purchase or repairs of equipment/material, or tour advances etc. Such advances have to be entered in the Register of Other Advances.

The name of the person to whom the advance is paid, the voucher number and the purpose have to be noted in all the entries. When an advance is recovered in cash or adjusted by deduction from a bill or by transfer adjustment (generally in use), the amount will be noted against the original advance.

c) Register of Advances Recoverable

To record the advances paid to municipal officers/employees and to watch their recovery. All advances drawn from municipal funds and paid to municipal officers/employees for various purposes like marriage advance, festival advance, cycle advance, education advance etc. and which will be recovered from their pay bills every month will be entered in this register. No separate register is prescribed and the Register of Other Advances will be used in this case.

The name of the person to whom the advance is paid, the voucher number and the purpose have to be noted. When the advance is recovered in cash or adjusted by deduction from a bill, it will be noted against the original entry. .

Register of Deposits

- 5.8 To enter all the deposits paid to the municipality and to watch their refund or adjustment to the relevant head of account The deposits generally relate to (i) deposits by renters/lessees of municipal properties like markets, slaughter houses, shop rooms etc., (ii) deposits by contractors, i.e., those who undertake to execute any work for the municipality and (iii) other deposits. Separate sets of pages may be set for each class of deposits. Transactions relating to deposits are governed under AP Municipalities (Transactions relating to deposits etc.) Rules issued in GO Ms. No.519 MA dated 4-7-1970
- 5.9 The deposits received during the year will be entered in the proper part as each transaction occurs. Repayments in cash or by transfer have to be noted against the original credit.
- 5.10 Refund of deposits in cash has to be made on refund vouchers. The deposits made by the renters and taxes/fees paid in advance at the end of an year on account of the next year will be credited to the relevant head of account soon after the commencement of the year.

a) Register of Lapsed Deposits

Deposits remaining unpaid for three years will be lapsed and credited to revenue head of account. A separate register called Register of Lapsed Deposits will be maintained for lapsed deposits. Refund of deposits from the Register of Lapsed Deposits has to be made only with the sanction of the Council. If a Lapsed Deposit is refunded, the fact of refund of such lapsed deposit shall be noted against the relevant entry.

b) Register of Security Deposits of Municipal Employees

To record all securities (other than cash) obtained from municipal employees, a separate register will be maintained for all securities (other than in cash) obtained from the employees. The security deposits may be in the form of Post Office Savings Bank Account, Government promissory notes, Bank Deposits or immovable properties etc. The particulars of securities, like pass book number, deposit receipt number, amount of deposit, house number or survey number in respect of immovable property etc, will be entered in the register. In the case of personal security, the name and address of the persons will be entered.

Register of Investments

5.11 The register is maintained to make a record of all investments made by and belonging to the municipality. They are considered as assets of the municipality. The details of each investment are made against the appropriate columns. Orders of Government, if any, permitting the investment are also entered. No investment will be deleted from the register, unless the proceeds are fully realized or otherwise disposed.

5.12 The register will also show the interest due and its realization from time to time. It has to be ensured that the amounts due are realized on due dates and there are no amounts outstanding (interest) for realization. The total amount of the investments has to be verified annually and a certificate of verification be appended in the register. They have to be verified by the auditors at the time of audit.

Register of Loans

5.13 The register records all loans taken by the municipality and watches the repayment of loan annuities. The transactions in regard to loans contracted by the municipality will be recorded in this register. The amount of loan, the purpose for which the loan is taken and the institution from which the loan is taken has to be entered in this register. The conditions of the loan, like rate of interest, repayment period, moratorium period etc have also be noted. Similarly, orders of Government permitting to take loan or guaranteeing for the loan will also be noted. The annuity consisting the principal and interest payable has also to be noted.

5.14 Whenever annuities are paid, they will be entered in the appropriate column. It has to be ensured that all loan annuities (principal and interest) are paid on due dates without fail and necessary budget provision is made for this purpose.

Registers of Provident Fund

5.15 Earlier, municipalities were maintaining provident fund for the benefit of its employees and every municipal employee has to compulsorily subscribe to the fund. The maintenance of provident fund is governed under Provident Fund Rules. Besides the employees' subscriptions, Municipal Councils were contributing 6.25 per cent of emoluments drawn by the employees to the Provident

Fund. After Pension cum Gratuity Rules were issued during 1969, all employees were brought into Pension scheme. The balances standing to the credit of employees under PF (only the management contribution) has been transferred to the Pension – cum – Gratuity Fund.

