ASIAN DEVELOPMENT BANK

TA 7055-IND: Capacity Development of National Capital Region Planning Board (NCRPB) – Package 1 (Components A and C)

FINANCIAL MANAGEMENT MANUAL

March 2009

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in association with

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ACRONYMS

ADB	Asian Development Bank
A&F	Administration and Finance
CA	Chartered Accountant
C&AG	Comptroller and Auditor General of India
COA	Chart of Account
CRISIL	Credit Rating Information Services of India Limited
EA	External Audit
EDP	Electronic Data Processing
FDs	Fixed Deposits
GAAP	Generally Accepted Accounting Principles Implementing Agencies
GPF	General Provident Fund
IAs	Implementing Agencies
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
IAU	Internal Audit Unit
ICAI	Institute of Chartered Accountants of India
ICRA	Investment Information and Credit Rating Agency of India Limited (now ICRA Limited)
ICWA	Institute of Cost and Works Accountants of India
IEBR	Internal and External Budget Resources
IFAC	International Federation of Accountants
IPSASB	International Public Sector Accounting Standards Board
IRAC	Income Recognition and Assets Classification and Provisioning
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
FIs	Financial Institutions
FY	Financial Year
MoUD	Ministry of Urban Development
NCR	National Capital Region
NCRPB	National Capital Region Planning Board
NPA	Non-Performing Asset
NPF	New Pension Fund
PEFA	Public Expenditure and Financial Accountability
PFMA	Public Financial Management and Accountability
PIU	Project Implementation Unit
RBI	Reserve Bank of India
VaR	Value at Risk

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1 INTRODUCTION

This introductory chapter aims to…

- Provide a basic background of NCRBP's current accounting and financial system; and,
- Provide an overview of best practice requirements for accounting, finances and policy environment for public sector accounting and financial management;

By the end of this chapter, you should…

- Be aware of the objectives of good financial management processes; and,
- Appreciate the changes and become a partner in its implementation.

1.1 Background

1. This Financial Management Manual (FMM) assembles existing as well as recommended policies and guidelines in respect of financial management of National Capital Region Planning Board (NCRPB). The financial policies contained herein serve as guidelines for both the financial planning and internal financial management of the NCRPB. These policies safeguard the fiscal stability required to achieve NCRPB's goals and meeting immediate and long-term objectives.

2. The financial management polices and guidelines in this manual are informed by the best practices in financial management and are in compliance with guidelines from Asian Development Bank (ADB), Comptroller and Auditor General of India (C&AG), Public Expenditure Financial Accountability Program (PEFA), Reserve Bank of India (RBI) and General Financial Rules. These guidelines also meet the specific benchmarks from credit rating agencies like ICRA and CRISIL.

1.2 Objective of Financial Management Process

3. The primary objective of the financial management process is to optimize financial and economic benefits from an organization's investments. Financial management comprises multiple processes, including financial accounting, management (and cost) accounting, assets accounting, cash and money markets accounting, financial reporting, planning and budgeting, internal controls and audit, along with external audit supplementing with reports and opinion on the reported financial status and performance.

4. The desirable characteristics of an effective Financial Management System (FMS) are delineated as follows:

- **Accountability.** NCRPB is accountable for its operational and fiscal performance to citizens, lenders, investors and all other stakeholders including MoUD. Operational accountability refers to the extent to which NCRPB has met its program objectives efficiently and effectively, given its resources.
- **Transparency.** The process as well as outputs of the FMS should be transparent and beyond any doubts as regards to the contents. This implies that the financial policies, procedures and practices contained in appropriate

manuals or otherwise as well as the financial statements with all salient information should be accessible to all with all assumptions and background information so that the financial information could be interpreted correctly.

- **Internal Control –** Implementing efficient internal control systems will help NCRPB in preventing fraud or its early detection. Some of the techniques of internal controls that can be readily adopted by NCRPB include rotation of duties, segregation of duties, introduction of checks and balances besides strengthening the internal audit system and timely follow-up action on the audit reports.
- **Compliance with Corporate Governance -** Corporate governance refers to the internal controls of an organization and procedures by which it is managed. Effective corporate governance provides a framework under which NCRPB's management board should work.
- **Resource Mobilization** - An effective FMS shall indicate revenue by sources with cost of raising resources. The exhaustive information on actual cost and revenue from each source enables the officials of NCRPB to take up appropriate action(s) for pricing of its products and services.
- **Efficient Treasury Management -** Since control of current assets is an essential element of sound FMS, an adequate cash management system is needed. The prerequisite of an effective financial management system is efficient treasury management. Cash forecasting and budgeting are the tools, inter alia, to be used for efficient treasury management.
- **Expenditure Control** – A sound FMS indicates the costs of delivering financial and non-financial services and the factors that cause those costs to change. Analysis of costs by responsibility centres and by functions compared with previous period and the budgets (as well as any national benchmarks) or efficiently run and well recognized other FIs can provide information for expenditure control.
- **Capacity to raise finance from external sources** - A sound financial management system should meet the necessary compliance requirements from the regulating bodies, financial institutions and donors-institutional or otherwise. Further, it should be able to provide readily all the requisite information from credit rating agencies.

1.3 Structure of this Manual

5. This manual has been developed with the purpose of drawing together in one place all the information that is required for the staff of the National Capital Region Planning Board (NCRPB), complying with national and international best practice standards. The manual is intended to be enduring in nature, subject to regular amendment and additions.

6. This manual is structured in two volumes. **Volume I** contains eleven sections:

I. Introduction;
II. Accounting system and Practices;
III. Chart of Accounts (CoA);
IV. Managing Bank Accounts;
V. Movable and Fixed Assets
VI. Payroll;

VII. Accounts Closing and Reporting;
VIII. Internal Control and Auditing;
IX. Auditing and External Oversight;
X. Financial Reporting; and,
XI. Budgeting System.

7. In each section, the best practices and benchmarks are explained. Existing operating systems and practices (or lack of same) at NCRPB are also briefly described. Further, suggested plan of action or recommendations have been provided to upgrade the existing financial management system in each of the above areas in order to bring the same in line with best comparable peer financial institutions in India.

8. **Volume II** contains annexes referred in Volume I.

1.4 Authority, Distribution and Maintenance of the Manual

9. This financial management and accounting manual is available in non-editable version in soft copy and hard copy. Soft copy of the manual is also available at the website of NCRPB. Users are encouraged to check for the latest version of the manual at www.ncrpb.nic.in.

10. Furthermore, it is advisable that a hard copy of the manual be available for users in respective departments. This financial management manual is to be considered a dynamic document and shall be updated, as and when necessary, by the Board. The responsibility for updating shall rest with Director, Administration and Finance (A&F), NCRPB. Any changes to the accounting manual must be tracked and recorded accordingly for future reference.

2 ACCOUNTING SYSTEM AND PRACTICES

This chapter on accounting system and practices aims at…

- Making you aware of the basis principles of accounting systems and practices; and,
- Providing guidelines for improving NCRPB's accounting systems and financial management practices.

By the end of this chapter, you should…

- Be aware of effective best accounting practices and standards; and,
- Understand the rules of best practice accounting norms and procedures for NCRPB.

2.1 Background

11. NCRPB is engaged in effective financial management and accounting practices. This chapter is intended to detail these practices and to ensure that NRPRB is aware of the basic principles of accounting systems and practices, and to provide insight in how to improve current systems.

12. The transactions are documented by preparing vouchers and issuing receipts. After classifying and recording in the cash book, journal book, petty cash book as the case may be, the transactions are posted to the ledger and a trial balance is extracted summarizing the transactions. The financial statements such as receipts and payments account, income and expenditure account and balance sheet are constructed to ascertain the financial health of financial intermediaries like NCRPB. NCRP's process of obtaining financial (accounting) statements is depicted in figure 1.

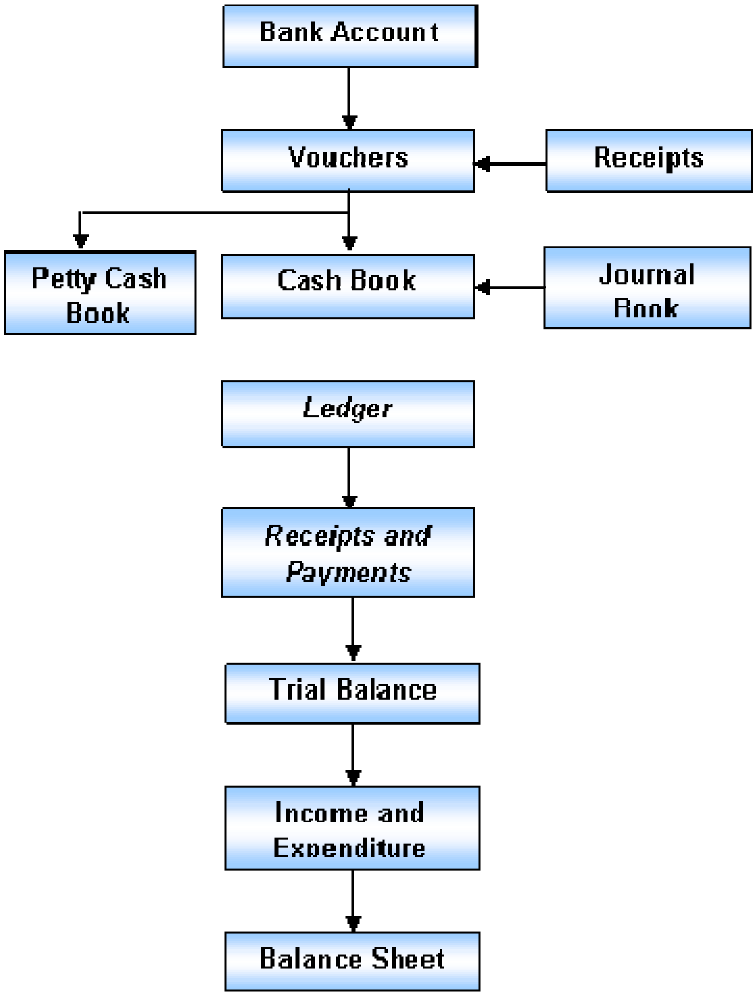
2.2 Objective

13. The objective of this section of the financial management manual is:

- To ensure that accounts of NCRPB are complete, accurate, timely and meaningful to decision-makers.
- To ensure that accounts of NCRPB are prepared in consistent with applicable accounting standards and guidelines;
- To improve the existing accounting system and practices so as to address the deficiencies noted in last few years' audit reports;
- To ensure that accounting system is more efficient through computerization of manual operations;
- To use best practices for applying accrual accounting;
- To provide for closing the accounts faster and efficiently periodically as well as on annual basis;

- To be able to produce financial statement and reports which are comparable to the peer infrastructure finance Institutions in India;
- To provide to staff the reference to relevant technical knowledge and about best practices;
- To provide the relevant financial information accurately and on timely basis for tracking all revenue and expenditures against the applicable budgets
- To generate information that is useful to decision makers, provides information in a user-friendly way, and is integrated with the budgeting process and
- To meet the information requirements of all stakeholders including rating agencies, investors and donors.

Figure 1: NCRPB's Financial Accounting Process



2.3 Improving Accounting System and Practices

14. Good accounting should appropriately reflect all the transactions and balances of the Board and should adequately disclose all items that have a material impact on the financial status of the Board. Good accounting comprises provision of appropriate information with three broad purposes:

i. Recording effectively all transactions and balances of the Board;

ii. Facilitating budget estimates and planning of revenues, expenditures, and debt management;

iii. Ensuring transparency and accountability.

15. These three purposes reflect the progressive stages in the accounting spectrum, moving from routine recording of transactions to management decision making to accountability. To ensure progress in the three purposes, it is required that financial information should be complete, accurate, timely, and meaningful. A good accounting system is pre-requisite to a sound FMS. As such, the priority in reform initiative in respect of FMS is to work towards a much-improved accounting system which is fast, efficient and is able to provide reliable information instantly.

