

**Presentation to the
Fourteenth Finance Commission**
Recommendations on Urban Local Bodies
Accounting, Audit and Reporting

July 2014



Contents

1. Background	3
2. About Janaagraha Centre for Citizenship and Democracy.....	3
3. Recommendations for 14th Finance Commission	3
4. Issue Analysis and Recommendations	4
5. Status of Audit of ULBs.....	4
6. Brief History of Municipal Financial Reforms.....	4
7. Reforms under the Thirteenth Finance Commission	5
8. Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India (ICAI)	5

Annexures

1. Issue Analysis and Recommendations
2. Status of ULB Audits
3. Brief History of Municipal Financial Reforms
4. Status of Accounting Standards for Local Bodies
5. Audit Checklist

1. Background

Beginning with the Jawaharlal Nehru National Urban Renewal Mission (JnNURM), ULBs in India have been in receipt of large allocations from Central and State Governments towards infrastructure and service delivery. This is much needed given the scale of urbanization that India is witnessing, the current deficit in infrastructure and basic services and the need for such infrastructure in cities to support economic growth of the country as a whole. Allocations to ULBs will therefore continue to rise sharply. Simultaneously, ULBs will also augment their own share of revenues.

Ironically, successive Finance Commissions have commented extensively on the poor state of audit and accountability in Urban Local Bodies. Assurance on whether or not funds achieve the best possible infrastructure and service outcomes can be gained only if a robust financial and performance accountability mechanism exists in ULBs. In the absence of such mechanisms, *outcomes* of the outlays remain unknown and there could potentially be significant leakage of funds, even if unintended.

Serious and urgent reforms are warranted in Accounting, Audit and Reporting by Urban Local Bodies. We believe the Report of the Fourteenth Finance Commission needs to play a key role in catalysing such reforms.

2. About Janaagraha Centre for Citizenship and Democracy

Janaagraha Centre for Citizenship and Democracy (Janaagraha) is a Bangalore based not for profit having the mission of transforming quality of life in India's cities and towns. It defines quality of life as comprising quality of infrastructure and services and quality of citizenship. Janaagraha, along with its sister organisation Jana Urban Space foundation operates ten programs all of which are based on a robust City-Systems framework. To achieve its mission, Janaagraha works with both citizens and governments in advocating policy, creating platforms for citizen engagement and forging partnerships to attain scale. Over its ten year existence, Janaagraha has built a proven track-record in systemic change in city-systems and in catalysing citizen engagement. Municipal Financial Reforms is a key focus area for Janaagraha.

3. Recommendations for 14th Finance Commission

Given below is a summary list of recommendations which we believe are worthy of consideration for inclusion in the Report of the 14th Finance Commission (FC).

1. Performance Audit of ULBs on Financial and Performance Reporting

- i. Office of the Comptroller and Auditor General of India to undertake a Performance Audit of select ULBs across States, specifically focused on Financial Reporting (covering Accounting and Audit) and Performance Reporting (covering MIS and Service Level Benchmarks)

2. Accounting

- ii. Issuance of full body of Accounting Standards for Local Bodies by the ICAI, phased adoption of ASLBs
- iii. Standardised formats of Financial Statements comprising Balance Sheet, Income and Expenditure/Profit and Loss account, Cash Flow Statement and Notes to Accounts to be followed by all ULBs in India
- iv. Capacity Building of Finance and Accounts departments covering the following
 - Accurate Budgeting
 - Finalisation of accounts, including Double Entry Accrual Based System
 - Preparation and analysis of MIS reports

3. Audit

- v. Mandatory empanelment of Chartered Accountants as statutory auditors of ULBs (i.e. auditors who independently certify annual accounts) for years ending from 31 March 2015 onwards
- vi. All grants of Central and State Governments, including Finance Commission grants to be released only upon completion of audit of accounts of all years upto 31 March 2013, and disclosure of the same on ULB websites
- vii. Pending audit queries and paragraphs in audit reports of the CAG of India/DLFA/Other auditor to be fully resolved by 31 March 2016. Release of grants to be contingent on such resolution.

4. Reporting

- viii. Mandatory production of Performance MIS in standardized format with effect from 31 March 2016. Institute of Chartered Accountants of India to be entrusted with the task of convening a working group that will draw up such an MIS. States to amend Municipal Corporation Acts to mandate requirement of specified MIS reports at pre-defined frequency and review and disclosure protocols.
- ix. Compliance with provisions of the model Public Disclosure Law

4. Issue Analysis and Recommendations

A detailed analysis of issues on accounting, audit and reporting by ULBs and elaboration of the above recommendations is given in **Annexure 1-Issue Analysis and Recommendations**.

5. Status of Audit of ULBs

A state-wise round up of status of audit of ULBs with specific focus on pendency of audit of annual accounts and audit queries is annexed. Please refer **Annexure 2- Status of ULB Audits**.

6. Brief History of Municipal Financial Reforms

Observations made by successive Finance Commissions (FC) on the subject of financial and performance data and audits of ULBs provide strong rationale for a performance audit of this area. Snapshots of FC's observations are given below.

Please refer **Annexure 3- Brief History of Municipal Financial Reforms** for details of various reform measures undertaken in respect of accounting, audit and reporting by ULBs.

1. Eleventh Finance Commission

"The CAG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the tiers/levels of Panchayats and urban local bodies."

"The CAG should prescribe the format for the preparation of budgets and for keeping of accounts for the local bodies."

"Audit of accounts of the local bodies be entrusted to the CAG who may get it done through his own staff or by engaging outside agencies..." (Paras 8.19 b,d,f)

2. Twelfth Finance Commission

"Most states do not have credible information on the finances of their local bodies. Local Bodies would continue to need funding support for building data base and maintenance of accounts. States may assess the requirement of each local body in this regard and earmark funds accordingly out of the total allocation recommended by us." (Para 8.55 xv)

3. Thirteenth Finance Commission

".....Unfortunately, successive Finance Commissions, including our own, have been unable to independently verify the data provided on local bodies. The need to put in place a system where financial and performance data of local bodies can be audited and confirmed credibly cannot be over-emphasised. "

".....the Commission has been unable to obtain credible data on the financial performance of local bodies. We have noted during our state visits that while a number of Panchayati Raj and urban local bodies maintain up to-date and audited accounts, the majority are unable to do so. Such a situation inhibits the study of the sector as a whole as well as each category of local body. This handicap can be overcome if accounts of local bodies are prepared and audited on a regular basis in a uniform manner across all states."

7. Reforms under the Thirteenth Finance Commission

The TFC (2010-2015) took a holistic view of the audit and accountability issues relating to urban local bodies, including recommendations of the preceding FCs and also those of the Second Administrative Reforms Commission (SARC). It made the following far-reaching recommendations, some of which were tied to release of grants to States.

Key recommendations included:

- Accounts of ULBs to be maintained in the formats prescribed by the Comptroller and Auditor General (CAG) of India.
- The states should implement in all urban local bodies an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual.
- Database to be maintained by ULBs as per formats prescribed by CAG.
- Technical Guidance & Supervision (TG & S) over the audit of all tier of LBs be given to CAG.
- Annual Technical Inspection Report as well as the Annual Report of the Director of Local Fund Audit must be placed before the State Legislature.
- State Governments/ULBs to notify Service Level Benchmarks (targets for next year and actuals for current year) on an annual basis for four key urban services (water supply, sewerage, sanitation and storm water drains).

8. Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India (ICAI)

The ICAI as the premier professional standard setting body has issued accounting standards for local bodies under the aegis of its Committee on Accounting Standards for Local Bodies. However these ASLBs are not mandatory and are currently not being followed by any of the major municipal corporations in India as the governing legislations of municipal corporations do not require them to follow the ASLBs issued by the ICAI. Please refer **Annexure 4- Status of Accounting Standards for Local Bodies** for the current status.

Annexure 1- Issue Analysis and Recommendations

#	KEY ISSUE	OUR RECOMMENDATIONS
I PERFORMANCE AUDIT OF REPORTING		
1	<u>Performance Audits by CAG of India</u> The CAG of India either through full-fledged performance audits or Annual Technical Inspection Reports (ATIRs) covers audit of ULBs of many states in India. While most of them make generic observations of the status of audit of accounts and finances, there is no mandatory specific section focussed on audit of annual accounts (timeliness, quality, responses) and performance metrics. As a result, there is no comprehensive and specific understanding of the state of audit and accountability in ULBs in India.	i. Office of the Comptroller and Auditor General of India should undertake a Performance Audit of select ULBs across States, specifically focused on Financial Reporting (covering Accounting and Audit) and Performance Reporting (covering MIS and Service Level Benchmarks). Please refer Annexure 5 for an illustrative Audit Checklist. ii. The CAG of India should also mandate that all performance audit reports and ATIRs of ULBs carried out by offices of the CAG of India should carry a detailed report on the status and quality of audit of annual accounts and performance metrics/equivalent framework in use. Target Date: 31 March 2015 (for completion of i and ii)
II ACCOUNTING		
2	<u>Uniform Accounting Standards for ULBs issued by the ICAI</u> Currently ULBs in India do not follow a uniform set of accounting standards. The Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India (ICAI) has so far issued 7 ASs for LBs, none of which is mandatory. The Accounts of ULBs therefore are neither comparable nor based on generally accepted accounting principles.	i. The ICAI should issue a full body of Accounting Standards (AS) that would generally be applicable to ULBs based on a pre-defined time table. States should mandate adoption of AS issues by the ICAI through Municipal Corporation Acts. Target Date: 31 March 2015
3	<u>Standardised format of Annual Accounts/Financial Statements</u> No standardised format of annual accounts exists for municipal corporations. Each municipal corporation follows the format prescribed under respective MC Act/rules. The absence of a standardised format inhibits comparability.	i. Ministries of Finance and Urban Development, Government of India should constitute a Task Force to draw up and recommend a standardised financial reporting framework for MCs in India as per a pre-defined time table. CAG of India, the ICAI, private sector experts, Commissioners and CFOs of MCs etc. should be key stakeholders in the Task Force. The Task Force should also be entrusted with a pilot roll out of the standardised financial reporting framework for major ULBs in India.



#	KEY ISSUE	OUR RECOMMENDATIONS
		<p><i>Adoption of the NMAM has been a key recommendation of the 13th FC. The status of adoption of NMAM, challenges in implementing the same and improvements to the same should be appropriately factored in by the task Force. A standardised financial reporting framework shall comprise format of balance sheet, profit and loss account, cash flow statements, notes to accounts and mandatory disclosures to be made by ULBs.</i></p> <p>Target Date: 31 March 2016</p>
4	<p><u>Capacity Building of Finance and Accounts personnel</u></p> <p>The lack of adequate skilled manpower in Finance and Accounts departments of ULBs is a key driver of poor accounting, audit and reporting in ULBs. There is currently no concerted effort to build capacities of Finance and Accounts departments in</p> <ul style="list-style-type: none"> • Principles of good Budgeting • Finalisation of accounts, including accounting based on Double Entry Accrual Based System • Preparation and analysis of Performance MIS reports 	<p>i. A 5 year road map for Capacity Building of Finance and Accounts personnel should be mandatorily submitted by all State Governments (including certification and training, lateral recruitment, definition of organisation structure for Finance and Accounts departments, definition of skill sets and competencies for specific positions etc.)</p> <p>Target Date: 31 March 2015</p>
III AUDIT		
5	<p><u>Poor status of Audit of Annual Accounts of ULBs</u></p> <p>Major delays in completion of audited annual accounts by large number of ULBs; pendency running into years across ULBs</p>	<p>i. Mandate empanelment of Chartered Accountants as statutory auditors of ULBs (i.e. auditors who independently certify annual accounts)</p> <p>ii. All grants of Central and State Governments, including Finance Commission grants to be released only upon completion of audit of accounts of all years upto 31 March 2013, and disclosure of the same on ULB websites. A blanket ban on grants and scheme funds to large ULBs should be explored, where there is delay in audited annual accounts (possibly by the Ministries of Finance of the Central and State Governments)</p> <p>iii. Pending audit queries and paragraphs in audit reports of the CAG of India/DLFA/Other auditor to be fully resolved. Release of grants to be contingent on such resolution.</p>

#	KEY ISSUE	OUR RECOMMENDATIONS
		iv. The MC Act should provide for mandatory formal written responses from the State Government/City Council on audit observations made in audit reports within a pre-defined time period. Target Date: 31 March 2015 (for i to iii above)
IV REPORTING		
6	<u>Performance Reporting</u> No standardised performance metrics exist to evaluate the operating performance of ULBs. There is also no standardised format for such disclosures/no Management Discuss & Analysis, which facilitates performance measurement, evaluation and comparison	i. Mandatory production of Performance MIS in standardized format with effect from 31 March 2016. Institute of Chartered Accountants of India to be entrusted with the task of convening a working group that will draw up such an MIS. ii. States to amend Municipal Corporation Acts to mandate requirement of specified MIS reports at pre-defined frequency and review and disclosure protocols. <i>The Terms of Reference of the Task Force referred to in 3 above should include Performance Reporting framework in addition to Financial Reporting framework. A performance reporting framework shall comprise specific metrics and disclosure formats that capture the operating performance of ULBs.</i> iii. The 13 th FC had included notification of SLBs as a mandatory condition to draw down performance grants. That condition should be continued by the 14 th FC. Target Date: 31 March 2016 (for i to iii above)
7	<u>Compliance with the Public Disclosure Law</u> The Public Disclosure Law is a pioneering reform in transparency and accountability and a mandatory reform condition under JNNURM. It requires States/Cities to disclose <i>inter alia</i> quarterly financial statements, service level benchmarks and comprehensive details of civic works in a time-bound manner. While 22 states have claimed to have “enacted” the PDL, no city/ULB has implemented the PDL in spirit by disclosing quarterly financials/other disclosures mandated by the model PDL.	i. Mandate notification of rules under PDL, in compliance with model PDL ii. Link disclosure of quarterly accounts, details of civic works, SLBs, Target Date: 31 March 2016

