

**GOVERNMENT OF INDIA
URBAN DEVELOPMENT
LOK SABHA**

UNSTARRED QUESTION NO:2705
ANSWERED ON:17.03.2006
ACCOUNTING SYSTEM FOR URBAN LOCAL BODIES
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Will the Minister of URBAN DEVELOPMENT be pleased to state:

- (a) whether Comptroller and Auditor General (C&AG) has observed that the accounting system followed by urban local bodies is faulty and due to this development schemes of the local bodies are affected leading to misappropriation of large funds;
- (b) if so, whether the Government is taking any action to replace the present accounting system; and
- (c) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF URBAN DEVELOPMENT (SHRI AJAY MAKEN)

(a)to(c): Most of the urban local bodies (ULBs) are following cash-based single entry accounting system in which neither do they prepare an income and expenditure statement nor a balance-sheet. The annual account prepared by them reflects only cash flow, i.e. money actually received and spent during a financial year without taking into account the accrual income and outstanding liabilities pertaining to the year. The Eleventh finance Commission in its report had, therefore, recommended that the Comptroller and Auditor General (C&AG) of India should exercise control and supervision over proper maintenance of accounts of ULBs and their audit. The C&AG, in turn, constituted a Task Force under the chairmanship of Deputy C&AG of India in February 2002 to recommend budget and accounting formats for ULBs in India.

In their report submitted in December, 2002, the Task Force recommended accrual based accounting system and suggested budget and accounting formats along with significant accounting policies, cost of important utilities and services and MIS reports. Ministry of Urban Development (MoUD) circulated the report to all States for implementation in April, 2003. Further, MoUD in cooperation with C&AG has developed and

circulated a National Municipal Accounts Manual in January, 2005 to help the States prepare their State-specific municipal accounts manual to adopt accrual based accounting system. MoUD has also been organizing national and regional workshops to help the States adopt recommended accounting system for their ULBs. Adoption of this accounting system would ensure proper financial reporting and assist ULBs access capital markets to meet their fund requirements. Moreover, the recommended accounting system would ensure transparency and accountability in ULBs. Most of the States have initiated action to adopt the accrual based accounting system for their ULBs. It is worth mentioning that Public Entry Accounting System has been made as one of mandatory reforms for ULBs under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) for accessing central assistance.