

Audit, Budget and Accounts of Local Bodies

Audit of Accounts of Local Bodies

- Audit of the accounts of all Local Bodies (Both Urban and Rural at all levels) may be done under the technical guidance and supervision (TGS) of the Comptroller and Auditor General of India. State Governments may constitute separate committees of Legislature for discussion of the Annual Technical Inspection Reports (ATIR) which may be submitted by the C&AG. This will ensure accountability as suggested by the Second ARC.

Draft Budget and Accounts formats for PRIs

The following measures need to be taken by the State Governments as well as by the PRIs for better transparency in transfer of fiancés to these bodies and improvement in the budget and accounts documents for these bodies:-

- PRIs should adopt the revised proformae of accounts given in Annexure-I which is based on the simplified accounting formats suggested by the CAG.
- State Governments should prepare a separate volume of budget for PRIs clearly showing the detailed classification of transactions from major head to object head in respect of transfer of funds to PRIs as depicted in the main budget under the minor heads 196, 197 and 198. For this purpose the proformae of accounts given in the Annex-I may need to be adopted by the State Government.
- In the format given by CAG, the various standard minor heads, sub-heads for Central Schemes and object heads required to be used by the PRIs have been given. All the transactions of the PRIs relating to all 29 functions mentioned in the XI Schedule of the constitution may need to be accounted for in these standard heads of accounts.
- The standard sub-heads for state schemes have not been prescribed by CAG as the same are required to be codified by the State Governments according to their own schemes which may vary from State to State. The standard sub-heads may need to be prescribed by the States for their own state schemes afterwards they may be adopted by all tiers of the PRIs.
- For the proper monitoring of the budget allocation and consolidation of the accounts of PRIs at the State level, States may also allot specific codes to each Zila Parishad, Block Panchayat and Gram Panchayat. Similarly, specific code may be allotted to each State for the purpose of consolidation of accounts of PRIs at the National level.

Annexure-I

Suggested proforma for budget and accounts for adoption by the States in respect of all the 29 functions for PRIs given in the XI Schedule of the Constitution of India based on the simplified accounting format prepared by CAG.

Sr. No.	Functions as per XI Schedule of Constitution	Major Head	Minor Head	Sub Head	Object Head
1.	Agriculture, including agricultural extension	2435-Agriculture including Agriculture Extension	101-Crop Husbandry 102-Watershed Development Program	-	40-Extension of farmers training 41-Crop insurance 42-Scheme for small marginal farmers and agricultural labourers 43-Horticulture and vegetable crops 44-Assistance to farming cooperation
2.	Land improvement, implementation of land reforms, land consolidation and soil conservation	2402-Soil and Water Conservation	101-Land Improvement 102-Land Reforms 103-Land Consolidation 104-Soil and Water Conservation	Panchayats may operate separate sub-heads for various schemes under minor head.	-
3.	Minor irrigation, water management and water shed development	2702-Minor Irrigation	101-Minor Irrigation Projects 102-Water Management	-	-
4.	Animal husbandry, dairying and poultry	2403-Animal Husbandry	101-Cattle and Buffalo Development 102- Piggery Development 103-Poultry Development 105-Insurance of Livestock and Poultry 106-Dairy Development Projects/Schemes 107-Extension & Training	-	-
5.	Fisheries	2405-Fisheries	101-Processing, Preservation and Marketing 102-Fisheries Co-operatives 103-Extension & Training 104-Developmental Schemes	-	-

Sr. No.	Functions as per XI Schedule of Constitution	Major Head	Minor Head	Sub Head	Object Head
6.	Social Forestry and Farm Forestry	2406-Forestry	101-Social Forestry 102-Farm Forestry 103-Zoological Park 104-Public Garden 105-Minor Forest Produce	-	40-Economic Plantation 42-Forest conservation and development
7.	Minor Forest Produce				
8.	Small scale industries, including food processing industries	2851-Village and Small Scale Industries	101-Handloom Industries 102-Handicraft Industries 103-Khadi and Village Industries 104-Sericulture Industries 105-Powerloom Industries 106-Food Processing Industries 107-Other Village Industries	-	-
9.	Khadi, Village and Cottage Industries				
10.	Rural Housing	2216-Rural Housing	101-House site for Landless 102-Construction of House 103-Maintenance and Repairs of Houses	Panchayats may operate separate sub-heads for various schemes under minor head.	14-Indira Awaas Yojna
11.	Drinking Water	2215-Water Supply & Sanitation	101-Maintenance of Water Supply line 102-Maintenance and repair of Tube-wells 103-Sewerage & Sanitation	-	17-Total sanitation campaign
12.	Fuel and Fodder	2403-Animal Husbandry	104-Fuel and Fodder Development	-	-
13.	Roads, culverts, bridges, ferries, waterways and other means of Transportation	3054-Roads and Bridges	101-Roads 102-Culverts 103-Bridges 104-Ferries 105-Water Ways 106-Other means of transportation	-	40-Maintenance and Repairs