Annexure 2- Status of ULB Audits														
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities		Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Andhra Pradesh	Comptroller and Auditor General of India (CAG)	2009-10	Tabled in Legislature	Apr 09 to Mar 10	Test audit of accounts of six ZPPs (including engineering divisions), 81 MPPs, 316 GPs, four Municipal Corporations and 17 Municipalities was conducted under Section 20 (1) of CAG's (DPC) Act, 1971 during the year 2009-10.	124	15	109				-As of February 2011, there were 107 Inspection Reports comprising 2445 objections pending settlement with ULBs up to the year 2009-10.	-Despite reminding the Government (Principal Secretaries) at regular intervals, the response from PRIs and ULBs in furnishing replies is very poor -The Government is yet to devise a system for obtaining a consolidated picture about the finances of the PRIs, despite the PR system having been in place for over 17 years. -Planning for developmental activities is abysmal and there is no correlation between the requirements of the Local Bodies and the funds devolved to them. -Andhra Pradesh Municipal Accounts Manual was yet to be adopted in many ULBs, the latter continue to maintain their accounts on cash basis.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Andhra_Pradesh/2009_10/Chap_1.pdf
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Gujarat	Comptroller and Auditor General of India (CAG)	2011-12	Tabled in Legislature	Report has been laid on the table of the State Legislature Assembly on 3-10-2013	-The Director Local Fund Audit (DLFA) is the primary Auditor of ULBs in terms of Section 7 of the Gujarat Local Fund Audit (GLFA) Act, 1963.	190	8	159	23	-Out of total 159 NPs, audit of accounts of 136 NPs for the period up to 2009-10 has been completed by DLFA (October 2012). The audit of 159 NPs was in arrears for the year 2010-11 and 2011-12. Audit of MCs has not been taken up by DLFA so far (March 2013).		-The DLFA informed (October 2012) that there were 1,47,28,612 audit paragraphs outstanding as at the end of February 2012 relating to the period up to 2009-10. -As on 31 March 2013, 140 IRs (1,895 paragraphs) were outstanding in respect of Nagarpalikas. Amount-34.48 Cr	-The grant-in-aid of ULBs reduced by 27 per cent though their own revenue increased by 34 per cent. -The utilisation of funds increased by only 12 per cent though the closing balance of funds enhanced substantially. -Thirteenth Finance Commission's grant of 124.47 crore were not utilised by 96 Nagarpalikas. -State's Municipal Accounts Manual has not been finalised. -The audit of DLFA was in arrears. The Department failed to ensure prompt and timely action by executives of ULBs in respect of audit objections raised by DLFA and CAG.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Gujarat/2011_12/chap_3.pdf
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (City Municipal Councils, Town Municipal Councils & Panchayats)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Karnataka	Comptroller and Auditor General of India (CAG)	2011-12	Tabled in Legislature	The Report has been tabled in State Legislature on 06-06-2013	-Out of 214 ULBs, Audit test-checked the records of BBMP, Mangalore CC, three CMCs, seven TMCs and four TPs to review the budgetary control and financial reporting system in ULBs. -The Controller, State Accounts Department (SAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs to the Comptroller and Auditor General of India (CAG) under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09 and under Technical Guidance and Supervision from 2011-12 onwards by amending the statutes (October 2011).	218	8	206	4	-Out of 214 ULBs, audit of accounts of 190 ULBs for the period up to 2010-11 was conducted by SAD as of 31 March 2012. The audit of remaining 24 ULBs (11 per cent) was not conducted due to non-submission of accounts by ULBs and inadequate staff in SAD. -It was observed that while the number of ULBs which had prepared the accounts during 2008-11 varied between 126 and 205 out of 214, there was shortfall in number of accounts certified by CAs. Despite preparation of 133 accounts, CAs did not certify any accounts for the year 2011-12.	-BBMP had delayed submission of annual accounts to its Statutory Auditor by eight months for the year 2008-09 and four months for the year 2010-11. BBMP accounts for these years were not certified by the Chief Auditor. -The State Government did not have Internal Audit Wing to oversee the functions of ULBs. DMA stated (January 2013) that matter was taken up with the State Government to set up Internal Audit Wing.	-Fixed assets of BBMP showed an increasing trend during the period 2007-11. It registered an increase from `5,146.09 crore in 2007-08 to 10,242.82 crore in 2010-11. The reasons for continuous increase in fixed assets could not be ascertained as the details of additions made during the above period were not provided to Audit. -On a review of statutory auditor's report on the accounts of BBMP for the year ended 31 March 2009, it was observed that audit paragraphs involving financial irregularities amounting to 1,321.12 crore for the period from 1964-65 to 2007-08 were outstanding (November 2012)	-It was observed in test-checked ULBs that utilisation of 13 FC grants during 2010-12 ranged between five and 100 per cent and 96.79 crore remained unutilised as at the end of 31 March 2012 -It was seen that the test-checked ULBs excluding BBMP had kept the amount in Personal Deposit accounts maintained at Treasuries. Separate cash books for accounting these grants were not maintained. Thus, Audit could not ensure the correctness of the amount utilised and balance available under 13 FC. -As per the provisions contained in KM Act, assets of the ULBs should be recorded scheme-wise in Register of Immovable Properties. However, none of the test-checked ULBs had maintained the Asset Register. Thus, the properties encroached by others were not ascertainable by the ULBs.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Karnataka/11_12/CHap_3.pdf

Annexure 2- Status of ULB Audits

State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (City Municipal Councils, Town Municipal Councils & Panchayats)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Maharashtra	Comptroller and Auditor General of India (CAG)	2011-12	Tabled in Legislature	Report has been laid on the table of the State Legislature Assembly on 19-12-2013		252	23	221	8		-Of the 23 Municipal Corporations which have prepared their annual accounts, audit by Municipal Chief Auditor had been completed for 11 and four Municipal Corporations up to the years ended 2010-11 and 2011-12 respectively and the reports have been submitted to the Standing Committees of the Municipal Corporations. In the remaining eight Municipal Corporations, there were arrears in audit by Municipal Chief Auditor ranging between one and six years. -As per information furnished (May 2012 to January 2013) by the Municipal Corporations, of the 23 Municipal Corporations which have prepared their annual accounts, audit by MCA had been completed up to 2011-12 in four Municipal Corporations; up to 2010-11 in 11 Municipal Corporations and reports submitted to the respective Standing Committees. In the remaining eight Municipal Corporations there were arrears in audit by MCA ranging between one and six years.	-Large pendency in Inspection Reports and Paragraphs issued by the Principal Accountant General/Accountant General, Maharashtra to the Corporations, was a reflection of inadequate internal controls. -Pending Inspection Reports: 501 -Pending Paragraphs: 2990	-Although Government of Maharashtra adopted (July 2005) the National Municipal Accounting Manual for implementation from 2005-06, the Urban Local Bodies did not implement the same.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Maharashtra/11_12/Chap_4.pdf
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (City Municipal Councils, Municipal Boards)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Rajasthan	Comptroller and Auditor General of India (CAG)	2011-12	Tabled in Legislature	Report has been laid on the table of the State Legislature Assembly on 27-8-2013		184	5	179		- The receipts and expenditure figures for the year 2011-12 were not made available by director local bodies due to non-finalization of accounts for the same year -Director, LFAD intimated (August 2012) that out of 184 ULBs, audit of 84 ULBs (four M Corps, 11 MCs and 69 MBs) was pending for the period 2007-08 to 2010-11 as on 31 May 2012 due to shortage of staff and deployment of staff in election duty.		-At the end of May 2012, 57,967 paragraphs of 5027 Inspection Reports of ULBs issued by director, LFAD were pending for settlement. Audit observations include 234 outstanding embezzlement cases (upto March 2012) involving monetary value of Rs 1.49 Cr were pending for settlement. - 1045 IRs containing 10,151 paragraphs of ULBs issued by office of the Principal Accountant General (Civil Audit) involving monetary value of Rs 4338.86 crore were also pending for settlement as of May 2012.	-During audit it was observed that none of the ULBs was preparing the accounts on accrual basis - The absence of timely finalisation of accounts in the formats prescribed and prompt audit of the same resulted in denial of information to stakeholders - The huge pendency of audit observations and delay in their settlement are fraught with the risk of continuance of irregularities/deficiencies observed during audit.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Rajasthan/2011_12/Chapter%203.pdf
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (City Municipalities and Town Panchayats)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Tamil Nadu	Comptroller and Auditor General of India (CAG)	2011-12	Tabled in Legislature	Report has been laid on the table of the State Legislature Assembly on 30-10-2013	-Audit of ULBs is entrusted to the Director of Local Fund Audit (DLFA). He is to certify the correctness of accounts, assess internal control system and report cases of loss, theft and fraud to the audited entities and to the state government. The Principal Accountant General provides technical guidance to DLFA on a continuing basis regarding audit of accounts of the ULBs in terms of Government of Tamil Nadu order of March 2003.	664	10	654		-Two municipalities did not submit their accounts for the year 2009-10, two municipal corporations, 52 municipalities and seven town panchayats did not submit their accounts for the year 2010-11.		- As of December 2012, audit of 52 municipalities, 31 town panchayats and two municipal corporations was pending for the year 2010-11. - As of December 2012, 2402 paragraphs contained in 449 Inspection Reports of the Principal Accountant General for the period 2009-10 to 2011-12 were pending for settlement for want of satisfactory replies		http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Tamilnadu/11_12/CHap_1.pdf