16. For concepts and foundations of NCRPB Accounting, refer annex 1.

2.4 Accrual Basis of Accounting

17. NCRPB accounts are prepared on accrual basis of accounting. In this context, following relevant definitions are listed:

- **Accrual Basis of Accounting** - The method of accounting whereby revenues and expenses are identified with specific periods of time, such as a month or year, and are recorded as incurred, along with acquired assets, without regard to the date of receipt or payment of cash; distinguished from cash basis. (Kohler)

- In this respect **"Accrual"** is defined as recognition of revenues and costs as they are earned or incurred (and not as money is received or paid). It includes recognition of transactions relating to assets and liabilities as they occur irrespective of the actual receipts or payments. (ICAI)Further, **"Accrued & Due"** in respect to an asset (or a liability) it means a claim which has become enforceable, which arises from the sale/rendering (purchase) of goods/services or otherwise and has become receivable (payable) and In respect **to an income** (or an expense) it means the amount earned (incurred) in an accounting period, for which a claim has become enforceable, and it arises from the sale/rendering (purchase) of goods/services or otherwise and has become receivable (payable).

- **Revenue Recognition**: All items of revenue which fulfil the following criteria, shall generally be taken as income on an accrual basis:

  - The income is earned or the right to receive it, is established;
  - The amount due is determined or determinable with reasonable accuracy; and,
  - No significant uncertainty exists about its realisation.

2.5 Accounting Guidelines and Standards

18. The accounts of NCRPB are to be guided by the following:

2.5.1 Uniform Format of Accounting for Central Autonomous Bodies

19. The accounting system in NCRPB should be governed by notes and instructions for compilation of Financial Statements of Central Autonomous Bodies approved by CA&G[1]. These guidelines were recommended by Committee of Experts[2] appointed in February 2000 by Parliament Committee for improving and standardization of preparation of financial statements by Central Autonomous Bodies.

[1] NCRPB is using these instructions effective FY 2007-08.

[2] These experts included Controller General of Accounts as Chairman and members being Chief Advisor (Cost), Representative of Institute of Chartered Accountants, Representative of Institute of Cost & Works Accountants and Representative of Indian Banks Association and Joint Controller General of Accounts being Member Secretary.

2.5.2 Accounting Standards

20. NCRPB should also follow all applicable accounting standards issued by ICAI[3]. Following are some of the relevant accounting standards for NCRPB (found in ICAI) are listed in the following Table:

AS 1	Disclosure of Accounting Principles	
AS 3	Cash Flow Statements	See Note 10
AS 4	Contingencies and Events Occurring After the Balance Sheet Date	See Note 19
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	See Note 2
AS 6	Depreciation Accounting	
AS 9	Revenue Recognition	
AS 10	Accounting for Fixed Assets	See Note 3
AS 11 (Revised 2003)	The Effects Of Changes In Foreign Exchange Rates	See Notes 14, 21, 24, 37, 41
AS 12	Accounting for Government Grants	
AS 13	Accounting for Investments	See Note 11
AS 15 (Revised 2005)	Employee Benefits [click here for related announcement]	See Notes 27, 28, 29, 30
AS 22	Accounting for taxes on income	See Notes 1, 22, 39
AS 25	Interim Financial Reporting	See Note 17
AS 29	Provisions, Contingent Liabilities and Contingent Assets	See Notes 26, 31

2.5.3 General Financial Rules

21. General Financial Rules (GFR) are a compendium of general provisions to be followed by all offices of Government of India while dealing with matters of a financial nature, issued by Ministry of Finance, Department of Expenditure.

22. Ensuring compliance with the Accounting Standards while preparing the financial statements is the responsibility of the management of NCRPB. Statutes governing certain enterprises require of the enterprises that the financial statements should be prepared in compliance with the Accounting Standards, e.g., the Companies Act, 1956 (section 211). The following norms are reviewed with respect to the NCRPB context:

1. Prudential Norms on Income Recognition, Asset Classification and Provisioning on Advances
2. General Financial Rules (with latest amendments)
3. Regular Accrual on Monthly/Quarterly Basis
4. Budget Variance Analysis
5. Plan versus Non Plan
6. Valuation of Investment

[3] http://www.icai.org

7. Provident Fund and New Pension Fund Transactions
8. Depreciation
9. Benchmarking of Financial Statements

2.5.3.1 Prudential Norms on Income Recognition, Asset Classification & Provisioning on advances (IRAC)

23. Reserve Bank of India introduced IRAC norms for the first time pertaining to advances portfolio of banks during the financial year 1992-93 in line with the international practices. These have been updated from time to time since then. Last master circular on prudential norms pertaining to advances was issued by Reserve Bank of India on 1st July, 2005.

24. While NCRPB is not currently regulated by RBI, it is recommended that NCRPB follow the latest guidelines for income recognition, asset classification and provisioning used by banks in the country from April, 2009. This is conformance with the practice at IIFCL which is also following RBI regulations, despite not coming under any regulatory framework currently. These guidelines are consolidated and presented in annex 2**.**

25. Retirement benefits represent a huge liability and must appear in the financial statements to present a true and fair view of financial condition of NCRPB. The retirement benefits of staff including those on deputation should be accounted for by NCRPB in accordance with Accounting Standard No.15. Accrual of Retirement benefits should be based upon actuarial assessment. In this respect, a model Terms of Reference (TOR) is suggested in annex 3 for appointment of an actuary.

26. Leave travel benefits are not accrued but are accounted for when payment is made. NCRPB must also accrue all unclaimed and due benefits in each year annual accounts.

2.5.3.2 Regular Accrual on Monthly/Quarterly Basis

27. In order to be able to assess up-to-date financial status, it is imperative that all income and expenditure are accrued on current basis. The following is suggested:

a) Accrual of **Interest receivable from loans and fixed deposits** are more on current basis rather than only at end of year using standard Journal vouchers, e.g. 04-001 for interest receivables with first two digits changing every month with applicable month; And,

b) **Accrual of all fixed expenses** like depreciation, rent and interest on bonds etc. on monthly/quarterly basis.

c) **Accounting for Incentives:** Different types of incentives like performance linked incentive, conformity incentive(s), timely payment incentive, timely project completion etc. should be accrued upon occurrence of events. For example, when payment from a borrower is received in time, with borrower reducing applicable incentive amount from the paid installment amount, the accounts department should journalize the incentive amount and credit the gross amount (cash received plus incentive amount) to the loan account of borrower.

d) **Accounting for Penal Interest:** These should be accrued through passing a Journal entry, as and when due.

2.5.3.3 Comparison of Actual with Budgets

28. NCRPB should undertake monthly and quarterly budget variance analysis. Tally 9 (Release 2.14) has budget features. Though computerized “Tally” software has provision for

entry of approved budgets against major and minor account codes, this facility is not used. NCRPB could introduce its annual budgets into Tally 9 and undertake budget variance analysis on a routine basis. Furthermore, NCRPB can undertake more detailed financial (budget) analysis by using Excel's analytical features.

2.5.3.4 Plan and Non-Plan

29. The Income and Expenditure Account as well as Receipt and Payment Account is prepared and presented in annual report separately for Plan and Non-Plan and not on consolidated basis.

30. The current presentation serves the important need for utilization of separate allocation of funds under Plan and Non-Plan categories and it is ideal to present this information for MoUD. However, a consolidated income and expenditure account and balance sheet (merging Plan and Non-Plan income and expenditure as well as assets and liabilities) should also be prepared for use by other stakeholders.

2.5.3.5 Valuation of Investment for Preparation of Financial Statements

31. The investments in securities should be valued as per accounting standards No.13[4].

2.5.3.6 Provident Fund (PF) and New Pension Fund (NPF)

32. All opening balances and current year's transactions pertaining to PF and NPF. should not be merged with operation of NCRPB and separate accounts should be prepared..

2.5.3.7 IRAC Norms

33. Prudential norms on income recognition, asset classification and provisioning (IRAC norms) pertaining to advances portfolios of banks were introduced for the first time by Reserve Bank of India during financial year 1992-93 i.e. year ended 31st March 1993 in line with the international practices. The prudential norms are formulated on the basis of objective criteria rather than on any subjective consideration. This has brought in uniform and consistent application of the norms and greater transparency in published accounts of banks.

34. Reserve Bank of India has been issuing master circulars on prudential norms for the past few years. The last master circular on prudential norms pertaining to advances was issued by Reserve Bank of India on 1st July 2005. NCRPB should follow the IRAC guidelines from RBI (annex 2) and use the same for preparation of financial statements (e.g for asset classification, accounting for revenue and provisioning against NPA etc.). The highlights of IRAC norms as applicable to NCRPB are :

A. Income Recognition

- Income from NPA is not recognised on accrual basis but is booked as income only when it is actually received.
- Therefore interest on any NPA should not be recognized unless realized
- Fees and commissions earned by NCRPB as a result of re-negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

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[4] http://www.icai.org/resource_file/255accounting_standards_as13new.pdf

  - If government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

- **Reversal of Income**
  - If any advance, becomes NPA as at the close of any year, interest accrued and credited to income account in the corresponding previous year, should be re-versed or provided for if the same is not realized during the year under audit.
  - This will apply to government guaranteed accounts also.
  - In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.

- **Projects Under Implementation –**
  - The projects under implementation for the purpose of determining the date when the project ought to be completed and the asset classification norms in respect thereof are as under:

- **Income Recognition** (Regarding Projects under Implementation)
  - Banks may recognise income on accrual basis in respect of the above three categories of projects under implementation, which are classified as 'standard'.
  - If asset under above category is classified as 'sub-standard' income should be recognised on realisation on cash basis.
  - Income which is wrongly recognised should be re-versed if it was recognized as income during the current year or provision should be made for an equivalent amount if it was recognised as income in the previous year(s).
  - As regards the treatment of 'funded interest' recognised as income and 'conversion into equity, debentures or any other instrument' guidelines as given earlier. (Reader may refer Master circular dt.1st July'05 of RBI for detailed guidelines and clarification in this regard.) The underlying principle is that any funding of interest in respect of NPAs, if recognized as income, should be fully, provided for.

B. Provisioning Norms

- **Sub-standard Assets**
  - A general provision of 10 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.
  - At times bank give loans, which are unsecured ab-initio. i.e. the loan is sanctioned without any security.
  - If such account becomes NPA and is classified as substandard then provision of 20% would be made.
  - Banks are permitted to phase the additional provisioning consequent upon the reduction in the transition period from substandard to doubtful asset from 18 to 12 months over a four year period commencing from the year ending March 31, 2005, with a minimum of 20 % each year.

- **Doubtful Assets**
  - 100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis.

- In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 20 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful.

Period for which the advance has remained in ‘doubtful’ category	Provision requirement (%)
Up to one year	20
One to three years	30
More than three years i) Outstanding stock of NPAs as on March 31, 2004. ii) advances classified as ‘doubtful more than three years’ on or after April 1, 2004	§ 60 per cent with effect from March 31, 2005 § 75 per cent with effect from March 31, 2006 § 100 per cent with effect from March31, 2007 100 percent with effect from March 31, 2005

35. As per the provisioning norms applicable to year ended 31st March 2004, for asset, which were doubtful for more than three years (doubtful 3), 50% provision was required to make secured portion. However, any asset, which gets migrated to doubtful 3 Category, 100 % provision is required to be made on the entire balance i.e. secured portion also. However, assets which were already in the doubtful 3 category, provision as indicated above will be required to be made.

36. Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

2.5.3.8 Depreciation

37. NCRPB charges depreciation as per ‘written down value’ method and as per rates prescribed under Income Tax Act. These rates are provided for easy reference in annex 4 of this manual. The board of NCRPB may decide to write off all assets @ 100% in case of assets costing less than Rs. 5000. The depreciation of assets should also follow guidelines as per Accounting Standard no. 6.

