

## **EXECUTIVE SUMMARY**

### **Municipal Accounting reforms in Urban Local Bodies in Karnataka – the Bangalore Experiment<sup>1</sup>**

#### **The Backdrop**

The 74th Amendment to the Constitution gave definitely an impetus to the process of macro economic changes that are taking place in India -- the third tier in the government has started giving importance. The decentralization, increased participation of citizens and open and transparent systems are the three major aspects of the Amendment. In the past decade the experiences in this regard, of implementing the 74th Amendment, has been checkered and slow. However, in the last few years there have been changes in this trend in which these reforms have been addressed. In the case of Karnataka, where modern accounting systems are being introduced in urban local bodies (ULBs), Bangalore city has been the major city in which the reforms have been implemented in a major way.

#### **PPP**

The experiment in Karnataka of accounting reforms in ULBs began sometime in early 2000, when the new government under the leadership of Mr S. M. Krishna took charge. The new Chief Minister initiated several innovative approaches, the most laudable of them being the formation of the Bangalore agenda task force (BATF) with the chairmanship of Mr.Nandan Nilekani (CEO, Infosys) and other eminent citizens of the city. The major focus of this task force was a public-private partnership (PPP) to enable improvement of performance of select organisations within the city, and the major partner in this regard was the Bangalore Mahanagara Palike (BMP). In the BMP, the BATF and its members involved themselves in evolving and implementing global best practices and supported (financially and intellectual participation) the implementation of fund based accounting system (FBAS). The task force provided dedicated services of Mr.Ramesh Ramanathan, an innovative, committed and world class banker, as its member to participate and guide the reform process in BMP.

#### **Re-engineering the system**

The major changes that the initiated in the BMP were based on a set of well structured activities like: existing accounting system, process mapping, study of existing acts and rules, and also the work culture. The challenge was to move the organisation from the traditional cash based system of accounting to modern and technology driven FBAS. The situation was that the BMP did not even have complete records in some of the key areas like: assets, liabilities, receivable and payables. Based on the very clear understanding of how the system operates and the needs, re-engineered processes were introduced. This had to be done with a lot of training in various areas in relation to the changes. The major challenge was in streamlining the revenue flows which operated through over hundred offices of BMP and few hundred bank accounts. In the area of expenditure,

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while centralization was convenient to understand, introducing changes particularly controls in accounting were difficult.

### **Policy changes**

The changes had to be kicked off based on solid principles of accounting which needed acceptance at policy level. The policy level in BMP is the Corporation Council and in major areas, the changes need to be accepted or confirmed by the State Government. The FBAS accounting regulations were introduced in 2001 with clearance at both the Council and Government levels. Various operational aspects which needed a nod from the Council were taken care. Accounting policies, the budgetary regulations have all been drafted out for the BMP first time ever.

### **Structural changes**

At the beginning of the change process the BMP had only an administrative decentralization. Decentralization of accounting function was introduced and one post of Assistant Controller Accounts was created in each of the zones. More important a person at the level of Deputy Commissioner Finance with a person from Indian Revenue Service (IRS) was posted in the Head Office. To day he is Additional Commissioner (Finance) and is a key player in matters relating to finance and accounts. This was a very important aspect of the reforms: to have exclusive persons to undertake reform process.

### **Process changes**

Implementation is the key word and is extremely complicated in the case of introduction of any new system in any governmental organisation, particularly the ULBs. This is basically due to the complications in the organisation structure, the work culture and in effective implementation of various systems in various levels in each of these ULBs, apart from the major fact that these are Local Governments and are involved in a gamut of activities. The case of BMP which consists over 13,000 employees and over 20 different departments, and all of them in some way or the other have to do with accounting, the implementation was rendered really complicated. However by breaking down the process and tasks by department, offices, operations, changes were introduced at the grassroots level. In four or five major areas processes and sub processes were identified based on the re-engineered design. Revenue accounting, expenditure accounting, works management, payroll management, budgeting, etc. were completely redesigned and implemented. Software design and development was yet another area that required professionalism and diligence.