- 5.16 Even now, some municipal employees are contributing to the Provident Fund. They are not entitled for any matching contribution from the municipality, but their contribution is eligible for interest as per the rates fixed by Government from time to time.
- 5.17 The following forms/registers have to be maintained in connection with Provident Fund.
- i. Forms of Nomination
 - ii. Statement of Annual Account
 - iii. Notice to the Nominee
 - iv. PF Ledger of Subscribers (Personal Ledger)
 - v. Abstract Register
 - vi. Provident Fund Cash Book
 - vii. Voucher for payment of PF
 - viii. Register of Subscribers
 - ix. Register of Temporary Withdrawals and their recoveries
 - x. Register of Life Assurance Policies
 - xi. Register of Premia

5.18 The details and maintenance various forms/registered are discussed below:

i. Forms of Nomination

An employee can make nomination. The details as to the name of the nominee, his age and address, the relationship etc. are noted.

ii. Statement of Annual Account

After the close of every financial year or when the account of any employee is transferred to another municipality, a statement showing the amount at his credit has to be furnished to every employee.

iii. Notice to the Nominee

If a subscriber/employee dies, the nominee will be informed of the amount available at the credit of the deceased employee and requesting the nominee to apply for refund of the amount.

iv. PF Ledger of Subscribers (Personal Ledger)

The deposit columns in the ledger will be made from the pay bills, and the withdrawal columns from the paid vouchers. The opening balance, amount of deposit, amount of withdrawal and balances of each subscriber has to be posted in the ledger. At the end of the year, interest has to be calculated on monthly balances at the rate fixed by Government and it has to be posted in the respective column of each subscriber.

v. Abstract Register

The names of subscribers, their designations, scale of pay and the amount of subscriptions/withdrawals have to be entered in this register.

vi. Provident Fund Cash Book

This register is intended to ensure that the totals of various heads of accounts under other Provident Fund registers are in agreement with each other

vii. Voucher for payment of PF

A separate voucher form is prescribed for payments of PF. All payments have to be made to him or his nominee through this voucher.

viii. Register of Subscribers

This register is a complete record containing the names of all employees subscribing to the fund. The particulars as regards the date of birth, age on the date of admission into the fund, designation etc will be noted at the appropriate columns of the register. The name/ names of the nominees together with their details like relationship, age, occupation and address etc. will also be noted at the appropriate columns of the register.

ix. Register of Temporary withdrawals and their recoveries

The subscribers are eligible for temporary advance from their Provident Fund amount. There are certain limitations, like the amount eligible and the purposes for which one is eligible for advance etc. Different authorities are prescribed to sanction the advance. All temporary advances will be entered in this register.

Number of installments and amount of each installment has also to be entered in this register. Employees who complete 15 years of service are eligible for part-final withdrawals.

x. Register of Life Assurance Policies

Any subscriber may request the municipality to pay from out of PF subscription, the premium of any life insurance policy taken by him. Such policy has to be assigned in the name of the municipality.

A register of such life assurance policies has to be maintained. This register is a complete record of all policies financed from provident fund. The particulars, such as name of the policy holder, amount of policy, amount of premium, date of assignment, date of receipt of policy and date of maturity of policy etc. have to be entered in the appropriate columns of the register.

xi. Register of Premia

The office has to pay the premium amount of the policy holders to the insurance company concerned in time and ensure that no policy is lapsed for failure to pay the premium in time. Such amounts shall be debited to the Provident Fund Account of the employees. A register is to be maintained for this purpose.

Registers of Pension Fund

5.19 All non-teaching employees of the municipalities in Andhra area are eligible for pension-cum-gratuity. Pension-cum-gratuity rules were issued in G.O.Ms.No.799 MA dated 7-10-1969. All

employees who are in service on 1-4-1961 onwards are brought under these rules. Every municipality shall establish and maintain a Pension-cum-Gratuity fund for the benefit of the employees who are eligible for the pension scheme.

5.20 The fund shall be formed out of and maintained by:

- i) Pensionary contributions from municipalities
- ii) Interest derived from the investments of surplus pension fund, and
- iii) Gratuity forfeited under A.P. Liberalised Pension Rules.

5.21 The Pensionary contribution payable under clause (i) above by the municipality on behalf of its employees will be 9.5% of the maximum of the scale of pay of the post held by the employee per month. The Pensionary contribution has to be paid to the fund by the municipality every month before 5th of the succeeding month by transfer of credit to the fund together with a schedule of payment. If this is not done on regular basis, the total Pensionary contributions of all establishments for the entire year shall be worked out and transferred to the Pension – cum – Gratuity Fund.

5.22 The amount contributed to the fund and other sums relating to the fund will be lodged in the treasury or a schedule bank. Sums required for payment of pensions, family pensions and gratuity have to be withdrawn from the treasury or the schedule bank and paid to the pensioners. The excess funds may be invested in interest bearing investments.

