



# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

Shri Devesh Kumar, IAS  
Principal Secretary  
Directorate of Urban Development Department  
Government of Himachal Pradesh

Dear Sir,

**Sub: Proposal to catalyse accounting reforms in Local Bodies of Himachal 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](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://icaity.com/category.php?cat\\_id=22](https://icaity.com/category.php?cat_id=22)) and developing e-learning modules ([https://icaity.com/category.php?cat\\_id=21](https://icaity.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 15<sup>th</sup> 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) Himachal Pradesh Municipal Act, 1994, prescribes that accounts of income and expenditure of the municipality to be kept as per the rules that may be prescribed.  
Himachal Pradesh Municipal Corporation Act, 1994 prescribes that the Himachal Pradesh Municipal Account Code, 1975 shall be applicable till the time regulations are framed.

In the aforesaid Himachal Pradesh Municipal/ Municipal Corporation Act, 1994, it has been observed that there is no specific mention of accrual basis



# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

of accounting and National Municipal Accounts Manual/ State Municipal Accounts Manual. Therefore, these need to be suitably amended to incorporate the said requirement. Further, it is suggested that the requirement of ASLBs issued by the ICAI may be considered to be incorporated in the State's Municipal Act/ Accounting Manual in line with the Uttarakhand Municipal Accounting Manual, 2021.

- (ii) The Model Municipal Law, 2003 recommends for engagement of Chartered Accountants for Audit of ULBs. However, Himachal Pradesh Municipal Act, 1994 and Himachal Pradesh Municipal Corporation Act, 1994 prescribe that the audit of municipalities to be done by a separate and independent audit agency. 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 Chartered Accountants which is already being done at Rajasthan, Sikkim, Chhattisgarh, etc. till the time internal capacities are enhanced to perform the requisite tasks.
- (iii) There is no requirement of Internal Audit as per the Himachal Pradesh Municipal/ Municipal Corporation Act. However, Internal Audit is a mandatory requirement under AMRUT. It is suggested that the requirement of Internal Audit 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 Himachal 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  
Committee on Public and Government Financial Management

CA. Sridhar Muppala  
Vice-Chairperson

CP&GFM Secretariat: 0120-3045985  
E-mail: [cpf.aslb@icai.in](mailto:cpf.aslb@icai.in); [cpf\\_ga@icai.in](mailto:cpf_ga@icai.in)