### **Support arrangements**

One of the major part of the accounting reforms is the 'information enablement' for accounting. The BMP had over 300 bank accounts from which information needed to flow on a daily basis to accounting. This was enabled by a banking service MOU with the Bankers. As per this arrangement, the Bankers would provide daily information to BMP based on BMP format to facilitate easy / prompt accounting and reconciliation.

### **Legal aspects**

One of the major empowerment the Organisation needs to get is the legal empowerment or authorization to move on to a new system. The Karnataka Municipal Corporations Act, 1976 enabled the BMP to have its own accounting system. But the BMP did not prescribe itself any specific system. Hence required regulations were drafted and passed. This was done in several ways. Initially the BMP Accounting Regulations, 2001 were passed to make FBAS the official accounting system. Subsequently the Accounting Policies, the Budgetary Regulations, etc which were framed were on the same lines and provided required legal support to the new systems.

### **Management Information Systems**

The core aspect of implementation was introduction of Management Information Systems (MIS) in all the major departments of BMP. The only way to make the employees understand the power of the system and their role is to enable MIS at various levels and provide for a review mechanism at a senior level. The Commissioner of BMP and various departmental heads were involved in the use of MIS for review purposes. Over 50 different MIS reports are getting generated for use at various levels. The highlight of the MIS is that it includes “Arthika Darpana” – exclusive set of reports for the ward representatives and includes information on the revenue / expenditure related to the ward, the number and value of ward works related to the ward and a detailed report on various aspects of each and every ward work ( the work code, approval date, approval amount, tender date, tender amount, completion status, bill amount, payment amount, value outstanding and so on). In all there are four types of reports: the detailed, summary reports, analytical reports, and functional reports like the one to elected representatives. The highlight of the experiment at Bangalore is the excellent link between the accounting and MIS. This is conspicuously absent in all other experiments.

### **Review and Monitoring**

One of the main reasons for the successful implementation of FBAS in BMP is the regular reviews held by the BATF members. Apart from the permanent involvement of Mr.Ramesh Ramanathan in the initial periods, there were ‘Friday reviews’. This was supported by periodic reviews by Mr.Nandan Nilekani, Chairman BATF. The reviews were joint reviews with BMO officials and follow-up actions were meticulously reviewed.

An MOU between GOK and BMP provided another strong review and control mechanism. An MOU between the Finance Department and BMP provided a review mechanism where by the financial performance and implementation of reforms was reviewed by the GOK periodically. The MOU contained specific benchmarks which were related to release of grants to BMP by GOK.

### **Current status**

Currently, the FBAS has been completely introduced and the only accounting system that works in BMP is FBAS. The budget for the year 2003-04 was prepared based on the

earlier years FBAS data and the new budgeting system introduced. Financial and accounting information are available in the computer database and various reports needed by various persons for decision-making are getting generated. Currently the entire process is managed by external consultants and by the end of this financial year complete internalization is expected to take place. With the passing of the accounting regulations, the new system has come to stay in BMP.

### **Demand and Supply aspects of the Karnataka experiment**

The experiment in Karnataka started with the supply side of municipal reforms. The BMP was given support to completely revamp its accounting operations and be ready with reliable information not only in accounting but also in related areas like the ward works management, budgeting etc. The MIS implemented provided the necessary methodology for generating various reports. However unless there is the demand for these information some of them remain unused and many aspects of governance go unchecked. In Bangalore, the PROOF (Public Record Of Operational Finance) campaign (promoted by four city NGOs) created the demand for the accounting related information. The proof platform is a citizens' platform where the performance of BMP is evaluated on a quarterly basis. Currently three quarterly reviews have been completed for the year 2002-03 and the BMP has successfully gone through the exercise of replying in a public forum the answers for various issues raised by the citizens. Thanks to the efforts taken by Mr.P.K.Srihari IRS, Additional Commissioner- Finance working under the able leadership of Mr.M.R. Sreenivasa Murthi, IAS – Commissioner of BMP. Also, Janaagraha, one of the PROOF partners, led by Mr.Ramesh Ramanathan is a platform for the residents associations. Janaagraha plays a lead role in sensitizing citizens on the rights and access to information, training them on various aspects of budget analysis and supervision of ward works. These are very important aspects of sustainability of change mechanism that has been introduced in Bangalore.