5.23 The following registers have to be maintained in respect of pension fund:

- i. Cash book of Pension-cum-Gratuity Fund
- ii. Demand Register of Pensionary Contributions
- iii. Register of Nominations
- iv. Register of Investments
- v. Pension Payment Audit Register

5.24 The details of various registers are as follows:

i) Cash book of Pension-cum-Gratuity Fund

Entries relating to various heads of accounts in various pension registers will be checked through the Cash Book to ensure that the balances under various registers are in agreement with each other.

ii) Demand Register of Pensionary Contributions

This register contains the names of all employees together with the scale of pay and the rate of monthly contribution. The register also contains columns relating to opening balance, arrears due, due for the year, contributions received during the year (for 12 months of April to March) and balance due.

iii) Register of Nominations

In this register, the names of all employees, their dates of birth, dates of admission into pension fund, names and addresses of the nominees, their relationship with them etc. will be entered.

iv) Register of Investments

This register contains the particulars of all investments made from the excess funds of pension-cum-gratuity fund. Details regarding the Council resolution and Government orders (if any) will be entered. The number and date of the instrument, rate of interest, period of investment, due date of interest etc. will also be entered in the register.

v) Pension Payment Audit Register

This register contains the names of the pensioners, the number of pension payment order, and amount of monthly pensions etc. Twelve monthly columns from April to March are also available in the register. The voucher number and the amount of pension for each month will be entered in the relevant columns.

Main books of accounts

5.25 The following registers which are classified as 'Main books of account' are also necessary in preparation of municipal accounts.

- Bill Collector's Collection Book
- Challan Register
- Chitta
- Cash Book
- Treasury challan for remittance into treasury
- Pass Book
- Petty Cash Book
- Register of adjustments made at treasury
- Register of voucher adjustments
- Register of transfer entries

5.26 The purpose and other details of various registers are discussed below

a) Bill Collector's Collection Book

This register records all amounts of taxes collected by Bill Collectors. In majority of municipalities, Bill Collectors are entrusted with collection of taxes. On collection of taxes from the tax payers, the Bill Collector signs the relevant receipt with date and hands it over to the tax payer. He will enter all the collections made by him date-wise in the Register. The register contains the name of tax payer, assessment number of the property, amount of tax and the period for which tax is related.

b) Challan Register

While the Bill Collector's Collection Book is maintained outside the office, Challan Register is maintained in the office. Bill Collector or any other officer entrusted with collections will maintain a Challan Register. It contains collections made by him each day. After making entries in the register, he will take the register to the concerned Assistant, get it verified by him and take it

to the Shroff. The Shroff will receive the amount and acknowledges it in the Challan Register. The entries in the Bill Collector's Collection Book and Challan Register are similar

c) Chitta

This register records all monies received every day by the municipality. All municipal revenues, whether collected by Bill Collectors or other outdoor staff or remitted in the municipal office by public themselves or amounts received through money orders have to be paid to the Shroff.

The Bill Collector/other outdoor staff will enter the collection of taxes/sums in the Challan Register and the Shroff receives the amount by acknowledging in the Challan Register of the respective Bill Collector or staff member.

When payments are made by public themselves, they will always present the money through a challan showing full particulars of the amount sought to be paid. The Shroff will receive the money, enter it in the chitta, number the challan in consecutive series and sign it.

d) Cash Book

This is a very important register, wherein entries relating to receipts (left side) and expenditure (right side) of the municipality will be entered every day. The amounts received in the municipal treasury as per Chitta are entered on the same day in the Cash Book on the left side (Credit side). On the next day, the Shroff will remit the amount in the bank/treasury through a treasury challan. The remittance in the bank is shown both on credit side as well as on debit side.

All vouchers relating to payments are entered in the right side of the Cash book and then a cheque is written. The date and the number of voucher and nature of payment in brief need be entered in the Cash book.

At the end of the month, the Cash book has to be closed and reconciled with Treasury/ Bank pass book

e) Treasury challan for remittance into treasury

The challan is used to remit the cash collected in municipal office into Government treasury/ bank. On remittance, the signed copy will be pasted to the counterfoil kept in the office.

f) Treasury/Bank Pass Book

This is not a municipal account book. The pass book is maintained by the treasury/bank. It is a record of accounts kept in the treasury/bank of monies paid or taken out by the municipality. It will be written by treasury/bank official. At the end of the month, the balance struck and signed by the treasury/bank official. The balance should correspond with municipal Cash book (on reconciliation).

g) Petty Cash Book

This is an important register. It is maintained by Shroff. All sums withdrawn from municipal treasury by means of self cheques (cheques drawn in favour of Commissioner) and remittance to payees are entered. The book contains both receipt and disbursement columns.