2.5.3.9 Statement on Contingent Liabilities

38. Contingent liabilities represent an obligation, relating to a past transaction or other event or condition, that may arise in consequence of a future event now deemed possible but not probable. Contingent liabilities represent a claim against the NCRPB which is contingent on the happening of a future uncertain event, the financial implications of which may or may not be ascertainable at the end of an accounting period. The following shall be disclosed by the NCRPB in the ‘Statement on Contingent Liabilities’:

a. Amount of Capital Contracts remaining to be executed and not provided for;
b. Amount of claim in respect of suits filed against the NCRPB for which the NCRPB may be liable, in case the NCRPB loses suits;
c. Claim against the NCRPB not acknowledged as debts; and
d. Other money for which the NCRPB is contingently liable.
e. Credit guarantees provided by NCRPB to its borrowers

2 Besides, presentation of contingent liabilities should follow schedule 25 of Guidelines for Central Autonomous Bodies,

2.6 Benchmarking Financial Statements

39. NCRPB is following the annual financial statement format as recommended by CA&G,. In view of its expanded role as a financial institution, the management of NCRPB should make up a case with CA&G to use more appropriate formats of financial statements like IIFCL. The copy of audited annual statement of India Infrastructure Finance Company Limited (IIFCL) for the FY ended 31st March, 2008 is provided as annex 5 so as to provide a benchmark for presentation of annual financial statements. NCRPB can adopt the IIFCL annual statement as a useful model for its requirements. (Please see www.IIFCL.com).

2.7 Use of Tally 9 Release 2.14

40. NCRPB should completely migrate to computerised accounting system using latest version of standard accounting software available. It is recommended that the latest "Tally 9 Release 2.14" be used. The features and advantages of latest Tally software can be accessed at http://www.tallysolutions.com/tally9fet.shtml. This is recommended as an intermediate solution prior to the implementation of an ERP solution.

2.7.1 Benefits of Computerised Accounting

41. Following are some of the benefits of computerised accounting:

- Unlimited Cost/Profit Centres with power project oriented reporting – gives multi-dimensional analysis and comparatives, with an unlimited classification of analysis criteria;
- Calculation of interest on loans, based upon certain set criteria or specified dates and time periods, payments as per given parameters and generate reminder letters;
- Ready availability of ratio analysis. Please refer to Annex 10, for sample statements from Infrastructure Development Finance Limited and Housing Development Finance Corporation Limited ;
- Ready availability of completed financial statements during the year and preparation of financial statements by 15th of April to meet deadline of annual financial statements to government by May 31st;
- The faster processing of payroll with computerized pay-slips; and,
- Meeting statutory requirements regarding TDS and service tax.

2.7.2 Software Customization

42. It is recommended that NCRPB employ an Information Technology (IT) consultant for training in advanced level of Tally software and customizing the software as per NCRPB requirements - especially for preparing reports in defined formats by CA&G.

3 CHART OF ACCOUNTS (COA)

This chapter on Chart of Accounts aims at…

- Explaining the a Chart of Accounts (CoA) framework;
- Describing and illustrating the coding structure for possible use by NCRPB; and,
- Developing appreciation of the codes for fund, function, organization, source of financing, along with account codes.

By the end of this chapter, you should be able to…

- Classify transactions into income, expenditure, asset or liability;
- Select the appropriate codes for a particular transaction based on the nature of transaction; and,
- Read an account head based on its account code.

A good practice standard for a Chart of Accounts is to capture comprehensively all financial transactions, fulfil compliance requirements, facilitate budget preparation consistent with account codes and be flexible enough to generate the needed financial information reports for all stakeholders. Digitized chart of account make the accounting process more efficient and expeditious.

3.1 Background

43. For records of transactions to be useful, similar transactions have to be grouped together. A chart of accounts (CoA) provides a framework that brings consistency to the way the budget and accountancy system classify transactions. CoA defines the heads under which the income, expenditure, assets and liabilities of NCRPB are classified and it facilitates maintenance of accounts and preparation of financial statements.

44. In the CA&G approved format of financial statements for central autonomous bodies, a descriptive chart of account has been provided. In this chart of account, income, expenditure, assets and liabilities are grouped under specified heads, which may be termed as “Major” account heads. Further, for each “major” account head, a very large number of account heads are provided, which may be called ”minor” account heads. NCRPB has decided to use in its present chart of account all major and the selected minor account heads, as applicable to its operations.

45. The proposed digital CoA introduced in this section uses the existing descriptive major and minor account codes but extends its structure for further analysis by Plan/Non-Plan, type of fund, financing sources, function and required details like bank accounts, FDR numbers, name of borrowers and distinctive projects for each borrowers etc. If NCRPB adopts a digital CoA, it is projected that the processing and analysis of data shall become much more efficient and expeditious.

3.2 Objective

46. The chart of accounts, which is a list of each account that the accounting system tracks, should be designed to capture the financial information required to prepare meaningful reports consistent with the accrual accounting and to make informed financial decisions. Only information recorded with an account code from the chart of accounts will

be recorded into the financial records, and from there into financial reports. The objective of introducing a chart of accounts structure to NCRPB is so that the institution can begin using a well designed coding block structure that aligns with the best public financial management practices.

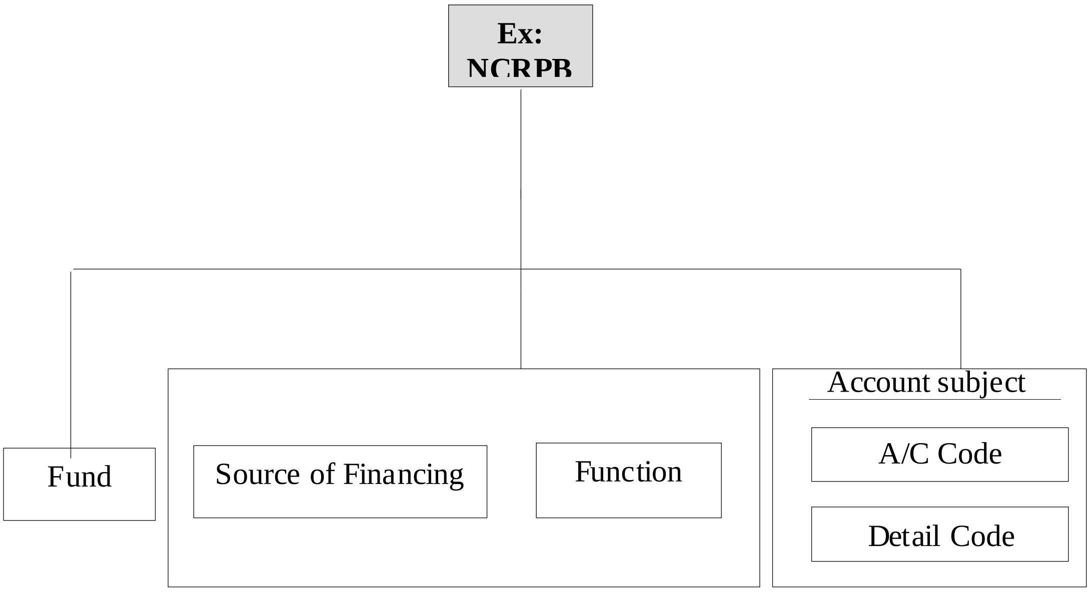
3.3 Codification Structure

47. The codification structure proposed captures all type of financial information within NCRPB, which are essential. Each type of classification is considered as a group. Functions shall represent the various functions or services carried out by NCRPB. Account Heads shall represent the nature of the income or expenditure.

48. Budgets in NCRPB should be centered on its functions. Functions are provided through various responsibility centres called departments. Geographical dispersion of these activities may also be monitored in the context of NCR units in participating states. Hence, NCRPB identify its income and expenditure budgets at function, functionary (department) and field level.

49. NCRPB can also set up various funds for meeting certain objectives. Income and expenditure under these funds are to be identified and disclosed separately. However, the method of disclosure may be different. When they adopt the integral concept, separate books of accounts are not maintained for the funds. Identity is created by providing separate account heads to capture the income and expenditure for each such fund.

Exhibit 4-1: Example of a Chart of Accounts Structure



The various components of the chart of accounts structure are explained below

Fund	The fund to which the transaction pertain.
Source of Financing	The source of financing for the transaction - It can range from 'own Source' to specific schemes / projects.
Function	The object code - It is also the primary budgeting head.
Account Code	The subject code - It is the account to which posting of most accounts shall be made.
Detail Code	The detail code - To be created under the account code for recording specific bank account / investments / loans etc.

50. It is recommended that there can be three other optional groups apart from the mandatory groups of major and minor account Head.

- Funds
- Type of expenditure (Plan or Non-Plan)
- Functionary (Responsibility centre/department)

51. As such, there can be five distinct groups, functions, functionary and field are called budgeting centres. For example, the fund code, source of financing code, and the function code can be linked with the account code to provide the following:

1. **Fund Accounts:** The account codes are linked to fund codes to give fund accounts and fund financial statements. (i.e. NCRPB fund).

Fund-wise Statements = Fund Code + Account Code

2. **Source of Financing:** The source of financing code links to account codes allowing for example, NCRPB, to know the entire transactions taking place for a particular Source of Financing such as a specific grant or a scheme.

   Source of Fund Statements = Source of Finance Code + Account Code

3. **Budgetary Control:** The account codes are also linked to function/organization codes to enable budgeting control and analysis.

   Function-wise Statements = Function Code + Account Code

3.4 Major and Minor Objects: Capturing Financial Information

52. Each group can have various levels within it to drill down further information. The levels even in the mandatory groups can be either mandatory or optional based on the requirements. First level major and minor account heads should be mandatory for NCRPB. Aside from certain conventions regarding numbering and the order in which information is presented (see below), the chart of accounts of NCRPB is tailored to meet its specific needs. In order to decide what to include in the chart of accounts, following questions are addressed:

i. What reports are to be prepared?

ii. What financial decisions, evaluations and assessments are needed to make on a regular basis?

iii. What level of detail is required?

iv. What is the in-house capacity for tracking financial information?

53. The uniform format of account provides for accounting of financial transactions, covering a range of diverse services/goods. At present, NCRPB uses only applicable head of accounts for capturing financial information, relevant to its present and future operations. Besides, NCRPB needs to keep track of its Plan and Non-Plan expenditure separately. A chart of account is therefore, devised, which is simple and amenable to information processing immediately through Tally software and /or through planned ERP.

3.5 Mandatory Chart of Account

54. The proposed COA has five digits and is easy to use. Pre-five digit CoA is for identification of Plan or Non-Plan income/expenditure/asset/ liability, followed by three digit Major code and two digit minor code.

Plan/Non-Plan	**Major**	**Minor** (Total 5-Digits)
X (1 for Plan and 9 for Non-Plan)	XXX	XX

55. **Plan/Non-Plan**: NCRPB need to prepare separate income and expenditure accounts come under two categories, viz., Plan and Non-Plan. Under plan, all income from plan funds

(interest earned from loaned funds etc.) and all expenditures directly related or attributable to granting of loans and raising of funds for borrowing are recorded. Under non-plan all other income and expenditure are accounted for. Further, “I” is used for Plan and “9” for non-plan are to be prefixed to four digit major and minor account code.

3.5.1 Major Head Code (Two Digits)

56. The first digit of the major head code shall indicate the nature or type of the account. The first digit shall be assigned one of the following numbers depending on the nature of the account:

> '**1**' shall denote an account relating to ' Revenue Income'
> '**2**' shall denote an account relating to ‘Revenue Expenditures’
> '**3**' shall denote an account relating to ' Capital Receipts & Liabilities'
> '**4**' shall denote an account relating to ' Capital Expenditures & Assets'

57. The next digits of the major head code shall denote the group codes for the various head of accounts. For example,

58. Code 11-19 shall represent all income categories (on the “income” side of income and expenditure account. These major categories are outlined below:

11	Income from Sales/Service
12	Grants/Subsidies
13	Fees & Subscriptions
14	Income from Investments from Earmarked Funds
15	Income from sale of NCR publications
16	Interest Earned
19	Other Income

59. Code 21-29 shall represent all categories of “expenditure” as follows:

21	Establishment expenditure
22	Other administrative expenses
23	Expenditure on grants subsides etc.
24	Expenditure on market borrowings
25	Interest
26	Depreciation

60. Code 31-39 shall represent all categories of “Capital Fund and Liabilities” as follows:

31	NCRPB Fund
32	Reserves and Surplus
33	Earmarked/ Endowment Fund
34	Market Borrowings
35	Unsecured Loans and Borrowings

36 Deferred Credit Liabilities

37 Current Liabilities and Provisions

61. Code 41-49 shall represent all categories of “assets” as follows:

41 Fixed Assets

42 Investment from Earmarked Funds

43 Investment of PF/NPS

44 Current Assets

45 Loans and Advances

49 Miscellaneous expenditure

62. It is to be noted that the financial statements of NCRPB are drawn at major head codes of account and hence this is a mandatory level of information as stipulated in Uniform Format of Accounts. No major code addition is likely to happen, though provision in the COA is made for additions, if necessary. In case the same is required it has to be approved by the Director Administration and Accounts.

