

Fund Based Double Entry Accrual Accounting System
(ULBs in Karnataka through Directorate of Municipal Administration)

A) Project Objective

- i) To bring about Transparency, Accountability and Accuracy in Accounting
- ii) Better Financial Management and Decision making
- iii) To develop standard Accounting policies and procedures, which are uniform through out the State
- iv) To develop a proper reporting system on financial performance & status of ULB
- v) To develop a proper internal check and control system
- vi) Computerization of accounts
- vii) To develop a proper system for preparation of budget
- viii) To facilitate Better Urban Governance.

B) Pre project situation: The Urban Local Bodies in Karnataka were maintaining their accounts under single entry, cash based system. It was an incomplete accounting system wherein ULBs were not aware of what they own and what they owe. There were no financial reports generated by the accounting system for fund management, resource mobilization and budgetary control.

- i) Except Cash book, there was no Books of accounts maintained
- ii) Financial information available was only about Receipts & payments
- iii) No check on accuracy of accounts
- iv) Report on Financial status & financial performance of ULB's was not available
- v) No differentiation between capital & Revenue items

- vi) Information was available in a fragmented manner, in various registers & documents spread across various sections
- vii) Standardization of account head & accounting procedures was not seen
- viii) Accruals of transactions were not made
- ix) Incremental budgeting was followed, which was not a scientific approach
- x) Manual accounting system was followed

C) **Project planning and implementation:** The Reforms initiatives are aimed at addressing the shortfalls of the old accounting system. A nodal agency was appointed at state level to study the best practices in other States, accounting standards and GAAPs (Generally Accepted Accounting Practices), to study the requirements of the ULBs of Karnataka and to design a proper computerised system of accounting.

- i) As reform initiative, Karnataka Municipal Accounting and Budgeting Rules 2006 (KMABR) introduced by the Government w.e.f 01.04.2006
- ii) Karnataka Municipal Accounting Manual (KMAM) was prepared based on National Municipal Accounting Manual
- iii) To study the feasibility, pilot implementation of the new system was done in three cities viz Maddur TMC, Byatarayanapura CMC and Mysore Corporation
- iv) Phase-wise implementation is carried out in 213 ULBs in following manner:

- I phase - 51 Towns w.e.f 01.04.2006
- II phase - 73 Towns w.e.f 01.04.2007
- III phase - 89 Towns w.e.f 01.04.2009
- v) For effective implementation of this new system, B.com graduates are appointed as Accountants and Accounting consultants in ULBs.
- vi) For effective implementation of Fund based double entry accounting system, Chartered Accountants Firms were appointed as “Field level Consultants” for ULBs for handholding in the first year.
- vii) Extensive training programmes were conducted for accountants and accounting consultants and the other staffs of ULBs.
- viii) Monitoring of the implementation was effectively done by Expert Management Cell, specifically created for this purpose.

D) Post project impact: The above innovative process has resulted in a fool-proof Accounting system with following outcomes;

- i) Karnataka Municipal Accounting Manual is available as a ready reference to guide the ULB staff
- ii) For the first time in the history of ULBs in Karnataka, Opening balance sheets were prepared to incorporate the assets and liabilities in the accounts of ULBs iii) The Fixed Assets worth around 6600 crores of rupees otherwise unnoticed have been physically identified, enumerated and brought into records
- iv) The new accounting rules make it mandatory to prepare fund wise accounting reports with following funds;
 - o General Fund
 - o Water Supply & Sewerage Fund
 - o Enterprise Fund
- v) This will assist in determining the extent of recovery of cost of providing services to citizens and ring fence the funds allocated for each purpose
- vi) The web-based software has enabled the Government in accessing database of all the ULBs on centralized server
- vii) The new accounting rules have mandated the preparation of City Management Report for each ULB, including following;
 - o Audited financial statements;
 - o Details of major works carried out;
 - o Additional revenue generation measures for further developmental works;
 - o Cost & Performance Indicators
- viii) Introduction of pre-budget public consultations during budget preparation has resulted in higher transparency, general awareness about ULB accounts/finances and increased accountability.
- ix) Institutionalization of reforms has enabled grooming of in house experts who have conducted innumerable training for ULB staff regarding change in accounting procedure and their role and responsibility.

- x) First phase implementation of the new system is effectively completed, and financial statements of 51 ULBs are available.

E) Other distinctive features/ accomplishments of the project:

- i) Dedicated Expert Management Cell has been created to monitor, effective implementation, and to trouble shoot field level problems
- ii) Karnataka Municipal Data Society (KMDS) has been established, with all ULBs and stake holders as its members, with the objective of taking the municipal reforms process forward
- iii) Training programme for elected representatives will be carried out to enable them to use the financial information effectively for decision making
- iv) First time in the history of ULBs, audit of financial statements by Chartered Accountant Firms is being carried out
- v) Internal controls, periodical reports, financial indicators & public participation in budget preparation are mandated in the accounting system
- vi) E-Gov Financials an web-based accounting software with central server architecture (Thin Client) is being used with centralised software installation.

F) Citizen Centricity: The major stake holders are Karnataka Urban Infrastructure Development Finance Corporation, State Accounts Department, Directorate of Municipal Department, Karnataka Electricity Board, Karnataka Water Supply and Sewerage Board and Urban local Bodies (ULBs) of Karnataka. During the development of new system, consultative work shops and meetings have been conducted. The project is divided into III phases, where first phase was started on 01.04.2006 covering 51 ULBs and effectively completed. II phase was started from 01.04.2007 covering 73 ULBs and final stage will start from 01.04.2009. Budget preparation, one of the key financial controls is now subjected to public participation through 2 rounds of public meeting for consultation. Preparation of financial statements, cost & financial indicators, budget variance & publicising them in two local newspapers promulgates the transparency & public accountability. Financial reporting helps in acquiring new sources of finances for emerging needs of



infrastructure development. Financial information helps in optimum utilization of funds for better citizen service. Finance related information is hosted on ULB website for public access and information. E-Gov financial software has been tested and certified by software testing and quality center, ministry of IT, Government of India.

G) User convenience: Financial information, one of the key for financial management is well established with accuracy, timeliness, relevancy, reliability & rationality in reporting. User-friendly application software for accounting is used. Preparation of Accounting records & financial statements is automated & readily available at all point of time for a particular period. Role based access system is enabled in the software resulting in delegation of work responsibilities & internal check. Each ULB has its own website and key financial information, budgets, various downloadable forms like property tax, trade license, birth and death, and other details of the ULB are hosted in that web site. Key Financial indicators of the ULB will be hosted in such website at the year end which is useful for various

stakeholders.

H) Efficiency Enhancement: Use of computers makes the process of accounting less burdensome, like, updating of vouchers will automatically result in preparation of accounting records & financial information, Application software is web-based which supports multi-user & can work on multiple windows. Integration with other application modules helps automatic updation of records by other departments apart from accounts department resulting in non-duplication of work. All the transactions of the ULBs will be updated on real time basis in the central server, and all reports and financial information are available instantly.

D) Cost effectiveness: Existing staff of the organization are used after training them on job under the new system & only accountant who is a B.com graduate is appointed in accounts section for carrying the accounting process. The application software used is web-based with central server architecture, which uses centralized software technology & reduces the cost of installing software at the client end. Centralized data