Annexure 2- Status of ULB Audits

State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (City Municipalities and Town Panchayats)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Kerala	Comptroller and Auditor General of India (CAG)	2010-11	Tabled in Legislature		-Director of Local Fund Authority (DLFA) is the statutory auditor of LSGIs as per Kerala Local Fund Audit Act, 1994, KPR Act and KM Act.	65	5	60		-Out of the 456 Monthly Progress Reports (MPRs) due from the district panchayats and corporations, during 2009-10 and 2010-11, Finance department received only two MPRs for August 2010 and March 2011. - On a scrutiny of MPRs submitted by the District Panchayats and Corporations to LSGD, Audit noticed that out of the 456 MPRs due during 2009-10 and 2010-11, only 330 reports were received resulting in a shortfall of 126	-14 GPs and one Municipality did not maintain cash book in proper format -Daily closing of cash book was not carried out by 63 GPs, two BPs and four municipalities -Asset register was not maintained properly by 25 GPs and one municipality -Physical verification of stock was not done by 22 GPs, one municipality and one corporation	- As on 31 July 2011, 221 accounts pertaining to the period from 1996-97 to 2010-11 were in arrears -DLFA received 18024 accounts up to July 2011. Of there audit reports were issued in respect of 13552 accounts (October 2011). The arrears in the issue of audit reports were 4472 (24.81%)	-None of the 14 DPCs prepared the draft development plan for the year 2010-11 and forwarded to the government -Under decentralised planning, LSGIs in the state formulated 199378 projects with a total estimate/outlay of Rs 10500.96 crore during 2010-11. Of these, the LSGIs had taken up 147222 projects for implementation and had spent Rs 3521.88 crore on the projects. Of the projects taken up, LSGIs completed only 60495 projects. Thus LSGIs had completed only 30 percent of the projects formulated during 2010-11.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Kerala/2010_11/Chap_2.pdf
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (City Municipalities, Municipal Councils, Nagar Panchayats)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Jharkhand	Comptroller and Auditor General of India (CAG)	2010-11	Tabled in Legislature	-Report has been laid on the table of the State Legislature Assembly on 04-03-2014 - October 2010 to March 2011	Examiner of Local Accounts, Jharkhand, who heads the Local Audit Department in the office of the Principal Accountant General (Audit), Jharkhand, has been appointed for conducting the audit of all the local bodies in Jharkhand -Out of 39 ULBs, accounts of eight ULBs covering the financial years 2007-09, Dhanbad Municipal Corporation for the period 2006-08 and Ranchi Municipal Corporation for 2009-10 were test checked during October 2010 to March 2011	39	3	34	2	-Scrutiny of records revealed that none of the 10 test-checked ULBs prepared Annual Accounts for periods between 2006-07 to 2009-10 -As per Section 66 of the JMA, 2000 and Section 87 of RMC Act, 2001, unless the State Government otherwise directs, all sums received on account of the Municipal fund shall be paid into a Government Treasury, or into any bank or branch bank used as a Government Treasury in or near the Municipality. However, in contravention to the said provision, four ULBs maintained 34 additional bank accounts without approval of the Government -Scrutiny of records revealed that six ULBs failed to maintain grant/loan appropriation register -During scrutiny of the Stock Register of ULBs, 84 Money Receipt Books of different types were not produced before audit by four ULBs due to which actual collection made by the collecting agents could not be quantified	-There is no specific provision either in the JMA, 2000 & RMC Act, 2001 or in the Municipal accounts Rules made thereunder for internal audit of accounts of ULBs. As such, no ULB has an internal audit wing.	-There was poor response to outstanding audit observations. As of March 31, 2012, 2745 audit paras pertaining to 170 audit reports were outstanding. -Upto 31 March 2012, 140 surcharge notices involving an amount of ` 1.47 crore issued during 2000-2012 were pending.	-The formats of database on finances of ULBs should be adopted by the Government and preparation of database by ULBs may be ensured	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Jharkhand/10_11/Chap_2.pdf
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (Municipal Councils, Nagar Panchayats)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Bihar	The Examiner of Local Bodies Accounts, Bihar Urban Local Bodies	2010-11	Issued to State Govt.	Apr 2010-Mar 2011	Audit of ULBs	139	11	128				-There are 3911 Paras from 171 Audit reports issued between 2008-11 of which 2127 paras are outstanding	-Five cases of surcharge involving ` 2.42 lakh were proposed and notices were issued for recovery by the ELA, Bihar in three ULBs, during the year 2010-11. -The State Government was deprived of revenue to the tune of ` 13.68 crore due to non deposit of Education and Health Cess in Government Account by nine ULBs -The maintenance of Accounts and Records was deficient as all the transactions were not compiled. Even basic records such as Govt. Grant Register, Loan Register, Advance Ledger, Deposit Ledger, Asset Register, etc. were either not maintained or improperly maintained.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Bihar/Bihar.html

