

# CHAPTER 1

## INTRODUCTION

1.1 Consequent to the 74<sup>th</sup> Constitutional Amendment and in pursuance of the 11<sup>th</sup> Finance Commission's recommendations, the status of the Urban Local Bodies has been enhanced with the devolution of more functions and funds to these bodies. To cope up with the increased and diversified responsibilities the efficient financial management system is urgently required to ensure effective and economic use and control of limited sources of income. In present era the Urban Local Bodies have to provide better civil facilities to the tax payers and also become self reliant.

1.2 Therefore in view of the above position and changing requirements for immediate and effective decision taking, the Ministry of Urban Development and Poverty Alleviation, Government of India requested the C&AG of India to devise an effective and appropriate accounting system for Urban Local Bodies. Accordingly C&AG of India constituted a Task Force in Feb. 2002 to evolve appropriate accounting formats for Urban Local Bodies. The Task Force submitted its report on Accounting and Budget formats for Urban Local Bodies to the above ministry in December, 2002. The report of the Task Force was accepted by Government of India in April, 2003 and forwarded to the State for its further implementation keeping in view the local requirements.

### **Applicability**

1.3 The manual is applicable to all urban local bodies. Accounting principles placed in the manual are primarily focussed on the concept of accrual basis of accounting. The accounting principles adopted for preparation of the financial statements of the ULBs shall be followed uniformly unless stated otherwise in the manual. The principles laid down in the National Municipal Accounts Manual have been complied with. This manual provides for integrating the budgeting and accounting systems to enable better control on the finances of the ULBs.

### **Accounting for Funds**

1.4 Funds are instituted for achieving certain objectives. For e.g. in some ULBs there may be dedicated Water and Sewerage Fund and income from these services (taxes and

charges) is kept in this fund and expenditure are also met out of the fund. The concept of funds brings accountability and better transparency. Such types of funds are normally treated as a separate accounting entity and separate books are maintained for the same. Hence, separate financial statements are prepared for each fund. In such a case each fund shall follow the principles and procedures given in this manual. In addition ULBs may have special funds to meet specific objectives. The treatment for these is provided in this manual.

1.5 Irrespective of the method chosen for disclosure, the Accounting principles recommended in this manual shall be applicable uniformly across all Funds.

1.6 The codification structure and input forms recommended are amenable to computerisation also. However, the registers are designed keeping in mind that ULBs will be implementing the recommended system mostly in a manual environment to begin with. Changes to the formats may be required for IT enablement.

### **H.P. Municipal Accounts Manual**

1.7 The H.P. Municipal Accounts Manual contains the required forms, formats, procedures, accounting entries, periodical statements, reconciliation procedures, etc. The recommended principles for accounting have also been included. The manual also contains a section on “Chart of Accounts”.

1.8 This Manual has been structured as follows:

#### ***Part I - General***

- Chapter 1 - Introduction (this Chapter)
- Chapter 2 - Definitions, Accounting Concepts & Accounting Conventions
- Chapter 3 - Significant Accounting Principles
- Chapter 4 - Codification Structure and Chart of Accounts
- Chapter 5 - General Accounting Procedures

### ***Part II - Accounting for Transactions***

- Chapter 6 - Property & Other Taxes
- Chapter 7 - Cess
- Chapter 8 - Water Supply
- Chapter 9 - Assigned Revenues
- Chapter 10 - Rental, Fees & Other incomes
- Chapter 11 - Public Works
- Chapter 12 - Stores
- Chapter 13 - Employee Related Transactions
- Chapter 14 - Health & Sanitation
- Chapter 15 - Other Revenue Expenditures
- Chapter 16 - Grants
- Chapter 17 - Borrowings (Loans Received)
- Chapter 18 - Special Funds
- Chapter 19 - Investments
- Chapter 20 - Fixed Assets
- Chapter 21 - Lease & Hire Purchase
- Chapter 22 - Loans & Advances
- Chapter 23 - Special Transactions
- Chapter 24 - Addition/Merger of Local Bodies
- Chapter 25 – Inter-Unit transactions
- Chapter 26 - Transactions relating to Municipal School Board
- Chapter 27 - Transactions relating to Transport Undertaking

### ***Part III - Period-end Requirements***

- Chapter 28 - Period-end Procedures
- Chapter 29 - Reconciliation Procedures
- Chapter 30 - Financial Statements
- Chapter 31 - Audit Report

### ***Part IV – Others***

- Chapter 32 - Budgeting & MIS reports
- Chapter 33 - Guidelines for preparation of Opening Balance Sheet

Annexure I : List of Forms and Registers.