3.5.2 Minor Head Codes (Two Digits)

63. The Minor Head Code shall be of 2 digits. An item covered by a Minor Head Code is a subset of the Major Head Code. Thus, it shall be necessary to refer the Minor Head Code in conjunction with the associated Major Head Code.

64. The Minor Head Codes provide further details of transactions in respect of the Major Head Code it is associated with. For example,

65. Under the Major Income Head Code 19 representing ‘Other Income’ the Minor Head Codes are as follows:

1901 Upfront Fees for resetting of interest fees

1902 Prepayment charges

1909 Miscellaneous income

66. Under the Major Expenditure Head Code 24 representing “Expenditure on Market Borrowings”, the Minor Head Codes are as follows:

2401 Interest on Bonds

2411 Listing Fees

2421 Rating Agency Charges

2431 Registrar & Transfer Agent Charges

2441 Stamp Duty on NCRPB Taxable Bonds

2451 NSDL Charges

2461 Corporate Action Fees/Custodial fee on NCRPB Taxable Bonds(2018)

2471 Arrangers Fees

2481 Interest on Application fees-NCRPB Taxable Bonds-2018

67. Under the Major Head Code 32 representing "NCRPB", the minor codes are as follows:

3101	**Opening Balance (brought forward from previous year)**
3109	**Surplus/(Deficiency) in current year I&E Account**

68. Under the Major Head Code 44 representing "Current Assets" the minor codes are as follows:

4401	Advances to staff
4411	Sundry debtors
4421	Cash balances in hand
4431	Bank balances- with scheduled banks- savings account
4432	Bank balances- with scheduled banks- auto swap FDRs
4433	Bank balances - with scheduled banks- FDRs
4434	Bank balances - with scheduled banks- bond redemption reserve
4439	Bank balances - with scheduled banks- others
4441	Bank balances - with non-scheduled banks- savings account
4442	Bank balances- with non-scheduled banks- auto swap FDRs
4443	Bank balances- with non-scheduled banks- FDRs
4444	Bank balances - with non-scheduled banks- bond redemption reserve
4449	Bank balances - with non-scheduled banks- others

69. Additionally, three digit details and further two digit sub-set of three digit detail code can be used for identification by FDR Numbers, loans due, repayments and outstanding as well as interest due, earned and incentives applicable to each Borrower/Implementing agencies etc. , The example of such details codes are provided below:

Account	Detail, sub-detail (4+3+2) Description
4521	Loans_ Disbursed - Implementing Agencies
4521 001	Haryana- DHBVN
4521 001 01	Strengthening of sub-trains & Districts in Rewari
4521 001 02	Strengthening of transmission in Rewari
4521 001 03	Trans & Dist. Network -Gurgaon
4521 002	Haryana –HVPN Ltd.
4521 002 01	Creation of 132/66 KVA SBST in NCR area
4521 002 02	Creation of Power infrastructure in Gurgaon and B'Gh.
4522	Repayment of Loans- Implementing Agencies
4522 001	Haryana- DHBVN
4522 001 01	Strengthening of sub-trains & Districts in Rewari
4522 001 02	Strengthening of transmission in Rewari
4522 001 03	Trans & Dist. Network -Gurgaon
4522 002	Haryana –HVPN Ltd.
4522 002 01	Creation of 132/66 KVA SBST in NCR area
4522 002 02	Creation of Power infrastructure in Gurgaon and B'Gh.

70. Total of 999 borrowers and 99 projects under each borrower could be accommodated

under three digit detail code and further two digit sub-code respectively. These details and sub-details account codes are optional account codes and are to be used as suffix to minor account codes, to meet necessary information requirements. The other optional account codes are following:-

71. **Fund Code**: In case separate accounts are required for NCRPB Fund and also for GPF Fund or any other category, it may be assigned a single digit Code before the mandatory four digit code. The fund code, source of financing code and function code are to be used as prefix to mandatory four digits account code.

A. Funding Source Code: Funding source (for each fund) could be any of following:

i. NCRPB Own Funds;
ii. Grant- MoUD;
iii. Grant- Govt. of Delhi;
iv. Asian Development Bank (ADB);

A single (one) digit account code should be used as funding source code.

B. Function Cost Center

72. Identification by project, loans due, repayments and outstanding as well as interest due, earned and incentives applicable to each project shall be tracked by each unique project number against the applicable minor account code.

3.6 Introducing Organization Coding Block Structures

73. **Organization/Cost Centre code:** Based upon existing organizational structure and need for budgeting and controlling expenditure focussed on each specific cost centre, the following two digit codes are suggested.

Organization/Unit /Cost Centre	Organization Code
Member Secretary	10
Director-A&F	20
Finance	21
Administration	22
Project Monitoring	23
Internal Audit	24
Chief Regional Planner	30
GIS Unit	31
Socio-Development Unit	32
Regional Planning, Land Use	33
NCR Cell-Delhi	34
NCR Cell- Haryana	35
NCR Cell- UP	36
NCR Cell- Rajasthan	37

74. Accounts information can then be generated for each code, e.g. expenditure of each NCR cell, GIS function, total “administration” and total “finance” functions. Also indirect

expenditure, which is not attributed to any specific department can be obtained and then apportioned based on agreed justifiable basis. However, the above suggested codes may be changed as appropriate and relevant.

75. If it is decided to use the above suggested codes, then it shall be also necessary to assign the applicable code to each staff in the payroll software so that salary expenditure is available duly distributed for accounting against each function/cost centre.

4 MANAGING BANK ACCOUNTS

This chapter on managing bank accounts is aimed at…

- Making you aware of the basics in managing NCRPB s bank accounts; and,
- Familiarising you with certain basic concepts and conventions related to bank reconciliations, cheque controls, and cash receipts.

By the end of this chapter, you should…

- Appreciate the concepts and underlying principles of effective bank reconciliation.

A good practice standard is to have bank reconciliations being completed in a timely manner at a minimum fortnightly.

4.1 Background

76. NCRPB has a treasury operation with significant dealings with banks. This section is intended to provide NCRPB employees with basic guidelines in managing NCRPB's bank accounts.

4.2 Objective

77. The objective of this chapter is to present NCRPB's process for managing its bank accounts and to present ideas for improving the process of managing bank reconciliations.

4.3 Bank Statement Reconciliation

78. The objective of reconciliation procedures is to ensure that if accounting information is recorded at more than one place, there are no discrepancies between the different sets of records. The reconciliation procedure will ensure that amount of receivables is same at various departments in NCRPB. If there are some discrepancies then adjustment should be made. The procedures will include the following:

i. Bank reconciliation.
ii. Reconciliation of deposits.
iii. Reconciliation of receivables and collections (where applicable).
iv. Reconciliation of Loans (borrowers/implementing agencies)
v. Reconciliation of advances to employees.
vi. Reconciliation of payables.

79. Reconciliations for all bank accounts must be completed by end of 10 calendar days following each month and reconciliation statements prepared by accountant must be checked for accuracy and completeness and counter-signed by supervising Officer. The latter shall also check the balances in bank account in ledger account of the specific bank in computerized accounting system with its balance in bank statement. The Supervising Officer shall also check and approve all the rectification journal entries and make a record of same on the bank reconciliation statements, which should be entered in the Ledger before 15^{th} of following month.

80. 'Bank Reconciliation Statement' is a statement prepared to reconcile the differences

between the “Bank Balance’ shown by the cash book and the pass book. The schedule is prepared by taking those items that have been entered into the cash account in the general ledger but that are not yet reflected in the pass book (maybe not known by the bank) as of the cut-off date, and taking those items that have been done at the bank but have not been entered into the cash account in the general ledger as of the cut-off date. Finally, the reasons for the balance as per bank book not matching with the bank statement / pass book must be known.

81. Disagreement may be due to various factors:

- Entries made in cash book but no corresponding entry in bank Statement / pass book and vice versa.
- Mistakes appearing in any of the books, at a given period.

Reconciliation factors	**Effect on Bank Book Balance**	**Effect on bank balance as per Pass Book**
Cheque issued but not presented for payment	Bank balance reduces by that amount	No effect
Cheques deposited but not cleared	Bank balance increases by that amount	No effect
Cheques received but not deposited	Bank balance increases to the extent of cheque received but not deposited	No effect
Debit of charges by bank for any services rendered	No effect	Bank balance reduces to the extent of charges levied
Direct deposit of amount in the bank account	No effect	Bank balance increases to the extent of deposit
Interest allowed and credited by the Bank	No effect	Bank balance increases to the extent of interest credited
Payment by the bank in respect of standing instructions given to the bank	No effect	Bank balance reduces to the extent of the payment made
Fixed Deposit or any other sum directly credited by bank to the account	No effect	Bank balance increases to the extent of money credited
Cheques issued returned dishonored	Bank balance reduces by that amount	No effect
Any other reason which may result in difference between bank balance as per cash book and pass book		

4.4 Advantages of Preparing Bank Reconciliation Statement

82. The advantages of preparing a bank reconciliation statement include;

i. **Error Detection:** It helps in detection of errors of omission of transactions or wrong recording of transactions either by the bank or by the enterprise.

ii. It helps in avoiding **frauds** also: The reason for discrepancy may sometimes be something more serious than an error. Regular preparation of a bank reconciliation statement helps in identifying and detecting such frauds as well.

4.4.1 Adjusting the Bank Balance

- Take the cash book or pass book (bank statement) balance as starting point. Adjust the amount (taken as starting point) as per the information given and find out its impact on other balances.
- Amounts included in bank book but not known by the bank as of the statement date:
- Deposits in Transit - amounts that have been debited to the cash account (added) in the general ledger but for whatever reason have not been acknowledged as being received by the bank and so are not in the bank balance.
- Checks Outstanding - amounts that have been credited to the cash account (subtracted) in the general ledger but have not been subtracted by the bank. This is normally due to checks written but not cleared through the banking system as of the cut-off date.
- Under normal circumstances, there are only two things done to the (pass book) Bank Balance portion of bank reconciliation.
- Deposits in Transit are added; and,
- Checks Outstanding is subtracted from it.

4.4.2 Adjusting the Book Balance

83. The book balance is adjusted by anything that the bank did that has not been entered into the cash account yet. If the bank added it, you add it to the book balance and if the bank subtracted it, you subtract it from the book balance to calculate the adjusted book balance. Anything that is undertaken in the book balance on the reconciliation will require an entry to be made in the bank book to reflect either the increase (debit) or decrease (credit) along with the appropriate credit or debit to the applicable other accounts effected. Some things done by the bank but not yet entered into the cash account:

a. Bank Service Charge - charges by the bank for processing checks and deposits, etc. This is subtracted from the book balance and is an expense when journalized

- Expense (Dr); Bank (Cr).

b. NSF - this stands for "non-sufficient funds", or, in other words, a "bounced check". These were originally accepted as good and added by the bank but now have "bounced" and have been subtracted by the bank. They are subtracted from the book balance and are an account receivable when journalized

- Accounts Receivable/ Accounts Payables/Loans or Advances (as applicable) (Dr); Bank (Cr).

c. Charges for cheque books or deposit slips - these are supplied by the bank and charged to (subtracted from) the bank account. The charges are subtracted from the book balance and are an expense when journalized.