Annexure 2- Status of ULB Audits

State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (Municipal Councils, Nagar Parishads)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Madhya Pradesh	Comptroller and Auditor General of India (CAG)	2011-12	Issued to State Govt.		Annual Technical Inspection Report Out of 377 ULBs (14 Municipal Corporation, 100 Municipal Councils and 263 Nagar Parishads) in the State, 80 ULBs (10 Municipal Corporation, 20 Municipal Councils and 50 Nagar Parishads), were taken in audit plan. However, records of 68 ULBs (10 Municipal Corporation, 18 Municipal Councils and 40 Nagar Parishads) were scrutinised during the year 2011-12 As per recommendations of the 11th FC, audit of ULBs by Director Local Fund Audit (DLFA) has been brought (November 2001) under the Technical Guidance and Supervision (TGS) of the C&AG	377	14	363		-During test check of accounts of 68 ULBs in the year 2011-12, it was noticed that the accounts were not prepared on accrual basis except in 10 Municipal Corporations. -During the audit (2011-12) it was noticed that cash book balance of `5.70 crore was less than pass book balance in nine ULBs and cash book balance of `1.09 crore was more than pass book balance in two ULBs at the end of the year 2011-12.	-During test check of the records of UADD during 2011-12 it was found that internal audit departments were not created in each ULB up to August 2012.	-The number of outstanding audit objections of ULBs included in the PAG's Inspection Reports were 5586	-Budget and Accounts in the format prescribed by the C&AG, were not maintained by the ULBs. -An internal audit system was not established in ULBs.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/MP/11_12/Chap_1ULB.pdf
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities (Municipal Councils, Nagar Parishads)	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
Orissa	Comptroller and Auditor General of India (CAG)	2009-10	Issued to State Govt.		Annual Technical Inspection Report The Examiner, Local Fund Audit (ELFA) is the Statutory Auditor and conducts audit of the ULBs under Section 113 of Orissa Municipal Act 1950 through the District Audit Officers, Audit Superintendents and Auditors. Audit of 20 per cent of ULBs was entrusted to the CAG under section 20(1) of the CAG's (DPC) Act, 1971. As most of the ULBs are significantly financed by grants from Central/State Government, they were audited under Section 14 of CAG's (DPC) Act.	103	3	37	63	-As per Rule 145 of the Orissa Municipal Rules 1953, after the closure of the financial year and not later than 15th April of the following year, the annual accounts of ULBs shall be prepared showing totals of receipts and expenditure under different heads during the year. It was noticed in audit that none of the test checked Municipalities prepared the annual accounts as envisaged in the Rules.		-As many as 142030 paragraphs of Inspection Report issued from time to time by DLFA were outstanding due to want of proper compliance as on 31 March 2010 -Similarly, 825 paragraphs relating to Inspection Reports issued by Senior DAG (LBA&A), Orissa remained unsettled as of 31 March 2010 due to want of proper compliance.	-the State Government has devolved 16 out of 18 functions enumerated in Twelfth Schedule of the Constitution to the Urban Local Bodies. -Test check of records revealed that out of available balance of `264.90 crore during 2009-10 expenditure incurred for `122.14 crore restricting the expenditure below 50 per cent. Huge unspent balances were noticed in schemes viz. IHSDP, BRGF, TFC, RD etc.	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Orissa/Orissa.html
State	Auditor	Year	Status	Period of audit	Scope of Audit	No. of ULBs	No. of Municipal Corporations	No. of Municipalities	Notified Areas	Annual Accounts	Internal Audit	Pending audit queries and resolutions	Observations	Link
West Bengal	Examiner of Local Accounts	2010-11	Issued to State Govt	Feb 10 to Jan 11		59				-Of 419 Annual Accounts of 126 ULBs upto year 2009-10, 45 ULBs submitted 67 Accounts upto July 2011. Remaining 352 Accounts were not submitted as of July 2011 -KMC- Understatement of liability by 40 cr, overstatement of assets by 77 cr. Surplus overstated by 117 cr. -4 MC's had not submitted annual accounts until Jul 2011	Of 52 ULBs, 48 did not conduct any internal audits during 2007-10. Of the remaining 4, none were up to date and only 1 furnished the report.		Lack of budgetary control and absence of reliable budget formulation. Full fledged accounts team with skilled staff lacking in most ULBs. Inadequate internal control and proper accounting of substantial public funds spend by the ULB.	

Annexure 3- Brief History of Municipal Financial Reforms

#	Key development	Year	Salient Feature/Recommendations	Outcomes/Status
1	Eleventh Finance Commission recommends CAG's oversight over accounts and audit of all Local Bodies (LBs) including ULBs.	2000-2005	<p><u>"The C&AG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the tiers/levels of Panchayats and urban local bodies."</u></p> <p><u>"The CAG should prescribe the format for the preparation of budgets and for keeping of accounts for the local bodies."</u></p> <p><i>"Audit of accounts of the local bodies be entrusted to the CAG who may get it done through his own staff or by engaging outside agencies..." (Paras 8.19 b,d,f)</i></p>	
2	ICAI publishes Technical Guide on Accounting and Financial Reporting by Urban Local Bodies (ULBs)	Sep 2000	Makes reference to accrual based accounting, uniform accounting standards and has formats for financial statements of ULBs.	
3	Local Bodies department established in the CAG	Dec 2001		-17 new offices created under the CAG in 2004 -6 offices upgraded to AG in 2011-12
4	Ministry of Finance guidelines recommend "Database on Finances of Local Bodies" to be developed/collated by the MoUD based on formats to be prescribed by the CAG	2003	Pursuant to Report of the Eleventh Finance Commission	
5	Report on Accounting and Budget Formats for ULBs by CAG Task Force		Pursuant to Report of the Eleventh Finance Commission and Guidelines issued by the Ministry of Finance. Eventually led to the NMAM.	
6	Model Municipal Law issued by the MoUD	Oct 2003	<i>Inter alia</i> included provisions for -Standardised manual and accounting practices - Annual financial statements -Inventory of assets -Municipal Accounts Committees	
7	National Municipal Accounts Manual (NMAM) drawn up by Task Force chaired by a Dy CAG and membership from MoUD, State Municipal Departments, ULBs and select Department of Local Fund Audit representatives.	Dec 2004	Salient features included, provisions for -Accrual basis of accounting -Codification structure for maintenance of accounts -Both functional and operational classification of items -Both Budgets and Accounts covered	-9 states have drawn up state manuals based on NMAM -10 states following accrual basis of accounts
8	Twelfth Finance Commission	2005-2010	<p><u>"Most states do not have credible information on the finances of their local bodies. Local Bodies would continue to need funding support for building data base and maintenance of accounts. States may assess the requirement of each local body in this regard and earmark funds accordingly out of the total allocation recommended by us." (Para 8.55 xv)</u></p>	
9	ICAI constitutes a full-fledged Committee on Accounting Standards for Local Bodies (CASLB)	Mar 2005		<u>Only 7 Accounting Standards have been issued in 7 years.</u>
10	Public Disclosure Law, a mandatory reform under the JNNURM	2005	Model Law <i>inter alia</i> provides for disclosure of - Audited Annual and Quarterly financial statements -Service Level Benchmarks - Master Plans -Details of Works and projects -Details of Grants and Taxes	20 states have enacted. 2 have notified Rules. <u>None have implemented Model Law, no proper compliance by ANY ULB.</u>

Annexure 3- Brief History of Municipal Financial Reforms

#	Key development	Year	Salient Feature/Recommendations	Outcomes/Status
11	Accounting Reforms part of JNNURM	2005	Shift to Double Entry Accrual Based accounting system	-44 cities have claimed achievement. <u>-22 yet to achieve</u> <u>Only 1 ULB out of 7 States/Uts had produced accrual based accounts as per JNNURM Audit Report (Nov 2012).</u>
12	Service Level Benchmarks (SLBs) for key urban services adopted by the MoUD	2006	Framework envisages disclosure of c.30 Service Level Benchmarks across 4 categories- Water Supply, Sanitation, Solid Waste Management and Storm Water Drainage. Thirteenth Finance Commission has mandated disclosure of SLBs as a precondition for draw down of performance grants.	<u>c.1400 ULBs across 14 states have notified their SLBs.</u> MoUD developing website for reporting and disclosure of SLBs. However, quality of data may not be high and there is no systematic use of SLB data for internal decision making by ULBs.
13	Technical Committee on Budget and Accounting Standards for ULBs formed	Oct 2006	Constituted to -deliberate on accounting policies -initiate steps towards setting up accounting standards and -help in bringing a broad uniform structure of accounts and budgets	<u>Only inaugural meeting held.</u>
14	Report of the Second Administrative Reforms Commission	Oct 2007	Recommendations include -The accounting system for the urban local bodies (ULBs) as provided in the National Municipal Accounts Manual (NMAM) should be adopted by the State Governments. -The financial statements and balance sheet of the urban local bodies should be audited by an Auditor in the manner prescribed for audit of Government Companies under the Companies Act, 1956 with the difference that in the case of audit of these local bodies, the C&AG should prescribe guidelines for empanelment of the Chartered Accountants and the selection can be made by the State Governments within these guidelines. The audit to be done by the Local Fund Audit or the C&AG in discharge of their responsibilities would be in addition to such an audit. -The existing arrangement between the Comptroller & Auditor General of India and the State Governments with regard to providing Technical Guidance and Supervision (TGS) over maintenance of accounts and audit of PRIs and ULBs should be institutionalised by making provisions in the State Laws governing local bodies. -The system of outcome auditing should be gradually introduced. For this purpose the key indicators of performance in respect of a government scheme will need to be decided and announced in advance. -To complement institutional audit arrangements, adoption and monitoring of prudent financial management practices in the local bodies should be institutionalised by the State Governments by legislating an appropriate law on Fiscal Responsibility for local Bodies.	