Sr. No.	Functions as per XI Schedule of Constitution	Major Head	Minor Head	Sub Head	Object Head
14.	Rural electrification, including distribution of electricity	2801-Rural Electrification	101-Purchase of Power 102-Transmission & Distribution 103-Maintenance of Street Light	Panchayats may operate separate sub-heads for various schemes under minor head.	-
15.	Non-conventional energy sources	2810-Non-conventional sources of Energy	101-Maintenance of Bio-gas Plants 102-Maintenance of Solar Energy Centre 103-Maintenance of Wind Energy Centre	-	-
16.	Poverty Alleviation Programme	2501-Poverty Alleviation Programme	101-Central Schemes 102-State Schemes 103-Panchayat Samiti Schemes 104-Gram Panchayat Schemes	Panchayats may operate separate sub-heads for various schemes under minor head.	11-NREGA
17	Education, including primary and secondary schools	2202-Education	101-Primary Education 102-Secondary Education	-do-	18-Mid-day meal scheme 19-Sarva Siksha Abhiyan
18.	Technical Training and Vocational Education	2203-Technical Training and Vocational Education	101-Assistance to Universities/ Colleges for Technical Training 102-Technical Schools 103-Polytechnic Colleges 104-Vocational Education	-do-	Scheme-wise expenditure on construction of schools/centres, books, scholarships, orientation course, summer seminar etc. should be booked in the separate object head.
19.	Adult and non-formal education	2202-Education	103-Adult Education 104-Non-formal Education	-do	-
20.	Libraries	2205-Art, Culture and Libraries	101-Promotion of Art and Culture 102-Public Libraries 103-Public Exhibition 104-Sports and Youth Services	-do-	-
21.	Cultural activities				

Sr. No.	Functions as per XI Schedule of Constitution	Major Head	Minor Head	Sub Head	Object Head
22.	Markets and Fairs	2206-Market and Fairs	101-Market 102-Fairs	-	-
23.	Health and Sanitation, including hospitals, primary health centres and dispensaries	2210-Health and Family Welfare	101-Primary Health Centres 102-Community Health Centres 103-Hospitals and Dispensaries 104-Health Sub-centres 105-Other systems of medicine 106-Family Welfare	Panchayats may operate separate sub-heads for various schemes under minor head.	15-NRHM
24.	Family Welfare				
25.	Women and Child development	2211-Women and Child Welfare	101-Women Development Programs 102-Child Health Programs	-do-	15-NRHM
26.	Social welfare, including welfare of the handicapped and mentally retarded	2235-Social Security and Welfare	101-Social Welfare 102-Welfare of Handicapped 103-Welfare of Mentally retarded 104-Assistance to Voluntary Organization 105-Deposit Linked Insurance Scheme	-	-
27.	Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.	2225-Welfare of Scheduled Castes, Scheduled Tribes and other weaker sections	101-Welfare of Scheduled Caste 102-Welfare of Scheduled Tribe 103-Welfare of Other Weaker Sections	Panchayats may operate separate sub-heads for various schemes under minor head.	40-Scholarship to students for primary education 41-Scholarship to student for secondary education 42-Scholarship to students for technical education 43-Maintenance of SC/ST/Weaker section's hostels Other scheme-wise object heads may also be opened
28.	Public Distribution System	2408-Public Distribution System	101-Procurement and Supply 102-Assistance to Co-operatives 103-Storage and Warehousing	-	26-Maintenance

Sr. No.	Functions as per XI Schedule of Constitution	Major Head	Minor Head	Sub Head	Object Head
29.	Maintenance of community Assets	2059-Maintenance of Community Assets	101-Maintenance & Repairs 102-Furnishing 103-Lease Charges 104-Machinery and Equipment	-	40-Work establishment expenditure charged 41-Other maintenance expenditure

List of functional major heads prescribed by CAG for PRIs in accordance with the functions given in the XI Schedule of Constitution