On the receipt side, all sums withdrawn from treasury by means of cheques will be entered. On disbursement side, payments made are entered in chronological order. Disbursements

shall be accounted for voucher-wise. Disbursements shall be effected for the purpose for which the sums are drawn. On the last day of the month, a memorandum will be prepared showing the details of the undisbursed amounts. All undisbursed amounts of the previous month have to be refunded to the municipal treasury. On the last day of the March, all the undisbursed amounts on hand shall be remitted into the Municipal Treasury. The Commissioner has to verify the cash balances periodically.

h) Register of adjustments made at treasury

Details of adjustments from Government account to municipal fund may be entered in the register. This will facilitate verification of entries in Cash book and other registers.

i) Register of voucher adjustments

Of late, large number of recoveries is being effected from the bills and vouchers, and it may be difficult to make a note of all the recoveries in cash book, because of space constraint. In the cash book, the total of adjustments noted against a voucher is noted; and details of recoveries against the relevant voucher are noted in the Register of Voucher Adjustments. At the end of the month, totals of various recoveries are made and noted in the cash book.

j) Register of transfer entries

This register shows adjustments made for transferring an item from one head of account to another. It may be due to (i) rectification of error in classification, (ii) adjustment of an expenditure on receipt of bill against an advance, (iii) credit to a head of receipt by debit of a sum adjusted from deposit etc. A transfer entry should show the head of account to be debited and head of account to be credited and the reasons for adjustment.

Preparation of Accounts

5.27 Rules relating Preparation of Monthly Accounts and Annual Accounts are issued in G.O. Ms. No.42 MA dated 20-1-1970.

Posting Register

5.28 After entries in all the registers referred to above, ie., registers relating to (i) revenue, (ii) expenditure, (iii) debt heads and (iv) main books of account are made, the receipts and expenditure items are classified into (i) major, (ii) minor and (iii) detailed heads of account and are entered into Posting Register.

Posting Register contains

- monthly abstracts of receipts and expenditure
- classification under different heads of account
- further classification into ordinary and capital
- progressive monthly totals under each head of account.

5.29 All items of receipts and expenditure are classified as (i) major head (ii) minor and (iii) detailed head. They are further classified as (i) ordinary and (ii) capital.

5.30 All receipts and payments are classified into the following Major Heads:

- A – General Account
- B – Lighting Account
- C – Elementary Education Account
- D – Water Supply and Drainage Account
- E – Town Planning Fund Account
- F – Remunerative Enterprise Account
- G – Deposit and Advance Account
- H – Endowment Account
- I - Conservancy Fund Account

Currently, there are no transactions under the Heads of Accounts of F, H and I.

Monthly accounts

- 5.31 Various columns for all the above heads have been provided. While the horizontal portion contain the money figures from April to March, including progressive totals and adjustments etc., the vertical portion contain the Heads of Accounts, including major, minor and detailed head details. In these columns, sub-columns for opening balance, receipts, expenditure and closing balance have been provided.
- 5.32 The 'receipt' figures are entered with reference to the totals of Revenue Registers. As regards 'expenditure' figures, the vouchers will be sorted out head of account-wise and the totals are entered. These figures have to be cross-checked with reference to Demand, Collection and Balance (DCB) statements, treasury adjustments, voucher adjustments and other subsidiary registers. The totals on the vertical portion are the monthly account figures.
- 5.33 From these entries of the Posting Register, an abstract of monthly account will be prepared. As soon as the accounts of each month are compiled, abstract of different Heads of Accounts, both receipts and expenditure under ordinary and capital will be prepared. Along with the abstract, DCB statement and a certificate of verification of balance of Cashbook with Treasury Pass Book will also to be prepared. The Monthly Accounts will be placed before the Municipal Council for their scrutiny and approval. The abstract of monthly account together with the DCB statement and the Certificate of verification of balance will be forwarded to Audit department (Director of State Audit). It should be forwarded to the Audit department before the end of the succeeding month. However, the abstract of account for the month of March together with the DCB statement and the Certificate referred above may be forwarded to the Audit department by 15th June following.

Annual Account

- 5.34 After the entries in the Posting Register are complete and progressive total of all months complete, annual account will be prepared. The March progressive figures and the adjustments on the horizontal portion are the yearly totals of each Head of Account.

- 5.35 The abstract of account will be prepared with reference to the previous year's account as regards opening balance and the body of the account as regards receipts and expenditure. The closing balance will be worked out and tallied with the closing balance of the Cashbook or Cash books (where separate Cash books are maintained for other funds).
- 5.36 Those figures are the Annual Account figures and they are entered in the annual account booklet. The annual account will be forwards to the auditor to take up audit of accounts. The time limit fixed for forwarding of annual account to the auditor is 15th of June

Existing system

Cash based system

- 5.37 Currently, municipal accounts are prepared on cash based system. Under cash based system of accounting, the receipts and expenses are recorded only after they are actually received or paid in cash.

