

Empowering Local Bodies - Way ahead for Chartered Accountants

Finance Commissions, one after another have laid emphasis on creating an eco-system for proper maintenance of accounts and their audit by local bodies. Consequent to the recommendations of Fifteenth Finance Commission availability of annual accounts for the previous year and audited accounts for the year preceding previous year in the public domain online is an entry level condition for qualifying for any grant for Local Bodies. Chartered Accountants can support them in key aspects of their functioning and enabling them to become eligible for the grants in the times to come. Read on...

Finance Commission, a constitutional body, prescribes recommendations for allocation of funds amongst Central and State Government (s) including Local-Self Government. Local-Self Government (also known as local bodies) plays a major role in providing infrastructural facilities and basic services to the citizens, e.g., supply of water & electricity, education, health, transport, etc., and also take care of planning, development and administration of villages, towns or cities.

The final report of Fifteenth

Finance Commission (XV FC, chaired by Mr. N. K. Singh) along with recommendations for the five year period (2021-26) was placed in the Parliament in February 2020. XV FC has prescribed various recommendations to enhance the resource cover, promote timely availability of accounts online and further empower Local Self Government (both Urban Local Bodies (ULBs) and Rural Local Bodies (RLBs)). Successive FCs have recommended enhanced grants to LBs, as detailed below:

Finance Commission	Grant Allocated to LBs (₹ in crore)		
	ULBs	RLBs	Total
X	1000	4381	5381
XI	2000	8000	10000
XII	5000	20000	25000
XIII	23111	64408	87,519
XIV	87144	200292	2,87,436
2020-21			90,000
XV			4,36,361



Contributed by Secretariat, Committee on Public & Government Financial Management

Local Bodies

The actual amount disbursed, however, is generally lesser as the local governments fail to meet the **conditions attached** to the performance grants by the Commissions/concerned Union Ministries, as displayed hereunder:

Grants	RLBs			ULBs			Total		
	Recomm- ended	Released	% Released	Recomm- ended	Released	% Released	Recomm- ended	Released	% Released
FC-X	4381	3576	81.6	1000	834	83.4	5381	4410	81.96
FC-XI	8000	6602	82.5	2000	1752	87.6	10000	8354	83.54
FC-XII	20000	18927	94.6	5000	4470	89.4	25000	23397	93.59
FC-XIII	64408	58257	90.7	23111	18980	82.1	87,519	77237	88.25
FC-XIV	200292	179241	89.6	87144	74259	85.2	2,87,436	253500	88.19

Basic and Performance Grants: Conditions attached

There are two major problems with the accounts of local governments in India: (a) the lack of timely accounts, including audited accounts,

on a timely basis and (b) the classification of their accounts to make them amenable to consolidation with Union and State Governments' accounts.

FCs understand that for any part of the government using

tax-payers' money, availability of accounts (including audited accounts) in the public domain on a timely basis is a primary requirement for good governance. They have tried to tackle (a) by following initiatives/recommendations:

	Recommendation
FC-X	State Governments should prepare suitable schemes and issue detailed guidelines for the utilisation of grants. The local governments were required to raise matching contributions for this purpose.
FC-XI	First charge on the grants should be maintenance of accounts and audit, followed by the development of a financial database.
FC-XII	RLBs and ULBs were expected to give high priority to expenditure for the creation of databases on their finances and maintenance of accounts through the use of technology and management systems.
FC-XIII	Six conditions for rural local bodies and nine conditions for urban local bodies to access the performance grant. All these conditions had to be met in each of the award years.
FC-XIV	For gram panchayats, the ratio between the unconditional basic and conditional performance grant was 90:10 and for municipalities the ratio was 80:20. To be eligible for performance grants, the local governments would have to show an increase in own source of revenue and also submit audited annual accounts.
FC-XV	<p>For 2020-21, no performance conditions were imposed for their release.</p> <p>For later years, FC has mandated availability of annual accounts for the previous year and audited accounts for the year preceding previous year in the public domain online as an entry level condition for qualifying for any grant for LBs. Accounts comprise the balance sheet, income and expenditure statement, cash flow statement and notes to accounts. Annual accounts of a particular year need to be made available in public domain online by 15th May of every subsequent year.</p> <p>In 2021-22 & 2022-23, States can avail full amount of grants in that year only if at least 25 per cent of LBs fulfil the said conditions. From 2023-24 onwards, the grants to be released to the States will be computed on the basis of grants due to only those LBs who will comply the aforesaid condition of making available accounts in the public domain online</p>

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For (b) i.e. consolidation of accounts, the efforts made are mentioned below:

	Recommendation
FC-XI	The Comptroller and Auditor General (CAG) should be entrusted with the responsibility of exercising control and supervision over the maintenance of accounts and audit of all tiers of rural and urban local bodies, and that its audit report should be placed before a Committee of the State legislature.
FC-XII	The compilation of disaggregated data in the formats suggested by the CAG is necessary for State FCs to be able to assess the income and expenditure requirements of the local governments. Priority should be given to the creation of a database and maintenance of accounts through the use of modern technology and management systems.
FC-XIII	While the CAG should provide technical guidance and supervision , a major portion of the actual auditing would have to be undertaken by the local fund audit departments. Hence, all State Governments should strengthen their local fund audit departments appropriately through both capacity building of existing manpower as well as augmentation of personnel.
FC-XIV	Accounts prepared by the local governments should distinctly capture income from own taxes, assigned taxes, grants from the State, FC grants and grants for any agency functions assigned by the Union and State Governments. In addition, it also recommended that technical guidance and support arrangements by the CAG should be continued and States should facilitate local bodies to compile accounts and have them audited in time.
FC-XV	Availability of annual accounts for the previous year and audited accounts for the year preceding previous year in the public domain online as an entry level condition for qualifying for any grant for LBs.