Annexure 3- Brief History of Municipal Financial Reforms

#	Key development	Year	Salient Feature/Recommendations	Outcomes/Status
15	Thirteenth Finance Commission recommendations on audit and accounting	2010	Key recommendations include - Accounts of PRIs and ULBs to be maintained in the formats prescribed by C&AG of India. - Database to be maintained as per formats prescribed by C&AG. - TG&S over the audit of all the tier of the LBs be given to C&AG. - Annual Technical Inspection Report as well as the Annual Report of the Director of Local Fund Audit must be placed before the State Legislature.	
16	Report of the HPEC on Indian Urban Infrastructure and Services	Mar 2011	Recommendations include - Make accrual-based double-entry accounting mandatory - Market Worthiness Disclosure Standard (MWDS), which should require cities to report data in a regular and timely manner in a Market Worthiness Disclosure Statement. - State governments ensure that all ULBs conduct annual audits of their financial statements. recommends the setting up of Local Fund Audit Commissions by state governments which, subject to transparent guidelines prescribed by the Comptroller and Auditor General of India (CAG), can provide for engagement of qualified chartered accountants for local fund audits, subject to payment of predetermined fees.	
17	Modified Database on Finances of Local Bodies issued by the MoUD in consultation with the CAG	2011		
18	Seminar on Performance Reporting for ULBs hosted by the CAG	Sep 2012	Multi-stakeholder conference attended by Union Minister for Urban Development and the CAG of India, besides 15 cities across various States. Comprised sessions with panel discussions on Financial Reporting and SLBs.	The 15 cities that attended the Seminar in New Delhi on 5 Sep had a combined Budget size of Rs 52,000 crores, Assets of Rs 73,000 crores and Annual Revenues of Rs 26,000 crores. <u>Not even 1 city had published audited accounts for 2011-12 and only 4 had produced audited accounts for 2010-11.</u> <u>Similarly, only 1 out of the 15 cities had disclosed its audit report on its website. Only 5 had disclosed their annual accounts.</u>

MoUD- Ministry of Urban Development
HPEC- High Powered Expert Committee
ICAI- Institute of Chartered Accountants of India

CAG- Office of the Comptroller and Auditor General of India
JNNURM- Jawaharlal Nehru National Urban Renewal Mission



Annexure 4 - Status of Accounting Standards for Local Bodies

Sl No.	Stage of Issuance	Number of Standards	Topics Covered
1	Issued	7	<ul style="list-style-type: none"> - Presentn of FS - Revenue from exchange txns - Borrowing Costs - Fixed Assets - Construction Contracts - Inventories, and - Events after reporting date
2	Draft under consideration of Council	1	<ul style="list-style-type: none"> - Intangible Assets
3	Draft issued as Public Exposure	2	<ul style="list-style-type: none"> - Accounting Policies, Changes in Accounting Estimates and Errors - Financial Reporting under Cash Basis of Accounting
4	Draft issued as Preliminary Exposure	1	<ul style="list-style-type: none"> - Provisions, Contingent Liabilities and Contingent Assets
5	Being finalised for circulation to Council members	1	<ul style="list-style-type: none"> - Revenue from Non-exchange txns
6	Drafts under preparation/review/revision by Study groups/consideration of Committee	11	<ul style="list-style-type: none"> - Cash Flows - Investment Property - Employee Benefits - Leases - Forex accounting - Service Concession Agmts - Segment Reporting - Budgets in FS - Consolidation - Investments in Associates - Investments in JVs
Total		23	

Annexure 5- Audit Checklist

I Maintenance of Accounts		Yes/No
A <u>Legal & Regulatory framework</u>		
1	Does the governing legislation (i.e. the relevant Municipal Corporation Act) of the ULB carry provisions on Maintenance of Accounts?	
2	If so, do such provisions require <ul style="list-style-type: none"> a. Basis of Accounting to be Double Entry Accrual Based Accounting (DEABS)? b. Compliance with Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India and c. Adherence to the National Municipal Accounts Manual in respect of <ul style="list-style-type: none"> - Codification or classification of account heads (i.e. Chart of Accounts) - List of books of account and records to be maintained and - Reporting formats of balance sheet, profit and loss account and cash flow statement and the annual budget of the ULB 	
3	Have Rules been framed under the governing legislation on <ul style="list-style-type: none"> a. Classification of Account Heads/Chart of Accounts b. List of books of account and records to be maintained by the ULB c. Frequency of updation and maintenance of such books of account and records and d. Formats of such books of account and records 	
B <u>Accounting Policies and Procedures</u>		
1	Does the ULB have an Accounting Manual applicable to it?	
2	Is such Accounting Manual in accordance with the requirements of the National Municipal Accounts Manual (NMAM) in respect of <ul style="list-style-type: none"> - Codification or classification of account heads (i.e. Chart of Accounts) - List of books of account and records to be maintained and - Reporting formats of balance sheet, profit and loss account and cash flow statement and the annual budget of the ULB 	
3	Does the Accounting Manual provide for <ul style="list-style-type: none"> i. Codification or classification of account heads ii. Ownership of Accounts iii. Frequency and Ownership of Reconciliation of Accounts iv. List of books of account and records to be maintained by the ULB v. Format of books of account and records vi. Frequency of maintenance and updation of books of account and records vii. Accounting Standards or Accounting Policies to be followed by the ULB for measurement and recognition of transactions (e.g. revenue recognition, provisioning, pension accounting etc.) viii. Classification of Cost Centres ix. Ownership of Cost Centres 	
4	At what frequency is the Accounting Manual required to be reviewed and updated?	
5	When was the Accounting Manual of the ULB last reviewed and updated?	
6	Who is responsible for <ul style="list-style-type: none"> i. Ownership of Accounting Manual ii. Review and updation of Accounting Manual 	
C <u>Books of Account and Records</u>		
1	Does the ULB maintain a single set of books of account and records on DEABS?	
2	At a minimum, does the ULB maintain the following books of account and records: <ol style="list-style-type: none"> 1. Cash Book (showing a record of all transactions and opening and closing balances) 2. Cash Reconciliation Statement (reconciliation between physical cash available on hand and in safe and balance reflected in Cash Book) 3. Cash Payment Vouchers and Cash Receipt Vouchers (with adequate and appropriate vendor bills supporting the same) 4. Bank Book (showing a record of all cheque and online banking transactions and opening and closing balances) 5. Bank Reconciliation Statements (showing reconciliation of balances as per bank statement/pass book and Bank Book for each bank account maintained by the ULB) 6. Bank Payment Vouchers and Bank Receipt Vouchers (with adequate and appropriate vendor bills supporting the same) 7. Fixed Asset Register (showing a record of all fixed assets owned by the ULB including asset code, cost, useful life, accumulated depreciation, written down value and physical location of the asset) 8. Asset Movement Register (for tracking physical movement of fixed assets, changes in custody etc.) 9. Inventory Records (showing for each item of inventory, inventory code, opening balance, purchases and consumption, closing balance, corresponding amounts) 10. Journal Vouchers (for non-cash and non-bank items such as provisions and accruals) <p><i>The above is a list of only primary books of account. ULB may be required to maintain further records as required by its governing legislations or rules thereunder, or in support the above books. Further, books of account and records specific to certain functions have not been considered here. e.g. property tax collection records. These are documents underlying cash receipts and therefore a review of maintenance of cash receipts is envisaged to cover underlying records as well.</i></p>	
3	What is the frequency of maintenance and updation of each book of account and record maintained by the ULB?	
4	What is the frequency of reconciliation and review of each of the book of account and record maintained by the ULB?	