- Expense (Dr); Bank (Cr).

d. Interest - some accounts may earn interest on the balance. The interest is added to the book balance and is entered as Interest Revenue (or Interest Earned) when journalized - Bank (Dr); Interest Revenue (or Interest Earned) (Cr).

4.5 Reconciliation of Deposits

84. Reconciliation of deposits aims at reconciling the balance of earnest money deposit, security deposit and any other deposits received by NCRPB. The reconciliation shall be carried out between the records maintained at other departments and those maintained at the Accounts Department. The deposit reconciliation shall be carried out every half year.

85. The department which had received the deposits shall prepare a Reconciliation Statement of deposits outstanding from the deposit register in the format similar to that provided in the Table below for all the deposits received by it and forward it to the Accounts Department. This statement shall be prepared for each type of deposit. In case there is a discrepancy between the records of the two, this statement may have to be prepared for each contractor/supplier.

Example of Reconciliation Statement of Deposits Outstanding with the NCRPB

Particulars	Amount (Rs.)
Deposits outstanding at the beginning of the accounting period	
Add: Deposits received during the current accounting period (specify all the Statement of Collections through which deposit has been received)	
Less: Deposits returned during the current accounting period (specify all the Payment Orders through which the deposit has been refunded)	
Less : Deposits Adjusted (Give details)	
Less : Deposits Lapsed	
Deposits outstanding at the end of the accounting period	

86. The balances computed above would be reconciled with the balances for deposits shown in the ledger of the Accounts Department. Reasons for differences, if any, shall be identified and rectification entries passed wherever required.

4.6 Reconciliation of Employee Advances

87. The employees of the NCRPB may be provided with some loans / advances such as expense advance, etc. The details of such advances granted to the employees shall be recorded in a Register of Employee Advances. The details of recovery of advances shall also be recorded in that register. At the end of the accounting period, a confirmation statement shall be obtained from each of the employees to whom advance has been provided in the format provided in below. The confirmation statement so obtained shall be reconciled with the record of the employees maintained at the Department, where a consolidated Statement of Advance provided to employees shall be prepared and forwarded to the Accounts Department. The Accounts Department shall reconcile the total amount of advance provided with the control ledger accounts.

Example of Reconciliation Statement of Personal Advance provided to ______________ (name of the employee) as on ____

Particulars	Amount (Rs.)
Advance outstanding at the beginning of the accounting period	
Further advance given during the current accounting period (specify all the Payment Orders through which advance have been provided/replenished)	
Total Advance Provided	
: Advance recovered including recovery from the salary during the current accounting period	
Advance outstanding at the end of the accounting period	

4.7 Reconciliation of Payables

88. The concerned departments and the Accounts Department maintain a Register of Bill for Payment in which all bills submitted for payment are recorded. The concerned department shall ascertain the information required as per Table below and forward the details to the Accounts Department.

Example: Reconciliation Statement of Payables
Details for ____ Department as on ____

Sr. No.	Particulars	Amount (Rs.)	Amount (Rs.)
A	**OPENING BALANCE OF UNPAID BILLS**		
i.	Bill outstanding in respect of the previous periods of the current accounting year		
ii.	Bill outstanding in respect of previous accounting years (This detail should be given year-wise, wherever applicable)		
B	**Add: Bills received during the current period**		
C	**GROSS TOTAL LIABILITY OUTSTANDING (A + B)**		
D	**PAYMENTS DURING THE CURRENT PERIOD**		
i.	Payment of bills pertaining to current period of the current accounting year		
ii.	Payment of bills pertaining to previous periods of the current accounting year during the current period		
iii.	Payment of bills pertaining to previous accounting years during the current period (This detail should be given year-wise, wherever applicable)		
E	**Total payments during the current period (i + ii + iii)**		
F	**CLOSING BALANCE OF UNPAID BILLS**		
i.	Bill outstanding in respect of the current periods of the current accounting year [B – D(i)]		
ii.	Bill outstanding in respect of the previous periods of the current accounting year [A(i) – D(ii)]		
iii.	Bill outstanding in respect of previous accounting years (This detail should be given year-wise, wherever applicable) [A(ii) – D(iii)]		

89. The Reconciliation Statement received by the Accounts Department shall be reconciled with the respective accounts maintained by the Accounts Department. The reasons for differences, if any, shall be identified and rectification entries passed wherever required by the department, which has recorded the entry incorrectly.

4.8 Cheques control

90. The supervisor shall keep a register for this purpose and record all cheque books issued by bank(s). The cheque books may be handed over to the Accountant against his/her signature in this register. All used cheque books along with cancelled cheques should be kept safely by the supervising officer for use later by internal/ external auditors.

4.9 Cheques Signing Authority

91. As approved by the NCRPB's Board, cheques with value up to Rs. 50,000 (Rupees fifty Thousands) are to be signed jointly by Drawing and Disbursement Officer (D&DO) and F&AO or Deputy Director (Administration)

92. Cheques with value above Rs. 50,000 (Rupees Fifty-Thousands) only are to be signed jointly by Director- F&A and any of two Joint Directors (Technical) or D&DO.

4.10 Cancelled Cheques

93. The supervising officer shall keep safely the cancelled cheques (for any reason) issued by NCRPB along with the used cheque book. It shall also ensure that the original accounting transaction recorded with the cancelled cheque, is either not recorded or is reversed through a journal entry. The photo copy of the cancelled cheque shall be attached as a supporting document with the reversal journal voucher.

94. If the cheque received by NCRPB from an outside party is returned unpaid for any reason by NCRPB's bank, the supervising officer should ensure that the issuing party is immediately informed and NCRPB makes the reversal journal entry to the transaction when it was originally accounted for and also make the necessary changes in all the subsidiary ledger /memorandum records.

4.11 Cash Receipts

95. NCRPB's operations do not need receipt of cash except for its various obligations for which it also discourages receipt of cash. The official numbered cash receipts are issued by and signed by the Cashier and Supervising Official. The pre-numbered and counterfoil copy of receipts are kept for audit purposes.

5 MOVABLE AND FIXED ASSETS

This chapter on movable and fixed assets is aimed at…

- Ensuring that NCRPB staff members understand basic fixed asset inventorying and recording.

By the end of this chapter, you should…

- Appreciate the concepts and underlying principles of effective asset management.

A best practice standard is to record (tag) all fixed assets and have regular reporting of asset inventory on a quarterly basis.

5.1 Background

96. Movable and fixed assets include assets in following ten categories as per Schedule 8 of the Form of Financial Statements for Central Autonomous Bodies: (i) Land, (ii) Building, (iii) Plant Machinery & Equipment, (iv)Vehicles, (v) Furniture & Fixtures, (vi) Office Equipment, Computers/Peripherals, (vii) Electric Installations, (viii) Library Books, (ix) Tube Wells and Water Supply, and (x) Other Fixed Assets.

97. The financial records should be kept in respect of Gross, Depreciation and Net Balance. "Gross Value" and "Depreciation" should show separately for each type of asset, in separate columns, cost/valuation at beginning of FY, additions during the FY, deductions during the FY and cost /valuation at end of the year. Total value of current year as well as previous year should be shown in conformity with guidelines regarding Uniform format of Accounts from CA&G.

98. This section deals with how NCRPB should deal with its fixed assets in terms of registration, expensing, and capitalization (where appropriate). NCRPB should follow AS 10 as its guide in recording and accounting for fixed assets.

5.2 Objective

99. The objective of this chapter is to provide insights to NCRPB employees in inventorying and managing NCRPB's fixed and tangible assets.

5.3 Recording of Fixed Assets

100. Assets acquired out of Government grants and out of own funds are recorded separately in Schedule 8 [5]. Assets are not recorded and grouped under separate categories except library and reference books. Each item of asset is listed separately irrespective of value.

101. At NCRPB, small value items (i.e. with value as low as Rs. 116.66) have been capitalized as per Schedule 3 (Fixed Assets) to Annual Accounts for FY 2007-08. It appears that there is no (apparent) minimum lower threshold fixed for capitalization at NCRPB.

102. According to Schedule 24 (significant Accounting Polices) as per Guidelines to the

[5] Please see fixed asset register at the end of this chapter.

Uniform Format of Accounts for Central Autonomous Bodies, assets costing Rs. 5,000 or less are fully provided, implying that deprecation should be provided for assets above Rs. 5000. See sample fixed asset register following this chapter. NCRPB should follow AS10 in recording and accounting for fixed assets.[6]

5.4 Fixed Asset Cost

103. Where a record exists proving the purchase price or the cost of that fixed asset, the data in that record will be used as the beginning balance for that asset and then depreciated retroactively from the date of purchase until an agreed upon date arriving to the net book value of the asset, otherwise, current replacement cost for that asset will prevail and the same retroactive restatement will apply.

104. Although current replacement cost will be used in case of missing records, still this method is vulnerable to subjective estimation. Therefore, norms and guidelines should be drawn to ensure objective estimates. These norms and guidelines will be in parallel with site visits to ensure their applicability.

5.5 Custodianship

105. The custodianship shall be maintained and overseen by the inventory section and in accordance with the existing procedures. The custody of assets shall be split into two elements:

5.5.1 Employee as Custodian

106. Each employee shall be responsible for the assets, which have been issued to him/her. A non-exclusive list of employee custodian assets include: all tools, vehicles, light machinery, mobiles, office phones, radios, digital cameras, computers and information technology (IT) equipment.

5.5.2 Location as Custodian

107. Assets issued, or located, to any site shall be the responsibility of the Site Manager (or Supervisor). Assets issued to the main office shall be the responsibility of the appropriate administration manger. The following non-exclusive list shall be considered as Site as opposed to Employee Custodianship: all office furniture and equipment (desks, chairs, meeting tables, filing cabinets, shelves, boards); photocopy machines, pictures and paintings.

5.5.3 Maintaining and Updating the Inventory

108. After the physical inventory has been taken, several steps are necessary to update the fixed asset system.

1. Physical inventory results are computerized.
2. Calculations and extensions are performed.
3. Differences between the actual status of the fixed assets (determined by the physical inventory) and any pre-existing data are reconciled.
4. Reports are produced from the updated database.
5. Reports are reviewed and output verified before the reports are released.

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[6] Please see good order instructions and guidelines as per schedule 8 (Fixed Assets) , item no. 5 and 6 of Schedule 24 and Annexure E

109. The Finance Department will update and maintain the fixed asset register for all new purchases, acquisitions, and decommissioned assets. The update and maintenance shall include the introduction of any new functions, value revisions, and changes in depreciation schedules. Monthly detailed reports should be issued to all concerned internal and external departments and entities along with a summary report for all new additions and deletions from the fixed asset register.

110. The Finance Department shall also conduct periodic verifications on the authenticity, accuracy and completeness of the data in fixed asset register. It is proposed that this be conducted once very quarter to cross check and verify the generated monthly reports. Since inventory polices and procedures are not static, an inventory polices and procedures manual should be prepared or inventory policy and procedures can be included in a fixed asset accounting and management handbook. Inventorying policies, procedures, codes, forms and personnel training procedures should be included.

5.6 Recommendations

- Accounting Standard no. 15 should guide NCRPB in accounting for fixed assets besides following the instructions and guidelines as per schedule 8 (Fixed Assets) item no. 5 and 6 of Schedule 24 and Annexure E (Notes and instructions for compilation of Financial statements in respect of schedule 8).
- Asset Register should provide full details for all items carried from the previous FY e.g. value, purchase/ payment voucher number and date, name of vendor.
- For all assets carried from the previous FY or/and acquired during the FY, essential details like serial number of asset as well as identification number assigned by NCRPB should be provided. A new Asset Register format is provided hereunder, which should replace the existing Asset Register.
- Physical verification is carried out at the end of FY by a committee constituted for this purpose consisting of representative from Planning and Finance Departments. The physical verification shall be more useful if there are comprehensive details in the asset register as per proposed format.
- It is recommended that the minimum value threshold be reviewed. Perhaps a higher minimum value threshold should be entertained for the capitalization of assets. The Board should adopt a policy for capitalizing all assets with useful life for more than one year and with total item value exceeding Rs. 5,000;
- All assets should be grouped under each of ten defined categories, if applicable;
- All assets should be assigned a unique ID number, which should be painted/affixed on each item of fixed asset;
- The Fixed Asset Register should have comprehensive details of each asset item;
- The original and depreciated values of Fixed Asset Register kept by Administration and Accounts Department should match with the corresponding values in the Schedule 3 maintained by Accounts Department.