Additional entry level condition for receiving grant by ULBs

1. Notification of minimum floor rates for property tax

In the direction of augmenting revenue of ULBs, XV FC also recommended an additional entry level condition for ULBs to mandatorily notify minimum floor rates for property tax by the relevant State (by suitably amending the relevant State Municipal and Municipal Corporation Acts) from 2022-23.

In order to avail grant from 2023-24 onwards, after notification of the property tax floor rates, ULBs have to meet one more condition as well that the property

tax collection should be consistently improved in tandem with the growth rate of State's own Gross State Domestic Product (GSDP) in the most recent five years.

ULBs can avail the grants only if it has complied with entry level condition (related to accounts) as well as additional entry level condition(s) (related to property tax).

2. Constitution of State Finance Commission (SFC)

The Constitution of the India requires that the SFCs to be constituted at prescribed intervals and submit its recommendations to the

Finance Commissions. However, only a few States constituted SFCs in time and even those did not submit their recommendations to FC. Wherever constituted, SFCs face significant challenges in the form of poor administrative support, inadequate resources for their smooth functioning and the delayed placement of action taken reports before State legislatures.

XV FC recommended that all States must constitute SFCs, act upon their recommendations and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024. After

March 2024, no grants will be released to a State that has not complied with the Constitutional provisions in respect of the SFC. XV FC also authorised the Ministry of Panchayati Raj to certify the compliance of all Constitutional provisions by a State in this respect before the release of their share of grants for 2024-25 and 2025-26. Grants will be released to RLBs in two equal instalments each year in June and October after ascertaining the entry level benchmarks and other prescribed requirements.

Role of professionals/ Chartered Accountants

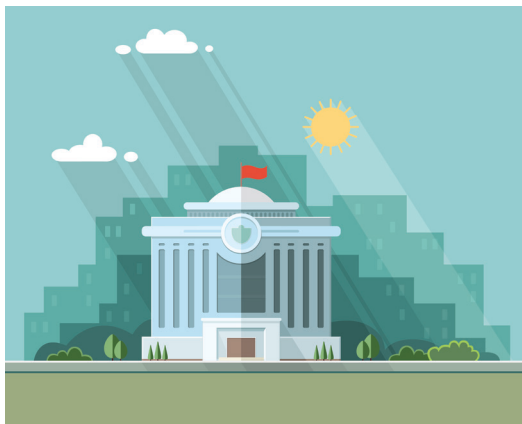
- Chartered Accountants (CAs) may support Local Bodies in **building capacity of accounts/ finance staff of local bodies** and strengthen them internally to comply with the conditions prescribed by FC related to timely availability of accounts in public domain online by providing them required **guidance/ trainings** on

various aspects such as preparation of accounts as per applicable accounting framework in accordance with changing operative environment, online accounting platform, generation of financial reports, etc.

- CAs may support local bodies in **auditing the accounts of local bodies/** its programmes/ funds so as to strengthen control mechanism, ensuring that the resources or public funds are being utilised efficiently and effectively and the financial statements depict true and fair view of state of affairs (financial position and financial performance) of local bodies. Few states (such as Chhattisgarh, Madhya Pradesh, Rajasthan, Sikkim, etc.) are also engaging CAs for preparation of accounts, audit and certification of accounts. CAs may also support in budgeting and efficient & smooth functioning of day to day operations of local bodies.

implemented in local bodies), improve financial reporting and public financial management of local bodies that will help them in better service delivery and decision making thereby reaping benefits of accounting reforms.

- CAs may also support State Authorities (Urban Development Department or Department of Municipal Administration) in suitably amending their respective States Municipal/ Municipality Acts (required if any) so as to incorporate relevant legal mandate to enable them for smooth implementation of accounting reforms, etc. Here, it may be mentioned that in case of RLBs, 40% untied grant (of XV FC) which can be used by them for felt needs under the 29 subjects enshrined in the Eleventh Schedule, except for salaries and other establishment costs; **the expenditure required for auditing of accounts by external agencies approved by the State Government, may be borne from this grant.**



- CAs may **guide local bodies in implementing ongoing accounting reforms** (such as migration of accounts of ULBs from cash to accrual accounting system), sustain new system (where accrual accounting has already been

Involvement of Chartered Accountants at the lowest tier of the Government will enable Local Bodies in fulfilling the entry level conditions of the XV FC for the grants timely qualifying them to obtain the grants for their developmental initiatives. ■■■