Accrual based system

- 5.38 Accrual based accounting means a method of recording financial transactions based on accrual, i.e. on occurrence of claims and obligations in respect of incomes or expenditure; assets, or liabilities based on happening of an event, passage of time, rendering of services, fulfillment (partially or fully) of contracts, diminution of value etc. even though actual receipts or payments of money may not have taken place.
- 5.39. In this system, there is a change in accounting of transactions and reporting of financial results. The new system provides the ULBs two important financial statements for the purposes noted against each

Sl. No.	Statement	Purpose
1.	Income and Expenditure Statement	To determine the financial performance of ULB
2.	Balance Statement	To assess the financial status of ULB

Preparation

What is Budget?

6.1 Budget is a statement of estimated receipts and expenditure of an institution for a financial year. It is prepared before commencement of financial year. Municipal budget contains probable receipts and expenditure during the following year

Why Budget?

- To watch revenues anticipated are fully realized
- To exercise control over expenditure
- A forecast to show what will be received and what will have to be paid, and whether the receipts would be sufficient to meet the expenditure.

Revised Estimate

6.2 Estimates of probable receipts and expenditure of a year framed in the course of the year with reference to the transactions already made. Revised Estimate of the current year and Budget Estimate of the following year are generally prepared at a time.

Appropriation/Re-appropriation

6.3 Appropriation means the amount provided in the budget estimate under a regular head of account. Re-appropriation means transfer of funds from the appropriation made from one head of account to another.

Preparation of budget

6.4 Rules relating to preparation of budget are governed under Andhra Pradesh Municipalities (Preparation of budget allotment and transfer of funds) Rules issued in GO Ms. No.619 MA dated 7-10-1967.

6.5 The Commissioner with the support of his staff prepares the budget. In preparing the budget, the following factors need be considered:

- Receipts should not be over-estimated
- Expenditure need not be under-estimated
- Seeking additional allotment in revised estimate to be avoided
- No need to save money and show large surplus
- Minimum 5% of working balance to be maintained
- Due provision has to be made for obligatory expenditure, viz., salaries of employees, loan repayments, contingencies, O&M, spill-over works

- Provision for developmental expenditure only after obligatory expenditure is committed
 - While making development expenditure, provision to be made for welfare programmes for SC,ST, Women and children at 15%,7.5% and 5% respectively as per Government orders
 - Similarly, 40% to be earmarked for slum areas
 - 30% of funds to be earmarked for public health related activities
 - The programmes, policies, priorities of the Council to be reflected
 - The assurances, commitments made by Council/Government to be reflected
- 6.6 The Council has to approve the budget. The draft budget has to be circulated to the ward members at least seven days before the date fixed for consideration of the budget by the Council. Since the Council is empowered to sanction the budget, it has to ensure that the principles referred to above are complied. It may sanction the budget with or without modification. After the budget is approved by Council, the Chairperson will forward a copy of the budget to Government for information. A copy of the budget should also be forwarded to the Auditor. The budget has to be placed before the Council by 15th November of the year and to be forwarded to Government through District Collector before 31st December.
- 6.7 If the budget is not approved by the Council in the meeting, it will be placed before the Council again within a week. If the Council fails to approve even then, the Chairperson has to forward a copy of budget with his remarks to Government for approval
- 6.8 In respect of Municipal Corporation, the Budget proposals formulated by the Commissioner have to be placed before the Standing Committee for scrutiny and submission to the Corporation (General Body) for approval. The time frame for approval of budget in the Municipal Corporation is:

Activity	Time frame
Commissioner to place draft budget before the Standing Committee	10 th November
Approval of Standing Committee	10 th December
Placing before the Corporation	10 th January
Circulation of budget booklet to ward members	Sufficient time before the date fixed for meeting of Corporation to consider the budget
Approval/sanction by Corporation	20 th February
Forwarding of budget copy to Government	1 st March

Implementation

- 6.9 The sanction of budget is 'Authorization by the Legislature (in a democratic entity) to the Executive to spend public money'. As such, unless the budget is approved by the Council, no expenditure should be made by the Commissioner after 1st April of the year,
- 6.10 There are certain general principles in implementation of budget
- It should be ensured that the revenues proposed in the budget are fully realised
 - All expenditure should be regulated in accordance with the allotment made in the budget.
 - No expenditure should be sanctioned in the absence of provision or in excess of the amount provided in the budget
 - Allotments made in the budget do not constitute administrative sanction.
 - Sanctions/administrative sanctions have to be obtained by Council in the usual manner
 - All allotments lapse at the end of the year. If any amount is remained unspent, it should not be transferred to deposits to avoid lapse.
- 6.11 If for any reason, any additional amount is required for a particular head of account, such additional allotment can be made through re-appropriation from other heads of account, provided there are savings in the latter head of account. Re-appropriation has to be sanctioned by Municipal Council. While approving sanction for re-appropriation, the Council should ensure that the minimum working balance as provided under rules should not be reduced.
- 6.12 In case, the budget is sanctioned by Government, the re-appropriation has to be approved by Government.