NATIONAL CAPITAL REGION PLANNING BOARD

ASSETS REGISTER

Sr. No.	Description of the equipment details, specifying the make-n-model of the same	Serial /other unique identification number[7]	Location / Department	Asset reference number	Purchase voucher No. and Date	Cost of acquisition / construction (Rs.)	Specify the amount of depreciation provided, if any (Rs.)	Written down value after considering the depreciation provision (Rs.)	From whom acquired	Mode of acquisition	Give reference of the available title documents	Verified date and Initials
1	2	3	4	5	6	7	8	9	10	11	12	13

[7] Asset reference number denotes any numbering / marking given to each piece of asset.

6 PAYROLL

This chapter on payroll is aimed at…

- Familiarising you with certain basic concepts and conventions related to payroll management.

By the end of this chapter, you should…

- Be aware of how NCRPB timekeeping and payroll processes; and,
- Appreciate the concepts and underlying principles of payroll management.

The best practice standard in payroll application is for management to record and disburse payroll in an efficient routine manner.

6.1 Background

111. The present staff strength of NCRPB is 105 consisting of 51 at its principal office and 54 in NCR Cells in four participating states. NCRPB staff in its principal office includes 3 executive level staff consisting of Member-Secretary, Chief Planning and Director-Administration and Finance and 14 officers.

112. Establishment expenditure forms the lions' share of non-plan expenditure, being 76% of total non-plan expenditure and 72% of total non-plan income in FY 2007-08. This emphasizes the need for strengthened internal control with respect to timekeeping and payroll processing.

6.2 Objective

113. The objective of this section is to assist NCRPB in properly (and more efficiently) managing its payroll functions with effective controls to ensure its accuracy.

6.3 Timekeeping

114. NCRPB should continue with its effective time-keeping records for all officers and non-managerial staff. The arrival and departure times should be indicated and initialled by each staff. The attendance records will form the basis of that current month payroll. The Administration Department will then certify attendance until end of previous month and such certification should be provided by 25th of current month for processing of current month's payroll.

6.4 Payroll Processing

115. Payroll management should continue with the existing software designed by National Informatics Center. This system generates computerized pay-slips for each individual indicating detail of total gross pay and total deductions and net pay. The cheques are prepared for transfer to respective staff's bank accounts or cheques are prepared for those who do not want direct transfer to their respective bank account.

116. The salary and benefits for staff on deputation is prepared and paid by accounts department. The details of such payments are sent to parent department of officers on deputation in the beginning of first quarter.

6.5 Recommendations

- Administration department should provide certification about attendance on current basis covering period up to the end of third week of the current month;
- Each month, verification cross checks should be performed through checking the changes in the total gross and net salary for the current compared to the previous month;
- Assistant Director (Finance) should check the current month payroll with approved changes since last payroll processing; and
- Net salary of all staff should be transferred to their respective bank account, without any exception.

7 ACCOUNTS CLOSING

This chapter on account closing is aimed at…

- Ensuring that NCRPB staff members understand basic financial account closing, recording and reporting;
- Establishing standard procedures to be followed in such period end treatments;
- Emphasise the need and importance of such procedures to have sound preparation of financial statements;
- Familiarising you with certain basic concepts and conventions related to effective managerial reporting.

By the end of this chapter, you should…

- Identify, appreciate and understand the period end procedures to be carried out; and,
- Appreciate the concepts and underlying principles of effective managerial reporting.

7.1 Background

117. Accounts closing and reporting and procedures may be classified into two broad groups:

- Periodic Reconciliation Procedures; and,
- Period-end accounting entries required to be passed under the accrual systems of accounting;

118. A period is generally defined as the time lapsed between two points, and hence these period end procedures are described at differing period durations. They are:

- Daily (Day end Procedure);
- Monthly (Month end Procedure);
- Half year (Half yearly Procedures); and
- Annual (Year ending procedures).

7.2 Objective

119. The objective of this section is to make closing of accounts at different levels more efficient and comprehensive.

7.3 Daily

120. All accounting transactions must be booked on current basis. That means all receipts and payments of all kinds must be booked and accounted for on daily basis. This also implies that incentives and defaults must be accounted for as and when these events become due or happen.

7.4 Monthly

121. On the last day of each month, cash book should be closed, physically verified and tallied with the ledger. Further, the rectification journal entries relating to completed reconciliations for all banks must be accounted for or accrued before 15th of the following

month. A monthly Trial Balance should be made available by 15th of the following month and copies sent to Finance and Accounts Officer and Assistant Director (Finance).

7.5 Subsidiary Ledgers Reconciliation with Accounting Ledgers

122. Subsidiary ledgers (budgeting system) should be reconciled with the accounting ledgers on a routine basis.

- Functions wise Income Subsidiary Ledger in respect of all major heads of Income earned

- Functions wise Expense Subsidiary Ledger in respect of all major heads of Expenses incurred.

123. These are to be reconciled against the balance shown in the accounting ledgers. The function wise total of a particular item in the subsidiary ledger (budget purpose) will be analysed against the given account codes in the subsidiary ledger itself.

7.6 Quarterly

124. Before 15th of the month following each quarter year the following transactions must be accounted for or accrued in its books:

- The rectification journal entry relating to various reconciliations other than Banks, for which adjustment entries are made in each following month;
- Establishment expenditure relating to regular, on deputation and with NCR cells;
- Accumulated leave encashment, leave travel allowance etc. should be accrued;
- All retirement benefits should be accrued based upon actuarial valuations;
- All unpaid pending invoices for which services / goods/ assets received as per liabilities register(to be kept by Administration);
- All interest receivable on loans to implementing agencies/ staff;
- All interest receivables on investments/ FDRs/ bank accounts etc.;
- All interest payable on loans/ bonds etc.;
- Estimated quarterly depreciation on assets; and,
- Other specific payables and receivables not covered above.

7.7 Preparing a Trial Balance

125. The process of preparation of the Financial Statements shall be preceded by preparation of a Trial Balance. The Trial Balance is a list of closing balances in all the accounts in the Ledger and the Cash Books. The purpose of preparing a Trial Balance is to determine the equality of posted debits and credits, (remember every Dr has a corresponding Cr) and to generate a basic summary of accounts for facilitating preparation of the Financial Statements.

126. Trial balance should be made available by end of 15th day of month following each quarter.

127. Following financial statements as per format specified by C&AG should be made available to F& AO for his review by 20th of month following each quarter. These include the

following:

- Income and Expenditure Account with comparable budget figures with accompanying schedules;
- Balance sheet with accompanying schedules;
- Receipt and payment ccount; and,
- Ratio analysis compared with targets/benchmarks

128. The above timeline can be achieved when the recommended customized latest Tally software version is available with accounts department.

7.8 Year-End

129. The All the same processes indicated above in section 7.5 shall be undertaken. However, the accrual shall be based on verifiable facts and not on estimates in three quarters during the currency of the year. The correcting entries shall be made for all estimates earlier so that all accounting transactions are true, reliable and verifiable.

130. Physical verification of inventory and assets shall be organized through a committee appointed for this purpose. The verification shall be completed during first week of the next fiscal year.

131. The accounts department should seek confirmation of balances as at 31st March each year in respect of all variations of receivables to receive the same by end of April. The confirmation of balances shall be used for reconciliation purposes with its ledger balances and also make them available for verification by CA&G and other audits.

132. The following statements shall be prepared by end of the April for the earlier financial year and made available for the auditors for necessary audit and report:

- Income and expenditure account with comparable budget figures with accompanying schedules;
- Balance sheet with accompanying schedules;
- Receipt and payment account; and,
- Ratio analysis compared with targets/benchmarks

7.9 Form and Time of Submission of Annual Report

133. As per Rule 48 of the NCRPB Rules, 1985, the Annual Report in respect of the year last ended giving a true and full account of the activities of the Board during the previous financial year shall contain the particulars specified in Schedule II and shall be submitted to the Government by the 15th of May each year. However, the format is changed as advised by CA&G and the Annual Accounts are now given to Auditors by 30th June i.e. within 90 days of close of the Fiscal Year for audit purposes. Audited accounts are submitted to MoUD well in time for laying before Parliament in December 2008.

134. However, with improvements suggested in the preceding sections, NCRPB should submit to MOUD its annual report before 30th June, following the close of its Financial Year.

7.10 Capacity Building

135. It is desirable that all staff in Finance and Accounts should be familiar with the following:

i. Framework for the Preparation and Presentation of Financial Statements: The 'Framework for the Preparation and Presentation of Financial Statements' issued by the Accounting Standards Board of the Institute of Chartered Accountants of India in July 2000 sets out the concepts that underlie the preparation and presentation of financial statements for external users and can be accessed at http://www.icai.org/resource_file/238acc_bodies_framework_ppfs.pdf

ii. Accounting Standards issued by the ICAI: These can be accessed at http://www.icai.org/post.html?post_id=474

iii. Guidelines for Uniform format of accounts for Central Autonomous Bodies from Committee of Experts

iv. Income Recognition, Asset Classification and Provisioning Norms (IRAC) norms from Reserve Bank of India (Annex 2)

v. Extensive training on Excel and Tally 9

8 INTERNAL CONTROL AND AUDIT

This chapter on internal audit and control is aimed at…

- Ensuring that NCRPB staff members understand the role and functions of internal controls and internal and external audit features;
- Establishing standard internal audit procedures; and,
- Emphasise the need and importance of such procedures to have sound preparation of financial statements.

By the end of this chapter, you should…

- Be able to adopt many of the suggested best practices;
- Understand the purpose of internal versus external audit; and,
- Appreciate the concepts and underlying principles of effective audit functions.

A good practice standard for internal control and audit is a strong and clearly defined system of controls with effective policies systems and procedures for internal transactions.

8.1 Background

136. The role of audit in public financial management cannot be underestimated. Broadly there are two concepts of audit – external and internal – with different form and functions. The following sections describe the two, and are included in this manual to complete the understanding of financial management arrangements implemented in India. It is envisaged that NCRPB would be able to adopt many of the best practice areas presented in this section.

8.2 Objective

137. The objective of internal control is to prevent fraud or to facilitate its early detection. Internal control system in respect of project approvals, funds release, billing, collections, payables, payroll and salary related expenditures and all procurements etc. need to be reviewed and strengthened.

138. Some of the techniques incorporated in the internal control systems relevant to NCRPB include rotation of duties, segregation of duties, introduction of checks and balances besides strengthening the internal audit system and timely follow-up action on the internal audit reports. The good practice benchmark for internal control and audit is a strong and clearly defined system of controls with and effective policies, systems, and procedures for internal transactions.

8.3 Establishing Effective Internal Control Systems

139. Internal control system means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The internal audit function constitutes a separate component of internal control with the objective of determining

whether other internal controls are well designed and properly operated.

140. According to **section 6.4.6 of ADB guidelines on "Specialized FI Internal Controls",** internal controls for financial intermediaries:

- Should comprise a set of rules and procedures designed to provide qualitative standards That are complimentary to the quantitative analysis of risk;
- Are becoming increasingly employed by banks and securities institutions;
- Should be used to internally manage operational risk, agency risk, and legal risk; and
- Should be exercised by independent control unit reporting to the Board, and having no operating linkage with lending activities that create risk.

141. According to INTOSAI[8], internal control is an integral process that is affected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- Executing orderly, ethical, economical, efficient and effective operations;
- Fulfilling accountability obligations;
- Complying with applicable laws and regulations; and
- Safeguarding resources against loss, misuse and damage.