Sl. No.	Functions listed in the XIth Schedule of the Constitution	Nomenclature of the Revised Major Head	Corresponding Major Heads		
			Receipts	Revenue Expenditure	Capital Expenditure
1	Agriculture, including Agricultural Extension	Agriculture, including Agricultural Extension	0435	2435	4435
2	Land Improvement, Implementation of Land Reforms, Land Consolidation and Soil Conservation	Soil and Water Conservation	-	2402	4402
3	Minor Irrigation, Water Management and Watershed Development	Minor Irrigation	0702	2702	4702
4	Animal Husbandry, Dairying and Poultry	Animal Husbandry, Dairying, Poultry and Fuel and Fodder	0403	2403	-
5	Fisheries	Fisheries	0405	2405	4405
6	Social Forestry and Farm Forestry	Forestry	0406	2406	4406
7	Minor Forest Produce	Minor Forest Produce	0406	2406	4406
8	Small Scale Industries, including Food Processing Industries	Village and Small Scale Industries	0851	2851	4851
9	Khadi, Village and Cottage Industries	Village and Small Scale Industries	0851	2851	4851
10	Rural Housing	Rural Housing	0216	2216	4216
11	Drinking Water	Water Supply and Sanitation	0215	2215	4215
12	Fuel and Fodder	Animal Husbandry, Dairying, Poultry and Fuel and Fodder	0403	2403	-

Sl. No.	Functions listed in the XIth Schedule of the Constitution	Nomenclature of the Revised Major Head	Corresponding Major Heads		
13	Roads, Culverts Bridges, Ferries, Waterways and Other Means of Communication	Transportation	-	3054	5054
14	Rural Electrification, including Distribution of Electricity	Rural Electrification	0801	2801	4801
15	Non-conventional Energy Sources	Non-conventional Sources of Energy	0810	2810	4810
16	Poverty Alleviation Programme	Poverty Alleviation Programme	-	2501	-
17	Education, including Primary and Secondary Schools	Education	0202	2202	4202
18	Technical Training and Vocational Education	Technical Training and Vocational Education	-	2203	-
19	Adult and Non-formal Education	Education	0202	2202	4202
20	Libraries	Art, Culture and Libraries	-	2205	4205
21	Cultural Activities	Art, Culture and Libraries	-	2205	4205
22	Markets and Fairs*	Market and Fairs	0206	2206	4206
23	Health and Sanitation , including Hospitals, Primary Health Centres and Dispensaries	Health and Family Welfare Water Supply and Sanitation	0210 0215	2210 2215	4210 4215
24	Family Welfare	Health and Family Welfare	-	2210	-
25	Women and Child Development	Women and Child Welfare	-	2211	-
26	Social Welfare, including Welfare of the Handicapped and Mentally Retarded	Social Security and Welfare	-	2235	4235
27	Welfare of the Weaker Sections, and in particular, of the Scheduled Castes and the Scheduled Tribes	Welfare of Scheduled Castes, Scheduled Tribes and Other Weaker Sections	-	2225	-
28	Public Distribution System	Public Distribution System		2408	4408
29	Maintenance of Community Assets	Maintenance of Community Assets	0059	2059	
	Additional Heads	Interest Receipts/Payment	0049	2049	
		Pension and Other retirement benefits	0071	2071	
		Panchayati Raj Programmes	0515	2515	4515

* New Major Head '2206 – Market and Fairs' along with the relevant Receipts and Capital Major Heads has been prescribed since large number of transactions under market and fairs takes place at PRI level.

In addition to the heads of accounts mentioned above, the PRIs may operate the following separate major heads to record all transactions (Receipts and Payments/Disbursements) under Loans, Pension & Provident Fund, Insurance and Pension Fund, Deposit and Advances and Civil Advance, depending upon the requirement:

- 7610 – Loans to Panchayat Employees
- 8009 – Provident Fund
- 8011 – Insurance and Pension Fund
- 8443 – Civil Deposit
- 8550 – Civil Advances

List of standard object heads to be operated by PRIs as suggested by CAG in the Simplified Accounting Formats.

Object head	Description	Object head	Description	Object head	Description
01	Salaries	10	Audit Fees	19	Subsidies
02	Wages	11	Printing	20	Share of taxes/duties
03	Overtime Allowance	12	Other Administrative Expenses	21	Motor Vehicles/hiring charges
04	Pensionary charges	13	Supplies and Materials	22	Machinery and Equipment
05	Honoraria	14	Petrol/Diesel	23	Major Works
06	Medical Treatment	15	Advertising and Publicity	24	Write off/losses
07	Travel Expenses	16	Other contractual services	25	Deduct recoveries
08	Office Expenses	17	Grants-in-Aid	26	Maintenance
09	Rent, Rates and Taxes	18	Contribution	80	Other Expenses