7 Elected Representatives

Different authorities

- 7.1 In addition to the executive, the ULBs have another wing, i.e. deliberative or elected wing. The primary objective of the deliberative wing is to legislate and formulate basic policies for the municipality.
- 7.2 In the municipalities, the deliberative wing consists:
- the Council/Corporation
 - the Chairperson/Mayor, and
 - the Wards Committee.
- 7.3 In the Municipal Corporations, there is another important authority, i.e. Standing Committee.

Powers and responsibilities

Constitution of Council

- 7.4 The Council is a body corporate and has a perpetual succession. It consists elected ward members (number of members to correspond the number of wards). The MLAs and MPs are ex-officio members. There are co-opted members with (i) persons having special knowledge or experience in municipal administrations and (ii) persons belonging to minorities. The term of the Council is five years

Powers of Council

- 7.5 The Council has a prerogative role in municipal administration. The administration of the municipality vests with the Council. Besides various administrative functions, the Council is endowed with certain financial powers also. They include:
- Approval of municipal budget.
 - Fix the rates of property tax, tax on carts, animals and vehicles, and advertisement tax,
 - Fix the licence fee on trades, encroachments and building permissions
 - Fix the charges/fees for sale of goods in markets.
 - Fix the charges/fees for slaughtering of animals in slaughter houses
 - Fix the water charge rates on tap rate basis (for residential use) and on meter basis (for commercial use, industrial use, institutional use, and bulk charges for apartment complexes etc)
 - Fix pipeline service charges (under water supply) to defray the capital cost of pipeline service works and O&M of pipeline system
 - Fix charges for connecting house drain with municipal drain

- Administrative sanction for any amount of expenditure
- Administrative sanction of all public works irrespective of its monetary value
- Administrative sanction for all supplies irrespective of its monetary value
- Approval of tenders for works or supplies, the value of which is above Rs.20,000 in case of third and second grade municipalities, Rs.50,000 in case of first grade municipalities and Rs.75,000 in case of special and selection grade municipalities.
- Approval of leases of markets, shop rooms and other municipal properties, the value of which is similar as referred to above
- To consider and review every month the financial position of the municipality covering (i) balances under each head, (ii) all outstanding bills pending payment together with reasons, (iii) uncollected arrears of taxes and other sums with reasons, (iv) amount of estimated expenditure till the end of the year under each head, and (v) DCB
- To consider the amounts likely to become time barred within a period of one year together with reasons for non recovery; and to issue instructions for its recovery
- To write-off any sum due to Council, if it is satisfied that the amount is not recoverable.
- To file suits for recovery of sums due to Council
- To defend suits filed against the Council
- To compromise any suit brought against the Council
- To sanction remissions to lessees of municipal markets, if they are prevented from collecting the fees due to compulsory closure of market (subject to certain monetary limit).

Office of Chairperson

7.6 The Chairperson is elected from amongst the elected members of the Council. He heads the Council and presides over the meetings of Council. His term is five years.

Powers and functions of Chairperson

7.7 Besides certain political and administrative powers, the Chairperson is endowed with the following powers relating to financial management

- To incur contingent expenditure incidental to municipal administration not exceeding Rs.1,500/- in respect of third and second grade municipalities and Rs.3,000/- in respect of other grades of municipalities
- In case of emergencies, to direct execution of any work and doing any act (no monetary ceiling), if the execution or doing is immediately necessary for the service or safety of public

In both the above cases, the matter has to be reported to the Council at its next meeting.

Power of Mayor (financial)

7.8 The Mayor is empowered to sanction any work of urgent nature subject to a ceiling of rupees fifty thousands in each case

Constitution of Wards Committee

7.9 There is a provision for constitution of Wards Committees in municipalities, where its population exceeds three lakhs. In fact, no Wards Committees have been constituted in municipalities. However, in the Municipal Corporations, Wards Committees are constituted and are functioning.

Powers and functions of Ward Committees

7.10 The functions relating to financial matters are:

- Review the revenue collections
- Prepare draft annual budget in its jurisdiction and forward to Municipal Council for consideration and incorporation in Municipal Budget

Standing Committee (in Municipal Corporations)

7.11 The Chairpersons of various Wards Committees are members in the Standing Committee. The Mayor of the Corporation presides over the meetings of the Standing Committee.