142. The following paragraphs reflects certain fundamental concepts key for institutionalizing internal controls into NCRPB's functions:

143. **Internal control is a process** - It is a means to an end, not an end in itself. Internal control is not one event or circumstance, but a series of actions that permeate an entity's activities. The internal control system is intertwined with an entity's operating activities and exists for fundamental business reasons. Internal controls are most effective when they are built into the entity's administrative systems and operating procedures. Building in controls can directly affect an entity's ability to reach its goals, and supports quality initiatives. In fact, internal control not only is integrated with quality programs; it usually is critical to their success.

144. **Internal control is affected by people.** It is not policy manuals and forms, but people at every level of an organization. Internal control influences people's actions. Internal control recognizes that people do not understand, communicate or perform equally. Each individual brings to the workplace a unique background and technical ability and has different personal needs and priorities. These realities affect, and are affected by, internal control. People must know their responsibilities and limits of authority. Accordingly, a clear and close linkage needs to exist between people's responsibilities and the way in which they are carried out and the entity's objectives.

145. **Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity's management and board.** Internal control, no matter how well designed and operated, can provide only reasonable assurance to management and the Board of NCRPB regarding achievement of its objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that human judgment in decision-making can be faulty, persons responsible for

[8] International Organization of Supreme Audit Institutions

establishing controls need to consider their relative costs and benefits, and breakdowns can occur because of human failures such as simple errors or mistakes. Additionally, controls can be circumvented by collusion of two or more people. Finally, management has the ability to override the internal control system.

8.4 ADB's Internal Audit Guidelines[9]

146. ADB has devised guidelines and standards for monitoring its loan portfolio in organizations and for improving the quality of internal audit standards. As per section 4.2.8.8 (Internal audit) of ADB's guidelines, the following is an extract from the INTOSAI's Advisory Document on "**Standards for Internal Controls" :**

- ...Internal control is a management tool. All managers should realize that a strong internal control structure is fundamental to their control of the organization, its purpose, operations, and resources. They should accept responsibility for it.

- To design, establish, and maintain an effective internal control structure, managers should understand the objectives to be achieved. Legislation can provide a common understanding of the internal control definition and objectives to be achieved. It can also prescribe the policies managers are to follow to implement and monitor their internal control structures and to report on the adequacy of those structures.

- Management often establishes an internal audit unit as part of its internal control structure. While internal auditors can be a valuable resource to educate and advise on internal controls, the internal auditor should not be a substitute for a strong internal control structure.

- Management can also use its internal audit unit to help monitor the effectiveness of internal controls. The closeness of internal auditors to the day-to-day operations usually places them in a position to continually assess the adequacy and effectiveness of internal controls and the extent of compliance.

- The internal auditors have a responsibility to management for reporting any inadequacies in the internal controls and any failure of employees to adhere to them and recommending areas needing improvement. In addition, they should establish procedures for following up on previously reported internal and external audit findings to ensure that managers have adequately addressed and resolved the matters brought to their attention."

147. The above advice was developed for use in public sector institutions, but the key principles are equally applicable to private sector operations, except for the suggestion that legislation may be necessary to underpin the provision of internal controls. The key principles are:

- It is management's responsibility to implement and monitor the specific internal controls for its operations.
- While internal auditors can be a valuable resource to educate and advise on internal controls, the internal auditor should not be a substitute for a strong internal control structure.

148. Further, management can also use its internal audit unit to help monitor the

[9] Guidelines for the Financial Governance and Management of Investment Projects Finance by the Asian Development Bank

effectiveness of internal controls. The closeness of internal auditors to the day-to-day operations usually places them in a position to continually assess the adequacy and effectiveness of internal controls and the extent of compliance.

149. ADB's primary concern is to be assured that internal controls not only exist but also are the subjects of regular review and monitoring for efficiency and responsiveness to current operations. Therefore, if an enterprise has an efficient means of achieving this objective, the engagement of a specific internal audit unit may not be appropriate. Where reviews and monitoring of ongoing operations of an enterprise are inefficient, ADB should discuss with senior management of the enterprise the need to introduce improvements, one of which may be the use of an internal audit operation. Such recommendations will require an expert to advise and evaluate a cost/benefit study prepared for that purpose.

8.5 Improving Internal Controls at NCRPB

150. Internal Control comprises five interrelated components. Here is how they can relate to NCRPB:

a) **Control Environment:** The core of any institution is its people - their individual attributes, including integrity, ethical values and competence - and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests.

b) **Risk Assessment:** NCRPB must set its mandated objectives, integrated with revenue and cost containment goals and other activities so that NCRPB is operating in concert. It also must establish mechanisms to identify; analyse, and, manage related business and operating risks.

c) **Control Activities:** Control policies and procedures must be established and implemented to help ensure that the actions identified by management as necessary to address risks and obtain the specified goals are effectively carried out. Policies and procedures are reviewed on a periodic basis by management with assistance from Internal Audit.

d) **Information and Communication:** Surrounding these activities are information and communication systems. These enable the staff to capture and exchange the information needed to conduct, manage and control the NCRPB's operations.

e) **Monitoring:** The entire process must be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

151. The system of internal control must be under continuing supervision by management to determine that it is functioning as prescribed and is modified, as appropriate, for changes in conditions. The internal control system extends beyond those matters which relate directly to the functions of the accounting system and comprises:

a. The **control environment** which means the overall attitude, awareness and actions of its directors and management regarding the internal control system and its importance in the entity. The control environment has an effect on the effectiveness of the specific control procedures and provides the background against which other controls are operated. A strong control environment, for example, one with tight budgetary controls and an effective internal audit function, can significantly complement specific control procedures. However, a strong control environment does not, by itself, ensure the effectiveness of the internal control system. Factors reflected in the control environment include:

i. The entity's organizational structure and methods of assigning authority and responsibility (including segregation of duties and supervisory functions).

ii. The function of the board of directors and its committees in the case of a company or the corresponding governing body in case of any other entity.

iii. Management's philosophy and operating style.

iv. Management's control system including the internal audit function, personnel policies and procedures.

b. **Control procedures** which mean those policies and procedures in addition to the control environment which management has established to achieve the entity's specific objectives. Specific control procedures include:

i. Reporting and reviewing reconciliations.

ii. Checking the arithmetical accuracy of the records.

iii. Checking the procedures for project approvals.

iv. Checking the procedures for approval of loans and advances.

v. Controlling applications and environment of computer information systems, for example, by establishing controls over:

a. Changes to computer programs; and
b. Access to data files.

i. Maintaining and reviewing control accounts and related subsidiary ledgers.

ii. Approving and controlling of documents.

iii. Comparing internal data with external sources of information.

iv. Comparing the results of physical verification of cash, fixed assets, investments and inventory with corresponding accounting records.

v. Restricting direct access to assets, records and information. And

vi. Comparing and analysing the financial results with corresponding budgeted figures.

8.6 Accounting and Internal Control Systems

152. Internal controls relating to the accounting system are concerned with achieving the following objectives:

- Transactions are executed in accordance with management's general or specific authorization.
- All transactions and other events are promptly recorded in the correct amount, in the appropriate accounts and in the proper accounting period so as to permit preparation of financial statements in accordance with the applicable accounting standards, other recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets.
- Assets and records are safeguarded from unauthorized access, use or disposition.
- Recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any differences.

8.7 Risk Assessment and Internal Control

153. Auditing and Assurance Standard (AAS) 6, "Risk Assessments and Internal Control",

issued by the Council of the Institute of Chartered Accountants of India may be referred for more details.

8.7.1 Distinguishing Between Pre-Audit and Post-Audit

154. Pre-audit represents a before the fact type of review of administrative or financial activities; post-audit is audit after the fact. Pre-audit or internal audit may be carried out by the NCRPB or its agents. Pre-audit has the advantage of being able to prevent damage before it occurs. Post-audit by a C&AG highlights the responsibility of those accountable. It may lead to compensation for the damage caused and may prevent breaches from recurring. Post-audit is an indispensable task of the C&AG.

8.7.2 Internal and External Audit

155. Internal audit services are established within government departments and institutions, whereas external audit services are not part of the organizational structure of the institutions to be audited. Audit through C&AG is an external audit service. Internal audit services necessarily are subordinate to the head of the department within which they have been established. However, they should be functionally and organizationally independent as far as possible within their respective constitutional framework.

156. As the external auditor, the C&AG also plays a role in examining the effectiveness of internal audit. If internal audit is judged to be effective, efforts should be made, without prejudice to the right of the Supreme Audit Institution to carry out an overall audit, to achieve the most appropriate division or assignment of tasks and cooperation between the Supreme Audit Institution and internal audit.

8.7.2.1 Internal Audit

157. Internal auditing is a management-oriented discipline that has evolved rapidly over recent times. Once a function primarily concerned with financial and accounting matters, internal auditing now addresses the entire range of operating activities and performs a correspondingly wide variety of assurance and consulting services to an entity's management.

8.7.2.2 Internal Audit Function(In box)

158. The Institute of Internal Auditors (IIA) definition of internal auditing is as follows:

- Internal auditing is an independent, objective assurance, and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

159. The primary role of internal auditors is to independently and objectively review and evaluate an organization's activities to maintain or improve the efficiency and effectiveness of risk management, internal controls, and corporate governance. This is done by

i. Evaluating the reliability, adequacy, and effectiveness of accounting, operating, and administrative controls;
ii. Ensuring that internal controls result in prompt and accurate recording of transactions and proper safeguarding of assets;
iii. Determining whether the organization complies with laws and regulations and

adheres to established government policies; and

iv. Determining whether management is taking appropriate steps to address current and prior control deficiencies and audit report recommendations.

160. Internal auditors must understand the organization's strategic direction, objectives, products, services, and processes to conduct these activities. The auditors then communicate findings to its audit committee and senior management.

8.7.2.3 Existing Internal Control and Audit System in NCRPB

161. At present, it should be noted that there is no comprehensive documentation of internal control procedures in place at NCRPB. However, following distinct internal control measures are in place at NCRPB:

8.7.2.4 Appointment of Drawing and Disbursement Officer (DDO)

162. NCRPB has appointed Assistant Director- Finance as DDO for ensuring all payments are properly authorized and are in line with General Financial Rules.

8.7.2.5 Appointment of an Officer for Pre-Auditing

163. Though there is no formal position approved for internal auditor, one of the two Assistant Directors (Finance) is assigned responsibility for pre-auditing specific payments like staff, allowances. It is noted that the pre-audit checks are not applied for all disbursements and also do not have a threshold fixed above or any other guidelines for coverage of financial transactions in respect of pre-auditing.

8.7.2.6 Delegation of Authority

164. All expenses and payments up to a value of Rupees two thousands can be sanctioned / approved by Assistant Director (Finance) and payments and obligations above Rs. 2,000 must be authorized by Director-F&A.

8.7.2.7 Purchase Committee

165. Purchase Committee is constituted by Member-Secretary for high ticket value purchases with representative members from accounts, administration and planning departments. All procurement must follow general Financial Rules.

8.7.2.8 Committee for Physical Verification

166. Such committee are constituted for annual verification of Inventory items and assets as per two stock registers kept separately for this purpose.

8.7.3 Verification of Physical Cash and Bank Balances

167. The Assistant Director (Finance) is responsible for physical verification of cash on surprise basis as well as at end of each week/month.

8.7.4 External Audit by CA&G and a Chartered Accountant

168. There is an annual audit by C&AG whose scope includes not only certification of financial statements but also proprietary audit. Besides, since FY 2007-08, a CA firm is engaged for certification of annual financial statements as required by Rating Agencies for funds raised through bonds.

