



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

ICAI/012/CP&GFM/TP

Shri Amrit Abhijat,
Principal Secretary,
Urban Development Department,
Government of Uttar Pradesh
Lucknow.

Dear Sir,

Sub: Proposal to catalyse accounting reforms in Local Bodies of Uttar Pradesh.

Greetings from the Committee on Public and Government Financial Management (CP&GFM) of the Institute of Chartered Accountants of India (the ICAI). We are an Institute created under an Act of the Parliament. The ICAI is created as an authority in the field of accountancy.

ICAI is involved in the accounting reforms and improvement of financial reporting and management of Local Bodies. The ICAI through its CP&GFM is issuing Accounting Standards for Local Bodies (ASLBs available at https://www.icaai.org/post.html?post_id=1527). The Committee is also involved in creating awareness amongst Local Bodies and various end-users about accounting reforms and its implementation in Local Bodies by organising workshops/ training programmes (https://icaiv.com/category.php?cat_id=22) and developing e-learning modules (https://icaiv.com/category.php?cat_id=21).

Government of India has taken several initiatives to improve financial reporting in Local Bodies such as issuance of National Municipal Accounts Manual, key development schemes such as Jawaharlal Nehru National Urban Renewal Mission, Atal Mission for Rejuvenation and Urban Transformation and Recommendations of 15th Finance Commission which linked grants with accounting reforms and also focussed on implementation of accrual basis of Accounting in Local Bodies.

Under the on-going accounting reforms, accrual accounting implementation by ULBs has been linked with availing grants released by Central Government. However, it has been observed that Municipal Acts of various States does not support implementation of accrual basis of accounting. Consequently, most of Local Bodies may not be able to get the benefit of grants. Also, apart from availing grants, the new accounting should be implemented in view of the benefits and value addition it is expected to bring to the existing financial reporting practices of ULBs. Therefore, it is advisable that for smooth adoption of accrual accounting in Local Bodies, the relevant existing municipal and other Statutes may be considered for amendment as mentioned hereunder.

- i. The Uttar Pradesh Municipal Corporation Act, 1959, prescribes that the accounts of receipts and expenditure of the Corporation be maintained in the manner as may be prescribed. The Uttar Pradesh Municipalities Act, 1916 also prescribes that the accounts of municipalities to be kept in the prescribed manner.



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However, it has been observed that there is no specific mention of accrual basis of accounting and National Municipal Accounts Manual in Uttar Pradesh Municipalities Act, 1916 and Uttar Pradesh Municipal Corporation Act, 1959.

- ii. The Model Municipal Law, 2003 recommends for engagement of Chartered Accountants for Audit of ULBs. We appreciate that Uttar Pradesh Local Fund Audit Act, 1984 prescribe that the accounts of local authorities to be audited by the Director, Local Fund Audit Department. The Uttar Pradesh Municipal Corporation Act, 1959, prescribes that the audit of the account of the corporation to be conducted by the Mukhya Nagar Lekha Parikshak.

A few states such as Karnataka, Bihar, Sikkim and Jharkhand have amended their Municipality Acts to incorporate the provision of appointment of Chartered Accountants as Auditors in addition to the existing officials responsible for the same in the respective States. To cover the accounts and audit in arrears, it is suggested to consider engaging professionals like Chartered Accountants which is already being done at Rajasthan, Sikkim, Chhattisgarh, etc. This will enable Uttar Pradesh to expedite accounting reforms.

- iii. There is no requirement of Internal Audit in the Uttar Pradesh Municipal Corporation Act, 1959, Uttar Pradesh Municipalities Act, 1916 and Uttar Pradesh Local Fund Audit Act, 1984. However, Internal Audit is a mandatory requirement under AMRUT. It is suggested that the requirement of Internal Audit by Chartered Accountants may be incorporated in line with other States such as Bihar.

The aforesaid amendment would help in successful implementation and enforcement of accounting reforms. This communication is to seek an opportunity to catalyse accounting reforms in Local Bodies of Uttar Pradesh. This initiative will go a long way in setting up a quality structure for robust and transparent accounting framework at the Local Bodies.

We look forward to receive the way forward in this regard and to support you in the above endeavour.

Please revert to us for any further clarification/query.

Thanking you,

Yours sincerely,

CA. Kemisha Soni
Chairperson

CA. Sridhar Muppala
Vice-Chairperson

Committee on Public and Government Financial Management

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