Powers and functions of Standing Committee

7.12 Besides administrative functions, the Standing Committee exercises the following powers relating to finance matters.

- Sanction works and work contracts, the value of which ranges between rupees twenty lakhs and rupees fifty lakhs
- Sanction disposal of any movable property, the value of which exceeds Rs.25,000/-
- Sanction lease of any immovable property for any term not exceeding three years
- Permit deposit/investment of surplus funds in any designated bank
- Consider the budget proposals of the Commissioner and forward to Corporation (General body) for approval
- Sanction re-appropriation of funds (subject to certain monetary limits)
- Consider reports of Examiner of Accounts.

Different roles of elected representatives

7.13 Delivering good governance is a formidable challenge for the Mayors, Chairpersons and Ward Members (elected representatives). Urban governance is becoming complex with globalization, concentration of population in cities and towns and ever increasing demands for better services. The elected representatives are no longer playing a legislative role. In many cases, with burgeoning civic problems, they have to act as full time executive functionaries leading and managing people and resources. They want to perform effectively and skillfully as leaders. To

become effective leaders, they have to perform a range of different roles. The roles broadly include those of policy maker, decision maker, negotiator, communicator and financier etc.

7.14 The roles relating to financial matters are briefly discussed.

The Financier

This role is related to making decisions about raising, allocating and expanding public funds. The financier is no doubt most traditional, and at the same time, the most important role. At the heart of the financier role is the responsibility of adopting the annual budget. But there is much more, and the real test is what he does in preparation for budget adoption and what is happening throughout the year to the finances – are revenue collections living upto expectations?, are expenditures under control? are there any unusual events necessitating changes in the budget proposals?

The Enabler

Enabling means making things possible, practical and easier for others who are not quite prepared to do themselves. It is mostly about the use of private and non-government sectors of financial help and service delivery. It is to enable the individuals to appreciate their own needs and explore/ receive right kind of assistance from others including municipalities. The implementation of different components of SJSRY is a clear example. It involves provision of technical and financial support to low-income communities to benefit from poverty alleviation programmes. The scarcity of public resources makes the enabler's role imperative in community development

Elections (peoples' court)

7.15 The elected representatives are also accountable in financial matters. Their actions in municipal matters including service delivery and financial matters do not go unrecognized. They have to face the people's court once in five years during elections. For any elected representative, their masters are people and they face the people in elections. Unless one is sincere in his duties, it may not be possible to win the elections.

Government control

7.16 Apart from the people's court through elections, if any elected representative fails to function prudently in financial matters, Government may initiate certain control measures.

7.17 Various control measures Government can take are discussed below.

a) Power to cancel or suspend resolution, order etc.

Government may cancel or suspend any resolution, order, licence or permission, if such resolution, order, licence or permission, among others, is likely to cause financial loss to the municipality. Before taking action to cancel the resolution, order etc., Government has to give to the Council or the person concerned an opportunity for explanation.

b) Power to suspend Chairperson or Vice Chairperson or Ward member

Government may suspend Chairperson, Vice Chairperson or Ward member, if he misbehaves or manhandles any other ward member or official, or destroys any municipal property, or uses

unparliamentary language or abuses his position during council meetings or during discharge of his duty, leading to a situation when municipal administration cannot be carried on or the stability of Council is threatened. Before taking action under this provision, an opportunity for explanation has to be given to the concerned.

c) Power to remove Chairperson or Vice Chairperson

Government may remove any Chairperson or Vic Chairperson, if he willfully omits or refuses to carry out or disobeys the provisions of the Act or rules issued thereunder or abuses his position or powers vested with them. Before taking action under this provision, an opportunity for explanation has to be given to the concerned.

d) Power to dissolve Council

Government may dissolve the Council, if the Government opines that the Council is not competent to perform or persistently makes default in performing its duties; abuses its position or powers; or a situation exists in which the municipal administration cannot be carried on in accordance with the provisions of the Act or the financial stability or credit of the Council is threatened. Before taking action under this provision, an opportunity for explanation has to be given to the Council.