List of Standard Sub-heads for Central Schemes

Scheme code for simplified accounts for PRIs	Scheme description
11	National Rural Employment Guarantee Scheme (NREGS)
12	Sampoorna Gramin Rozgar Yojana (SGRY)
13	Swaranjayanti Gram Swarozgar Yojana (SGSY)
14	Indira Awas Yojana (IAY)
15	National Rural Health Mission (NRHM)
16	Accelerated Rural Water Supply Programme (ARWSP)
17	Total Sanitation Campaign
18	Mid Day Meal Scheme
19	Sarva Shiksha Abhiyan
20	Pradhan Mantri Gram Sadak Yojana (PMGSY)
21	Integrated Watershed Management Programme
22	Integrated Child Development Services (ICDS)

Example for preparation of budget or accounts by the PRI

Suppose the Zila Parishad (Code No. 20) in the State Andhra Pradesh (Code No. 01) spent an amount of Rs. 2 lakh on purchase of medicine under the central scheme National Rural Health Mission for a community health centre, it would be booked in the accounts in the following manner:-

012022101021508 – Rs. 2,00,000 where the break-up of the account code is as under:-

State code	Zila Parishad Code	Major Head	Minor Head	Sub-head	Object head
01	20	2210	102	15	08
Andhra Pradesh	Zila Parishad	Health and Family Welfare	Community Health Centre	National Rural Health Mission	Office Expenses

Draft Accounting and classification system for ULBs.

For the Urban Local Bodies, CAG had set up a Task Force in February, 2002 to recommend appropriate accounting and budget formats for ULBs, which suggested moving to the accrual basis of accounting. Based on the report of the Task Force, the **National Municipal Accounts Manual (NMAM)**, was prepared by Ministry of Urban Development and circulated to all the State Governments in December, 2004. The National Municipal Accounts Manual provides for a codification structure that facilitates capture of all types of financial information within an Urban Local Body which are essential in a government set-up including the budget which is based on various functions and the accounting of individual transactions under the same. This pattern of accounting has been agreed to by almost all the States and they are in the process of customizing and adapting the NMAM suitably to meet State specific requirements.

The codification and classification system for ULBs has been suggested in Chapter 4 of the National Municipal Accounts Manual which covers all the 18 functions of the ULBs as given in Schedule XII of the Constitution. They are required to be followed by all the ULBs in the country. The Accounts pattern suggested for ULBs is based on accrual principles.

Coding procedure

As suggested in the National Municipal Accounts Manual, the functions of the ULB can have three levels within it. First level can represent various functions both obligatory and discretionary. Second level in function could represent the particular type of service under a function and third level can represent a particular cost centre, which provides the service. The first level of functions/codes is mandatory for all ULBs. All functions of the ULB are broadly classified under 10 major groups. Within these 10 major groups, the functions of ULBs have been defined and codified. A seven digit code has been suggested to give flexibility to add new codes and for each State to define its unique requirements. The code is structured into:

- Major Head Code comprising of 3 numerical digits.
- Minor Head Code comprising of 2 numerical digits.
- Detailed Head Code comprising of 2 numerical digits.

The Major Head Code and Minor Head Code have been suggested in the NMAM and are mandatory to be adopted by each ULB. Detailed Head Codes are to be decided by the State Governments according to the specific nature of transactions being dealt with by ULBs in the respective states. Similarly, the State Governments will have to provide the codes for each district, zone, circle and ULB etc. for proper consolidation of the accounts and budgetary allocations of ULBs in the State. At the national level, the accounts and budgetary allocation can be consolidated by allocating the code for each State which will be common for PRIs as well as ULBs.

Codification system provided in the National Municipal Accounts Manual

Function Group

Function Group Code	Function Group	Function Code	Function Description
00	General Administration		
		01	Municipal Body
		02	Administration
		03	Finance, Accounts, Audit
		04	Election
		05	Record Room
		06	Estate
		07	Stores and Purchase
		08	Workshop
		09	Census
10	Planning and Regulations		
		11	City and Town Planning
		12	Building Regulation
		13	Economic Planning
		14	Encroachment Removal
		15	Trade License/Regulations
20	Public Works		
		21	Roads and Pavement
		22	Bridges and Flyovers
		23	Sub-ways and Causeways
		24	Street Lighting
		25	Storm Water Drains
		26	Traffic Signals
		27	Guest Houses
30	Health		
		31	Public Health
		32	Epidemic/Prevention Control
		33	Family Planning
		34	Primary Health Care
		35	Hospital Services
		36	Burial and Cremation
		37	Vital Statistics
		38	Prevention of Food Adulteration
		39	Ambulance/Hearse Services