Annexure 5- Audit Checklist

5	Does the ULB maintain an ageing schedule of unreconciled balances?	
6	What is the ageing profile of the latest available list of unreconciled balances?	
7	Does the ULB have a documented process for review and resolution of unreconciled balances?	
8	Does the ULB follow a process of seeking third party confirmation of balances at periodic intervals from banks, vendors, contractors etc. (e.g. during year end close) to ensure timely reconciliation of counter party balances?	
9	At what frequency does the ULB draw up income and expenditure statement, balance sheet and cash flow statement based on its books of account?	
10	Does the ULB maintain evidence of review of the same by its Chief Financial Officer/Chief Accounts Officer (CFO/CAO)?	
11	Does the ULB submit and adopt its income and expenditure statement, balance sheet and cash flow statement to i. Municipal Commissioner (MC) ii. Standing Committee (SC) iii. Council	
12	If so, at what frequency?	
13	Is there a statement of variances prepared on a monthly or quarterly frequency, explaining in detail movements in balances and transactions between periods?	
14	Is such a statement reviewed by the CFO/CAO and submitted to the MC/SC/Council?	
15	Does the ULB have a process of resolving any exceptional items arising out of the statement of variances?	
16	Are there any disincentives for delays in finalising audited annual accounts?	
II Internal Controls		
D Internal Controls		
1	Does the ULB have an Internal Controls Manual? When was it last reviewed and updated? Who is the Owner of this Manual?	
2	Has the ULB put in place internal controls in respect of i. Segregation of physical custody of assets and inventories and maintenance of records relating to the same ii. 'Maker-Checker' controls, whereby work done by an officer is always reviewed by a senior officer iii. 'Cut-off' procedures to ensure that accounting entries pertaining to transactions are recorded in the appropriate accounting year, especially those occurring close to period/year end iv. Periodic physical verification of Fixed Assets and Inventories v. Self-Assessments of critical internal controls by individual departments and functions vi. Account Reconciliations including Bank Reconciliation Statements vii. Disclosure of related party interests, transactions and balances especially by employees and contractors <i>The above is illustrative. This needs to be expanded to cover ALL internal controls relating to accounting and reporting.</i>	
3	Does the ULB have a process of internal review of i. Design of Internal Controls and ii. Operation of Internal Controls <i>This could either be through self-assessments or by building such reviews into operating manuals of individual functions and departments.</i>	
4	If so, what is the frequency of such review and how is such review documented?	
5	Is the ULB covered by an internal audit function?	
6	If so, who is the internal auditor of the ULB?	
7	Who does the internal auditor of the ULB report to?	
8	What is the frequency and scope of internal audit?	
9	When was the last internal audit carried out?	
10	Does the ULB place the report of the internal auditor before the Council and/or the State Legislature?	
11	Who responds to the comments and observations of the internal auditor and within what timeframe?	
12	Are there outstanding comments and observations from the internal auditor's reports of the last 3 years that have remained unresolved?	
13	Does the ULB have a Frauds and Errors reporting policy whereby individual functions and departments identify and report instances of errors and frauds that have caused financial loss to the ULB in a timely manner?	
14	How many such instances have occurred in the ULB in the last 3 years?	
15	What has been the cumulative financial loss arising out of such instances?	
16	What steps has the ULB taken in respect of additional internal controls and checks and balances, in response to these instances of frauds and errors?	
E Information Systems		
1	Does the ULB have an IT based accounting system?	
2	Is it an end to end integrated accounting system without manual intervention?	
3	If not, what are the specific areas of manual intervention or absence of IT integration?	
4	Has the ULB done a risk assessment of such manual interventions?	
5	If not, what are the generic risks that could potentially arise from such manual interventions?	
6	What are the modules that form part of or are integrated with the accounting system?	
7	Are the 'Masters' in the IT system in accordance with approved policies and documents? (e.g. the Chart of Accounts used in the IT system should be as per the Rules applicable to the ULB)	
8	Is there a periodic IT audit to assess the adequacy and functioning of internal controls in the accounting system? (e.g. access controls, authorisation controls)?	

Annexure 5- Audit Checklist

9	Does the accounting system produce the income and expenditure statement, balance sheet and cash flow statement and the annual budget of the ULB with little or no manual intervention?	
10	Does the ULB maintain a record of overrides of IT controls or where there is forced manual intervention?	
11	Are such overrides duly authorised?	
12	How many such overrides have occurred in the last financial year and covering what amount of transactions?	
III Audit of Annual Accounts		
A Legal & Regulatory framework		
1	Does the governing legislation (i.e. the relevant Municipal Corporation Act) of the ULB carry provisions on Audit of the ULB?	
2	Do such provisions cover <ul style="list-style-type: none"> i. Audit of Annual Accounts ii. Audit of the ULB by Chief Auditor/DLFA iii. Internal Audit iv. Performance Audit 	
3	Does the governing legislation provide for frequency and timelines of audits and finalisation of audited annual accounts?	
4	Are there any disincentives for delays in finalising audited annual accounts?	
B Frequency and Scope		
1	What is the frequency of each of the ULB's audit processes?	
2	What was the last financial year in which each of these audits were undertaken?	
3	Do following different types of audit functions/processes exist/cover the operations of the ULB: <ul style="list-style-type: none"> i. Audit of Annual Accounts ii. Internal Audit iii. Performance Audit iv. Compliance Audit v. Outcome Audit vi. Transaction Audit 	
4	Is there a documented process for drawing up the annual audit plan in the case of a) Chief Auditor and b) Internal Auditor	
5	Is there a consultation process that is part of the annual audit plan preparation in the case of a) Chief Auditor and b) Internal Auditor	
6	Where DEABS is in place, does the audit process cover the same?	
7	What is the scope of the audit of annual accounts in terms of sampling, coverage etc.	
C Timeliness		
1	In case of delays in carrying out audits, how many instances were on account of delay in finalisation or preparedness of the ULB?	
2	Until which financial year has the ULB finalised its audited annual accounts?	
D Powers and Independence		
1	Who does the auditor of the ULB report to?	
2	Does the ULB place its audit reports before the Council and/or the State Legislature and/or the Standing Committee?	
3	Has the State Government transferred Technical Guidance and Supervision (TG & S) for audit of ULBs to the Comptroller and Auditor General of India, in accordance with the requirements of the Thirteenth Finance Commission (TFC)	
4	Is there a Committee of the Council or the State Legislature dedicated to reviewing Audit Reports of ULBs?	
5	Has the ULB appointed an external firm of Chartered Accountants to audit its annual accounts?	
E Follow up Action		
1	Does the Auditor's Reporting process comprise elements of value-added recommendations, discussions with management for corrective action?	
2	Does the ULB have a process to respond to and resolve auditor's observations and queries?	
3	What is the timeline within which the ULB has responded to auditor's observations and queries in the last 3 financial years?	
4	Are there any unresolved or unaddressed auditor's observations or queries? If so, how many?	
5	Has the ULB made substantive changes to its internal controls and/or processes or taken any corrective measures in response to adverse auditor's observations raised in the last 3 financial years? If so, what are they and when were they undertaken?	
6	What is the cumulative financial implication of auditor's observations and queries (adverse) raised in the last 3 financial years?	
7	Where audit reports were placed before Council/State Legislature/Standing Committees of Council/State Legislatures, in how many such cases have contents of such audit report been discussed (as against being taken on record or noted)?	
IV Performance Measurement and Reporting		
A Service Level Benchmarking		
1	Have the ULB's Service Level Benchmarks (SLB) been published in accordance with the requirements of the TFC?	
2	Until which financial year have SLB's been published?	
3	Is the ULB covered by a Performance Management Information System (PMIS) as envisaged in the SLB framework?	
4	Has the ULB got the SLB data and the underlying raw data audited to gain assurance on the accuracy of SLBs?	
5	If not, how has the ULB gained assurance on notified SLB data?	