New accounting system

Cash based accounting/single entry system

- 8.1 Accounting is an essential part of financial management and accountability. To ensure that the financial management and MIS are correct and useful, one needs better and meaningful accounting system. A good accounting system, besides helping in monitoring and budget control, should check whether the expenses are utilized for the ULB objectives.
- 8.2 As discussed in the earlier chapters, the ULBs are currently following cash-based accounting system. Cash based accounting system records only cash and nominal accounts, which are always incomplete. The adoption of cash basis of accounting by ULBs owes its origin to the pre-eminence of budget as the principal means of financial control. The pre-eminence of budget is well enunciated in municipal legislations. Further, in a ULB, being a service institution, there is a need to spend the monies received/raised only against planned expenditures. The yardstick therefore is the budget and so the cash-based accounting which is amenable to budgetary control is being followed. The critical element is control of expenditure with reference to budget and nothing is mentioned about the performance or better utilization of resources
- 8.3 The cash based accounting/single entry accounting system cannot test arithmetical accuracy. The dual effect of each transaction is not balanced and trail balance cannot be prepared. In a typical double entry accounting system, listing of all accounts becomes self-balancing, wherein the arithmetical accuracy can be established. In the single-entry system, as discussed above, only receipt and payment records are maintained. It does not distinguish between Asset, Liability, Income and Expenditure. As a result, performance of the municipality for a period and status of financial position at a given point of time cannot be ascertained.
- 8.4 Further, the municipal functioning is radically changing from infrastructure provision to regulatory, then planning and development, and then commercialisation. The 74th CAA has enhanced the municipal functional domain and even made the municipality to prepare plans for economic development and social justice. Even, the Gol grants stipulate collection of user charges on the infrastructure created with those grants/funds. Added to it, the heavy cost of infrastructure made the municipality to go for commercial borrowing or capital market. These factors need that the municipalities should convert the accounting system to commercial model, i.e., double entry system of accounting.

Accrual based accounting/double entry system

- 8.5 Accrual system of accounting means a method of recording financial transactions based on accrual, i.e. on occurrence of claims and obligations in respect of incomes or expenditure, assets or liabilities based on happening of any event, passage of time, rendering of services, fulfillment (partially or fully) of contracts, diminution in values etc., even though actual receipt or payments of money may not take place.
- 8.6 In this system, there is a change in accounting for transactions and reporting the financial results so as to provide the ULBs and the Government with the Financial Reports, in the form of two important financial statements for the purposes noted against each:

Statement	Purpose
Income & Expenditure Statement	To determine the financial performance of the ULB
Balance Sheet	To assess the financial status of the ULB

8.7 Some of the benefits of accrual system of accounting are:

- Revenue is recognized as it is earned and that 'income' constitutes both revenue received and receivable.
- Expenditure is recognized as and when the liability for payment arises and thus it constitutes both amount paid and payable
- Expenses are matched with the income earned in that year
- A distinct difference is maintained between items of ordinary nature and capital nature
- Costs which are not charged are carried forward and kept under constant review.
- Surplus or deficit as shown at the year end represents the correct financial position
- Assists in effective follow up of receivables and payables
- Facilitates the credit rating organizations to appraise the financial position of ULB
- Presents true picture of financial position of ULB and helps in better financial management

Change over to new system/Road map

Development of Manuals

8.8 To switch over to new system of accounting, the major initiative is developing various manuals. The important manuals required under the new system are

- Accounts Manual
- Chart of Accounts
- Budget Manual
- Asset Management
- Audit Manual

Development of Forms and Registers

8.9 In addition to the above manuals, various forms and registers have also to be developed. They should relate to General, taxes, fees, charges, rentals, and other income, public works, stores, employee related, grants, loans, investments etc. Similarly, for developing the Asset Management, various asset details like lands, buildings, water supply system, lighting system, stores, tools and plant, investments, bank balances etc. should be gathered.

Statutory requirement for change over

8.10 To change over to the new system, Government have to amend the existing law and rules relating to accounts, budget and other relevant matters. The Government should also notify a date from which the ULBs should switch over to the new system. For this purpose, they have two options:

- to pilot the system in a few municipalities in the first instance, or
- to switch over to the new system in all municipalities at one time.

Capacity building

8.11 The municipalities are maintaining their accounts in the present system for many decades. The new system is vogue in all the commercial and corporate accounting and it is not altogether difficult. The only constraint is that the municipal officials have to be trained in the new system. Required training manuals and training material have also to be developed and all the municipal functionaries should be suitably trained.

8.12 No doubt, under the new system, account formats may change and the statements produced may change. But, the basic financial functions of the ULB, i.e. collection of revenue and spending of funds remain the same. The basic accountability in those areas does not change.

8.13 To close the matter, it is necessary to recapture the basics of financial accountability.

Revenues:

- To realize fully what is permissible under the Act and as projected in the budget
- To levy and assess various items of revenues duly following due procedure and also rationality
- To exercise all available steps (including coercive steps) and realize the taxes and fees fully
- To be liberal in writes-off and remission of sums duly keeping the human factor in mind.

Expenditure :

- Keep the public good and convenience in formulating the proposals
- Ensure that sanction is obtained from competent authority
- Limit the expenditure to the budgeted provision
- Follow all rules and regulations in making payments
- Ensure all the transactions are recorded.