Function Group Code	Function Group	Function Code	Function Description
40	Sanitation and Solid Waste Management		
		41	Solid Waste Management
		42	Public Convenience
		43	Veterinary Services
		44	Cattle Pounding
		45	Slaughter Houses
50	Civic Amenities		
		51	Water Supply
		52	Sewerage
		53	Fire Services
		54	Arts and Culture
		55	Community/Marriage Centers
		56	Amusement
		57	Museums
		58	Municipal Markets
60	Urban Forestry		
		61	Parks, Gardens
		62	Play Grounds
		63	Lakes and Ponds
		64	Urban Forestry
		65	Environment Conservation
		66	Zoos
70	Urban Poverty Alleviation & Social Welfare		
		71	Welfare of Women
		72	Welfare of Children
		73	Welfare of Aged
		74	Welfare of Handicapped
		75	Welfare of SC/ST/OBC
		76	Slum Improvements
		77	Housing
		78	Urban Poverty Alleviation
		79	Others
80	Other Services		
		81	Electricity
		82	Education
		83	Transportation
		84	Facility for pilgrims

Function Group Code	Function Group	Function Code	Function Description
90	Revenues		
		91	Property Taxes
		92	Octroi/Entry Cess
		93	Advertisement Tax
		94	Professional Tax
		95	Tax on Animals
		96	Tax on vehicles
		97	Toll
		99	Other Taxes

All the functions mentioned in XII Schedule of the Constitution have been included in the above 10 codified Function Groups. The detailed description of Major Head Code and Minor Head Code under the above mentioned group of functions as given in Appendix 2 to Chapter-4 of the National Municipal Accounts Manual may be adopted by all the ULBs in the country. The State Governments may also provide the codes for all the detailed heads according to the sub-functions of the ULBs in the respective States for adoption by these bodies.

Example of booking of transaction in ULB according to the above codification pattern

- (i) Suppose Ahmedabad Municipal Corporation (Code 01) in Ahmedabad district (Code 02) in State of Gujarat (Code 07) purchase one Ambulance for an hospital run by it for Rs. 5,00,000/- it would be recorded in the Accounts as under:-

State Code	District Code	MC Code	Function Group Code	Function Code	Major Head Code	Minor Head Code	Detailed Head	Dr	Cr.
07	02	01	30	35	410	50	Ambulance	5,00,000	
					350	10	Supplier		5,00,000

- (ii) If in the same Municipal Corporation, a Primary School collects the tuition fees of Rs. 1,000/-, the entry in accounts will be made as under:-

State Code	District Code	MC Code	Function Group Code	Function Code	Major Head Code	Minor Head Code	Detailed Head	Dr	Cr.
07	02	01	80	82	450	10	Cash Account	1,000	
					140	40	Tuition Fees		1,000

Measures which could be considered for maintenance of Accounts of ULBs and improvement of budget documents of the State Government

The following measures could be considered for adoption by the State Governments as well as by the ULBs for better transparency in transfer of funds to these bodies and maintenance of their accounts:

- As per instructions issued by the CGA in the year 2002, assistance given by the State Governments to the Municipal Corporations, Municipalities and Nagar Panchayats are required to be shown separately in the minor heads 191, 192 and 193 respectively in the budget and Finance Accounts. All States should comply with the instructions of CGA and assistance to all the tiers of ULBs should be shown separately in the minor heads 191, 192 and 193 below the respective major heads of accounts in budget documents as well as in the Finance Accounts.
- A separate budget volume may be prepared by State Governments for ULBs clearly showing the detailed classification of transactions from major head to object head in respect of transfer of funds to these bodies as depicted in the main budget under the minor heads 191, 192 and 193.
- A separate statement may be included in the Finance Accounts indicating the head-wise details of actual assistance given by the State Governments against the budget provision made for the ULBs.
- ULBs may prepare their accounts uniformly in the forms of accounts prescribed in the National Municipal Accounts Manual prepared by the Ministry of Urban Development and circulated to all the State Governments in the year 2004.
- The Major Head Code and Minor Head Code as suggested in the NMAM should be adopted by each ULB. Detailed Head Codes are to be decided by the State Governments according to the specific nature of transactions being dealt with by ULBs in the respective states. State Governments may need to take action to codify these detailed heads.
- State Governments may provide the codes for each district, zone, circle and ULB etc. for proper consolidation of the accounts and budgetary allocations of ULBs in the State. At the national level, the accounts and budgetary allocation can be consolidated by allocating the code for each State which will be common for PRIs as well as ULBs.