### **The Lessons Learnt**

The Bangalore experiment has been very unique. While on one side it has been built upon the World's Best practices, on the other side this is a very unique experiment of a Public Private Partnership well conceived, perfectly planned and professionally executed. Totally over 2,00,000 man hours of the Consultants' time and 1,00,000 hours of the time of BMP officials has been invested. Over 100 staff of BMP have undergone training and the Chief Minister has officially announced (August 2002) that all the ULBs in the State need to follow FBAS.

Based on the lessons learnt out of the Bangalore experiment, the check-list for transformation to an efficient finance /accounting systems in local bodies is:

#### **At the Policy (Government) Level**

- The WILL of the Government to implement accounting reforms at any cost should be announced and officialised;

- The Government should involve various innovative models for funding and providing support through PPP to make the implementation successful;
- It is necessary that the Government gives the ULB Management clear-cut mandate so that the changes are implemented as “administrative reforms” rather than as a “political mandate / mileage”;
- Government should provide a set of dedicated officials (and possibly create a Cell within its set-up) to implement the reforms;
- There has to be a report on the progress of implementation periodically (ideally bi-monthly) by Government;
- Since specialized professionals for implementing such changes are not available aplenty the Government should devise methods and innovative approaches to identify and use professionals by avoiding the typically bureaucratic / time consuming processes like tendering where real talents are generally not identified;
- The Government should take clear-cut and fast decisions in identifying personnel within ULBs (at higher levels and key positions in ULB who come on deputation) and not transferring them until the process is complete;
- Wherever it is difficult to find personnel within the system the Government / ULB should be free to hire professionals at least on a temporary basis;
- Required legal and regulatory changes need to be introduced (and wherever require immediately supported by necessary Government Orders) without delay;

#### **At the Process (ULB) Level**

- There needs to be a clear-cut mandate for implementation and the same need to be properly communicated to various levels of the organisation;
- The ULB and the Consultants should form a combined implementation team which should be monitored on a short term basis weekly / ten days;
- Ideally a coordinator from each of the departments should be provided to manage the flow of data from various sources in the revised formats;
- The ULB needs to reorient its staff and make available committed staff for leading in the exercise and also for training;
- The ULB management must at the earliest implement bits and pieces of process changes and MIS in order to continually get benefited from the changes;
- Various legal and official clearances (policy aspects) need to be given by the management at the earliest;
- Review of not only the progress, but also the performance of various departments needs to be done by the management based on the MIS reports. This will enable faster implementation, fine tuning of the process and software and meaningful review by the management resulting in tangible benefits;
- Necessary infrastructure like hardware, software, space, stationery, etc should be planned and provided to the implementation team without any bottle neck;
- The exercise should not be seen as an accounting exercise and all the departments should be involved;
- Plan for earliest internalization of all the activities should be made.

## **Conclusion**

Municipal accounting reform is the first area of Governance for any State Government. Once this third tier is restructured, it is very easy to build structures over the same be it the Government Departments or any other arm of the Government. While many of the departments do not have the “revenue earning” ability, nevertheless, they need proper, transparent and efficient accounting system. The FBAS that has been introduced in BMP is definitely a first small and firm step towards restructuring state level finances. It is hoped that just as IT at Bangalore has inspired other states, the FBAS would also play its part!

## **Role of NCRCL**

Right from the project conceptualization R.S.Murali, Director, NCRCL has been involved in the project. Various aspects directly related to the project: decision on FBAS, study of the system, reengineering, drafting accounting regulations, budgetary regulations, accounting policies, workflow manuals, software design / development / implementation: FBAS, works module, MIS module, development of MIS, review support during implementation, development and support of asset module / inventory, development of training modules, drafting of MOUs with Bankers, support to organization for handholding, liaison with various partners for successful implementation. As of now (November 2003) NCRCL is handling the complete support on BPO basis handling about Rs.1,500 Crores of fund flow for BMP.