

# PARIVARTHANE VOL.12

## Best Practice on Accounting Reforms at Thane

### *The Initiative*

Thane Municipal Corporation (TMC) introduced accounting reform in response to the recommendations and guidelines of Comptroller & Auditor General of India's (CAG) and National Institute of Urban Affairs (NIUA). As part of the continuing process of financial reforms, the Corporation switched over to double entry method of accounting to introduce the concept of accrual. Use of Tally software was introduced as a part of the program for accurate and prompt recording of accounts.

### *Situation before the Initiative*

The Government of Maharashtra (GoM) initiated municipal accounting reforms during 2001 and developed the accrual based municipal accounting manuals for the Urban Local Bodies (ULBs). TMC assessed the accounting system of the Corporation in pursuance of the recommendations and guidelines from CAG task force and NIUA. The USAID-FIRE (D) project provided technical assistance. The accounts of the TMC were hitherto maintained manually on a cash basis. Thus transactions were recognized and recorded on the receipt or payment of cash or cash equivalents.

After considering the level of preparedness prevalent at TMC and the benefits arising out of such change over to double entry system and accrual decision was taken to adopt this changed methodology from the financial year 2004-2005. Preparatory work was done by TMC pertaining computerization of database program for salary, property taxes, Public Works Department (PWD) data and a program for tracking of assets and work in progress. A core team of employees with accounting background was then formed to implement the double entry accuracy accounting system.

### *Implementation Strategies*

As part of the continuing process of financial reforms, the Corporation switched over to double entry method of accounting to introduce the concept of accrual. In-depth discussion was held with the members of municipal bodies and aid agencies to create an accounting pattern, on the basis of their experiences and methods of accounting prevalent. In October 2004, the implementation process started off with training programs to use Tally software for the staff at various levels and trainings were conducted in two batches for four days each. A two-day workshop was also arranged to brief about the preparation of closing balance sheet. Concerned personnel's from all the departments and the accounting staff participated in the workshop.

High priority was given to the overall process of conversion of system to double entry accrual accounting system. To ensure that the task of converting the existing system into the double entry accrual accounting system monitoring was done in a time bound manner. Instructions were given by the Commissioner to prepare an inventory of the assets along with their value provision of all infrastructural support including creation of double entry accounting cell. Consultants supported for strategic partnering and continued involvement of manpower. This helped TMC to build a concrete base while switching over to double entry accrual accounting system.





## *Results Achieved*

TMC identified its financial records, entire assets and liabilities as a part of this exercise, as single entry system does not result in the preparation of a complete statement. By the end of March 2005, work of preparation of opening balance sheets was completed. A seminar was organized on September 19, 2005 by TMC to derive benefit from the views and inputs from the experts in the field of accounting. Some of the achievements of the accounting reform are as follows:

- Using of data forms – collating, analyzing the same, identifying gaps to take actions.
- Policy decisions based on manuals, standards, etc.
- Comparing available data with agreed policy implementation.
- Valuation methodologies – devising appropriate cost effective solutions keeping in mind prescribed procedures and limitations of available data and staff timeframe.
- Evolving unique – custom built solutions like use of Tally software to minimize time and cost.
- Reconciliation with department records and assurance of accuracy of data.
- Depreciation Methodology and impact.
- Issues regarding funds, grants (opening balance and adjustments thereto)
- Drafting of accounting policy disclosure and framing of accounts
- It ensures transparency and accountability.

## *Lessons Learnt*

The whole exercise became fruitful due to the total commitment and personal involvement of the concerned officers. The new accounting system has commenced in full swing from April 1, 2005. The funds under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) have been sanctioned as the accrual accounting system was implemented prior to the mission.

## *Sustainability*

Implementation of double entry accrual accounting system has accelerated recording of accounting transactions. It creates a transparent and dependable

financial statement for the projects, which was not possible using the single entry system. Use of tally software has simplified the process of accounting. The system is well functioning with the help of motivated and committed staff. Concrete steps have been taken by the Commissioner to institutionalize the system and accordingly arrangements for its sustenance have been made.

## *Replicability*

Since the implementation of double entry accrual accounting system by the Corporation, various other local bodies within Maharashtra as well as from other states have visited the Corporation to study the system. For instance, municipal Corporations of Pune, Pimpri-Chinchwad, Kolhapur and Bhubaneswar have visited the Double Accounting Cell of TMC and are in the process of replicating the system.

## *Reference*

- Mega Cities... Poised for Change, Leading Practices Catalogue – 2007, UMC, Gujarat.

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### **Feedback**

We hope this issue of 'Parivarthane' was useful and informative to you. We look forward to your suggestion and feedback. You can suggest any topics of Urban Sector, to be published in the future volumes of this topical paper.

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