Annexure 5- Audit Checklist

6	Has the ULB reconciled raw data used for computation of SLBs with its books of account and records or other credible source document?	
7	Has the ULB integrated SLBs into its decision-making/resource allocation process?	
8	If so, is there a documented process to evidence the same?	
9	Is there a documented process for collection and compilation of data underlying SLBs?	
B	<u>Performance Measurement and Reporting</u>	
i	<u>Legal & Regulatory framework</u>	
1	Does the governing legislation of the ULB require regular computation and measurement of the ULB's performance in terms of specific ratios and metrics (i.e. focussed on outcomes for citizens)?	
2	Do any of the rules under the governing legislation lay down a structured process of performance measurement by the ULB across its key functions and services?	
ii	<u>Performance Measurement</u>	
1	Does the ULB measure its performance (service delivery, infrastructure) in terms of i. Adherence to Timelines ii. Spending within Budget iii. Number of citizens serviced or benefitted iv. Cost-benefit analysis v. Efficiency of operations vi. Socio-economic objectives such as equity, environment etc. (again, in terms of number of citizens serviced or impact) vii. Achievement of outcomes <i>This is very critical and central to this effort. One of the significant gaps in ULB operations is the lack of data driven decision making and objective measurement of performance, achievement of objectives.</i>	
2	Does the ULB compute ratios and metrics that are compared with pre-defined benchmarks (as in the case of SLBs for four services) across its key functions and services, to facilitate performance evaluation and informed decision making. Examples include i. Property Tax coverage (Number of property tax assessees/Total number of properties) ii. Property tax collection efficiency (Property tax collected/Property tax due) iii. Monthly maintenance expenditure per public toilet (Total monthly maintenance expenditure on toilets/Number of public toilets) iv. Deficit in Affordable Housing (Number of affordable housing dwelling units/Total number of affordable housing dwelling units required) v. Capital Expenditure per Km of Footpath (Total Expenditure on construction of footpaths/Kms of footpaths constructed)	
3	Does the accounting system of the ULB facilitate such/equivalent performance measurement?	
4	Does the ULB's accounting system facilitate collection of or does the ULB collect base data and information required for computation of performance metrics?	
5	In the absence of performance metrics, does the ULB have an alternative documented process for budgetary allocations and performance measurement or other mechanism to evaluate efficiency of operations and achievement of organisational and department-level objectives?	
6	<i>Where the ULB does not have a performance reporting framework as above in place, for a sample set of performance indicators, collect data from the ULB to evaluate its performance against peers and widely accepted benchmarks.</i> <i>This is to be drawn up and provided as an annexure.</i>	
C	<u>Reporting and Disclosures</u>	
i	<u>Legal & Regulatory framework</u>	
1	Is the ULB covered by a Public Disclosure Law?	
2	Have rules under the PDL been made applicable to the ULB?	
ii	<u>Reporting and Disclosures</u>	
1	Has the ULB complied with the provisions of the PDL and rules thereunder by making suo motu disclosures of its financial and operational information on timely basis?	
2	In the absence of PDL, what is the extent of compliance of the ULB with Section 4 of the Right To Information Act 2005?	
3	Has the ULB disclosed its annual budgets and annual audited accounts for the last 5 financial years? If not, what is the extent of compliance?	
4	Has the ULB disclosed its audit reports of the last 5 financial years? If not, what is the extent of compliance?	
5	Does the ULB disclose statements of budgets vs actuals, action taken on auditor's observations, statement of income and expenditure, balance sheet and cash flow statement in the public domain?	
6	Does the ULB disclose Management Discussions and Analyses on its performance and finances at periodic intervals?	
V	<u>Budgeting and Fiscal Responsibility</u>	
A	<u>Legal & Regulatory framework</u>	
1	Does the governing legislation carry provisions in respect of the annual budget of the ULB?	
2	Does the governing legislation provide for penalties in case of delays in presenting the budget of the ULB?	

Annexure 5- Audit Checklist

3	Is the ULB covered by a Fiscal Responsibility and Budget Management legislation or an equivalent?	
4	If not, is there an alternate legal or regulatory mechanism that monitors i. the reasonableness of the budgeting process of the ULB (i.e. extent of variance in budgeted estimates vs revised estimates) and ii. Prudent financial management (e.g. ability to service and/or repay debt obligations, extent of own revenues compared to scale of operations)	
5	Does the governing legislation or other relevant legislation provide for a wide and deep consultation process with citizen groups and various stakeholder groups prior to finalisation of annual budgets?	
B	<i>Quality of budgeting processes</i>	
1	What is the extent of variance between budgeted estimates and revised estimates and revised estimates and actuals in the last 3 financial years	
2	What have been the time delays in presenting annual budgets in the Council in the last 5 financial years?	
3	Does the ULB maintain a database of operations and finances which facilitates a robust annual budget to be produced?	
4	If not, what is the basis or process by which the ULB prepares its annual budgets? Is the same documented?	
5	Has the ULB's budgeting processes been audited?	
C	<i>Review of Budgets</i>	
1	Does the ULB have a process to periodically review budgets vs actuals to proactively identify areas of concern?	
2	If so, how frequently does the ULB produce a statement of budgets vs actuals?	
3	Is the statement of budgets vs actuals submitted for review to i. MC ii. SC iii. Council	
4	Is there evidence of review of statements of budgets vs actuals and of action plan arising from the same?	
5	What corrective action has the ULB taken based on the latest such review?	
VI	Human Resources	
1	What is the staff strength of the accounts department?	
2	How many of the staff are duly qualified in accounting, audit or reporting or related areas?	
3	Does the organisation structure of the accounts department appropriately provide for staff dedicated to internal controls, performance reporting and other value-added functions in addition to staff for data entry, recording of accounting entries etc.	
4	Does the ULB have a training policy for its accounts and audit staff?	
5	How many training sessions on accounts, audit and reporting have accounting staff of the ULB attended in the last 3 financial years?	
6	Does the accounts team of the ULB include staff members who at any time earlier in their career have been implicated in any fraudulent activity?	