



Accounting And Audit System in Urban Local Governments in India

KEYWORDS

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Introduction

The age of centralization is receding fast. There is a distinct swing of the pendulum towards democratic decentralization. Liberal democracy has failed to provide the poor and the weak, voice and choice in decision-making. In a multi-cultural and multi-lingual federal polity like India democratic decentralization commands a natural appeal. Prima facie, it has tremendous potential to reduce transaction and coordination costs, besides enhancing equity. Fiscal decentralization which is an integral subset of decentralization assumes significance because without its proper functioning decentralization becomes inoperative and meaningless. It has particular significance in the context of a multi-level system of governance with fiscal responsibilities vested in the centre, state and local governments. In the literature on multi-level public finance this is broadly referred to as 'fiscal federalism' or decentralized fiscal system.

Local Self Government in India

Local bodies are institutions of the local self governance, which look after the administration of an area or small community such as villages, towns, or cities. The Local bodies in India are broadly classified into two categories. The local bodies constituted for local planning, development and administration in the rural areas are referred as Rural Local Bodies (Panchayaths) and the local bodies, which are constituted for local planning, development and administration in the urban areas, are referred as Urban Local Bodies (Municipalities).

Local Government is a State subject figuring as item 5 in List II of the Seventh Schedule to the Constitution of India. Article 243 G of the Indian Constitution enshrines the basic principle for devolution of power to the Local Bodies. In the nation's journey towards becoming an economic power, local bodies play an important part in enabling infrastructure availability to the citizens.

The many roles that the local government is expected to play today include:

- A Regulator, namely the administration of various acts and regulations
- A Provider, that involves providing urban services efficiently and equitably by managing its accounts effectively and efficiently.
- An Agent that takes the schemes of higher levels government to the people. This
- includes promotion of popular participation
- A Welfare Agency, which provides active assistance to higher level governments in the equitable distribution and delivery
- An Agent of Development, who strives for improve-

ment in the quality of life through the augmentation of infrastructure

Evolution of two-tiered federalism

India is a federation with constitutional demarcation of functions and sources of finance between Union, State and local governments. However, statutory introduction of the third tier is a recent phenomenon – after the 73rd and 74th amendments of the Constitution in 1992 gave the rural and urban local governments the constitutional status. Until this development, India had evolved as a two-tiered federal structure with the powers and functions demarcated between the Union and the States. Of course, informally some degree of decentralization below the state level existed for a long time.

Organizational Structure

The organizational set up of ULBs and the accountability structure of a Municipal Corporation is as follows:

Name of the Authority	Accountable for
General Body	Policy decisions related to expenditure from the Corporation's Municipal Fund, implementation of various projects, schemes, etc.
Standing Committee	All functions related to approval of budget and sanction for expenditure as per the delegation. (Can delegate its powers to sub Committee/s).
Municipal Commissioner	Administration and execution of all schemes and projects subject to conditions imposed by the General Body.
Municipal Chief Accountant	Preparation of the annual budget and finalization of accounts and internal audit.
Municipal Chief Auditor	Audit of municipal accounts, preparation and submission of Audit Reports to the Standing Committee.

Financial profile

Municipal Funds are constituted under the provisions contained in the MMC Act, 1888, CNC Act, 1948 and BPMC Act, 1949. All the moneys received by or on behalf of the Municipal Corporations under the provisions of the respective Acts, all moneys raised by way of taxes, fees, fines and penalties, all moneys received by or on behalf of Municipal Corporation from the Government, public or private bodies, from private individuals by way of grants or gifts or deposits and all interest and profits are credited to the Municipal Funds.

The State Government and Central Government release grants to the Municipal Corporations for implementation of schemes of the State sector and for centrally sponsored schemes respectively. In addition, grants under the State Finance Commission and the Central Finance Commission

recommendations are released for developmental works.

The accounts of each scheme/project are required to be kept separately. Utilization Certificates are required to be sent to Central Government for centrally sponsored schemes and to State Government for State schemes.

Growth Rates of 'Income' Loans and grants from state governments, as expected, have grown most rapidly. But important own sources of income was property, water rates, and taxes, and potentially, conservancy and sanitation charges, at rates significantly above inflation. Of course, expanding supply would account for much of the rest, so without an index of supply expansion it is not possible to estimate whether recovery proportions have improved.

CAG audit:

As per the recommendations of the Thirteenth Finance Commission, audit of the accounts of all Local Bodies (both urban and rural at all levels) need be done under the Technical Guidance and Supervisions (TGS) of the CAG. State Governments need to constitute separate committees of Legislature for discussion of the Annual Technical Inspection Reports (ATIR). This will ensure accountability.

Fiscal Responsibility Regime

ULB, with a view to developing a fiscal responsibility regime, has formulated model Fiscal Responsibility Bill. The States could enact the model bill with modifications as appropriate. The major objectives of the model Bill are: Medium term fiscal plan, Principles of Financial Management, Transparency in Financial Management, Principle of audit of accounts, Adherence to audit report, Measures to enforce compliance.

Government of India to support States:

Sound finances of the ULBs are a Constitutional stipulation and, in pursuit of that, the States and the centre must work together in a true spirit of fiscal federalism to strengthen finances of the ULBs. ULB should, on its part, assist the States in designing local solutions, designing training programmes, developing software solutions for tax management and networking with champions. It should also undertake analysis of the State trends to identify initiatives and drives, conduct periodical experience sharing workshop, support policy studies on local taxation particularly on ascertaining taxation capacity and designing incentive packages.

The States should strengthen the administrative and enforcement capacity of urban local bodies through proper staffing, regular training programmes comprising well structured modules, simple guidelines, etc.

Conclusion:

This essay deals with Accounting and Audit System in Urban Local Governments (ULBs) in India, in which the profile of local self government in India, evolution of two-tiered federalism. It presents the organizational structure, CAG audit. Further it also concentrated on fiscal responsibility regime, government of India to support states.

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