8.8 Recommended Control Safeguards at NCRPB

169. This section provides recommendations for improving financial controls at NCRPB.

8.8.1 Public Financial Management & Accountability (PFMA)

170. NCRPB should enhance their internal control systems in light of Public Financial Management Accounting Systems general conditions. PFMA incorporates two broad categories of control as set out below:

- **Preventative controls** are intended to avoid errors or abuse occurring in the operation of the PFMA system, for example:
    a. **Segregation of duties** – e.g. to ensure that one person cannot order the purchase of goods, confirm they have been received and authorise payment;
    b. **Restriction of access** – either to physical assets, or key systems such as personnel and payroll records; and,
    c. **Ring-fencing of Funds** so that they can only be spent on specific goods or activities.

171. A range of broader measures also help to create a management culture which seeks to prevent error or abuse occurring, for example:

- Establishment of comprehensive PFMA systems, clearly setting out individual roles and responsibilities and supported by adequate operational manuals;
- The employment of sufficient, adequately trained and experienced staff; and
- Enforcement of sanctions where breaches occur.
- **Detective controls** are intended to identify where error or abuse has occurred so that corrective action can be taken, for example:
    a. Bank reconciliations and reconciliations of accounting records to identify unexplained discrepancies;
    b. Internal audit which examines how well other internal controls in the PFMA system are working; and
    c. External audit which will help to detect material error or misstatement in the financial statements and may look in detail at the operation of the underlying financial systems.

8.8.2 Establishment of an Internal Audit Unit (IAU)

172. NCRPB has sizable resources, which are further planned to be increased significantly with funds from bi-lateral and multi-lateral bodies. NCRPB should establish an internal audit unit (IAU) and/or at least an Internal Auditor position responsible for the adequacy of internal controls, including specifically the adequacy and reliability of the internal credit review process and for reporting divergence of compliance of all policies and procedures contained in its various operation manuals.

173. To improve the control environment all payments and release of funds above a threshold, say Rs. 25,000/- should be pre-audited by the IAU. For keeping the position of Internal Auditor independent, it is suggested that the Internal Auditor so appointed should report directly to Member-Secretary. The internal auditor in this case will play a role similar to that of a company secretary in a corporate entity.

174. In the interim, until the Internal Auditor position is approved on permanent basis, NCRPB may appoint a qualified Internal Auditor on contractual basis. The internal audit function shall be guided by the Internal Audit standards issued by the Institute of Chartered Accountants of India. Internal Audit standards can be accessed at http://icai.org/resource_file/15203sianew.pdf.

8.8.3 Authority and Scope of Responsibility-IAU

175. The authority to carry out the internal audit function should be vested in the Internal Audit Unit (IAU), which reports directly to the Member-Secretary (NCRPB). The IAU should meet periodically with the Audit Committee of the Board of Directors on IAU's work programs, reports, and the status of its recommendations. IAU shall undertake independent reviews of operations, encompassing financial, administrative, and project-related activities, including those relating to loans and technical assistance, if any. The primary objectives of internal audit are to

- Ascertain whether NCRPB's assets are properly safeguarded;
- Assess the reliability and integrity of information and reporting thereof;
- Verify compliance with established NCRPB's policies, procedures, guidelines, agreements, laws, and regulations;
- Identify means to eliminate waste and misuse of resources, abuse, and other risks;
- Ascertain if sanctity of the budgets are kept and actual expenditure remain within respective budgets; and,
- Recommend improvements relating to efficiency, economy, and effectiveness in the use of NCRPB resources.

8.8.4 Example of Internal Control Evaluation

176. The internal auditor should review the following aspects of internal control relating to debtors, loans and advances.

In respect of debtors:

i. The procedure should ensure prompt recording of debts and realisations and of linking receipts with outstanding.

ii. There should be a procedure for preparation of aging schedule of debtors at regular intervals. The schedules should be reviewed by a responsible official and necessary action initiated in respect of overdue accounts.

iii. Statements of account should be sent to all debtors at periodic intervals. They should be prepared and despatched by a person independent of the ledger-keeper. The debtors should be requested to confirm the balances as per the statements with reference to their own records. The confirmations received should be reviewed by a person independent of the ledger-keeper and the person responsible for preparing the statements of account, and necessary action taken in case of discrepancies.

iv. All material adjustments in debtors' accounts, particularly those relating to rebates, allowances, commissions etc., should require approval of the competent authority(PSMG). Similarly, any write-off of bad debts should require approval of the competent authority.

v. There should be a system of periodic reconciliation of various debtor balances with related control accounts.

In respect of loans and advances:

i. As far as possible, the system should specify the following:
   a. Total amount up to which loans may be made;
   b. The purposes for which loans may be made;
   c. Maximum amount of loans which may be made for each such purpose in individual cases;
   d. The terms on which such loans may be made;
   e. The persons who are authorized to make loans; And,
   f. Procedure for ensuring compliance with relevant legal requirements.
ii. All variations in the terms of loans and advances should be duly approved in writing by the competent authority.
iii. Where security is taken against the loans, the form and adequacy of security should be reviewed by a responsible official.
iv. The loan and security documents should be kept in safe custody of a responsible official. A record of all such documents should be maintained and the documents should be periodically verified with reference to such records.
v. The system should provide for identification of cases where principal and/or interest have become overdue or where any other terms are not being complied with.
vi. Confirmation of balances should be obtained at periodic intervals in the same manner as in the case of debtors.

8.8.5 Formation of Audit Committee and its role

177. An Audit Committee, as a crucial component of corporate governance and is fundamental to assisting the Chief Executive Office to:

- Ensure all key controls are operating effectively;
- Ensure all key controls are appropriate for achieving corporate goals and objectives; and,
- Meet their statutory and fiduciary duties.

178. An Audit Committee's strength is its demonstrated independence and power to seek explanations and information, as well as its understanding of the various accountability relationships and their impact, particularly on financial performance, risk and controls. It is important for Audit Committees and their members to have a good understanding of the committee's position in the entity's legal and governance framework.

179. Defining the Audit Committee's roles and responsibilities is critical to the success of the committee. The role an Audit Committee will play in an entity's governance framework is at the discretion of the Chief Executive Officer. In determining the roles and responsibilities of an Audit Committee, the Chief Executive Officer would be expected to take into consideration a range of factors including the:

- Entity's size, complexity and legislative context; and the nature of the business;
- Nature and structure of the entity's governance arrangements; and
- The maturity of the entity's risk and control environment.

180. Other factors that could be relevant are the:

- Skills, experience and personal qualities of potential members who can be called upon to be on the committee;
- Mechanisms and processes which need to be established to enable the committee to meet its responsibilities; and
- The workload of the committee as a whole and of individual members.

181. When considering whether to task the Audit Committee with a broader set of functions and responsibilities, the Chief Executive Officer should be aware of the committee's capacity and ability to effectively discharge those functions and responsibilities. The Audit Committee should not be seen as a catch-all or default committee, that is tasked with a range of ad-hoc functions, but as an independent committee that plays a key, but focused over-sight role to assist the Chief Executive Officer discharge his responsibilities.

182. A better practice Audit Committee is one that is able to perform its core responsibilities well, rather than one that is tasked with such a broad range of responsibilities that it is unable to give sufficient attention to those issues of greatest importance to the Chief Executive Officer. The responsibilities of a better practice Audit Committee will generally encompass the following areas:

- Risk management;
- Control framework;
- External accountability (including an entity's financial statements);
- Legislative compliance;
- Internal audit; and external audit.

183. NCRPB should constitute an Audit Committee comprising Member Secretary, JS (F & A) and Director (F&A) I

8.8.6 Role of Audit Committee

184. The role of the audit committee shall primarily include the following:

- Oversight of NCRPB's financial reporting process and the disclosure of its financial position;
- Information to ensure that the financial statement is correct, sufficient and credible;
- Reviewing with the management the adequacy of internal control systems;
- Reviewing the adequacy of internal audit function; And,
- Reviewing the company's financial and risk management policies.

8.8.7 Whistle Blower Policy

185. To promote accountability and transparency, institutions have introduced **Whistle Blower** policies. This policy shall be helpful in maintaining ethical standards of the organisation and promote a healthy image among various stakeholders. Under this policy, any staff of NCRPB shall be able to approach the Audit Committee without necessarily informing their supervisors against personnel who observe an unethical or improper practice (not necessarily a violation of law). This right of access shall be communicated to all employees through means of internal circulars, etc. The employment and other personnel

policies shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.

8.9 Conflicts of Interest

186. To avoid conflicts of interest, personnel and other officials connected with NCRPB shall adhere to the following requirements:

187. No official or employee of NCRPB or other recipient/sub-recipient shall participate personally through decisions, approval, disapproval, recommendation, the rendering of advice, investigation, or otherwise in any proceeding, application, request for a ruling or other determination, contract, award, cooperative agreement, claim, controversy, or other particular matter in which award funds (including program income or other funds generated by Centrally or State funded activities) are used, where to his/her knowledge, he/she or his/her immediate family, partners, organization other than a public agency in which he/she is serving as an officer, director, trustee, partner, or employee, or any person or organization with whom he/she is negotiating or has any arrangement concerning prospective employment, has a financial interest, or has less than an arms-length transaction.

188. In the use of agency project funds, officials or employees of NCRPB shall avoid any action that might result in, or create the appearance of:

- Using his or her official position for private gain;
- Giving preferential treatment to any person;
- Losing complete independence or impartiality;
- Making an official decision outside official channels; or
- Affecting adversely the confidence of the public in the integrity of the NCRPB. For example, where a recipient of central /state funds makes sub-awards under any competitive process and an actual conflict or an appearance of a conflict of interest exists, the person for whom the actual or apparent conflict of interest exists should recluse himself or herself not only from reviewing the application for which the conflict exists, but also from the evaluation of all competing applications.
- Violations of the conflict of interest standards may result in criminal, civil, or administrative penalties.

9 AUDITING AND EXTERNAL OVERSIGHT

This chapter on audit and external oversight aims at…

- Informing about the nature and importance of externally audited financial statements;
- Informing the contents of such an audit report; and,
- Emphasizing the importance of clean audit reports.

By the end of this chapter, you should be able to…

- Understand the purpose and type of audit envisaged under Financial Statements Audit;
- Identify what matters the auditor shall be looking at, and how to prepare for it; and,
- Understand the need to respond to adverse audit comments.

Best practice external audit comprise clearly defined standardized systems for timely, independent, and effective external audit leading to improved transparency in usage of public funds. Furthermore, there should be mechanisms to ensure that key decision makers are accountable to the public.

9.1 Background

189. This section will explore the importance of auditing and external oversight in the presentation of external audits.

9.2 Objective

190. An audit's overall objective is for the auditor to express an opinion as to whether the financial statements present a true and fair view of the external audit (EA), or are similarly presented fairly in all material respects, in conformity with IAS or other standards acceptable to ADB and applied on a basis consistent with that of the preceding year.

191. The auditor's opinion is necessary to establish the credibility, or otherwise, of the financial statements of an external audit. The examination should be of such scope and depth to allow the auditor to give an opinion and make a report on the veracity, accuracy and fairness as regards the presentation of the financial statements of an EA or a defined part thereof (such as a project, a project unit, or a department or division). These financial statements may be annual, periodic, or ad hoc (i.e., relating to special reports).

192. The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent--or at least render more difficult--such breaches.

193. The auditor's examination should include an evaluation of the systems and operating procedures for accounting, custody of assets, the control environment and internal financial control, financial reporting and related systems. An analysis of explanations submitted to the

auditor and all information necessary to support the auditor's opinion and to construct the report of the auditor, should be provided.

194. The Annual Accounts of NCRPB are audited under section 19 (2) by Comptroller and Auditor General's (Duties, Powers and Condition of Service) Act 1971 read with section 25 of the NCRPB Act, 1985 and rule 33 (3) of NCRPB Rules, 1985. The certification of Accounts is done by a CA firm selected from panel of CA firms with CA&G office. As per section 26 of the NCRPB Act, the annual report along with Report of the CA&G is laid before parliament within 9 months of the end of the fiscal year by 31st December.

9.3 ADB's Requirements

195. ADB requires the borrower and the external auditor to have the required financial statements for each year audited by an independent auditor acceptable to ADB, and in accordance with standards on auditing that also are acceptable to ADB. An audit of such financial statements includes:

- An assessment of the adequacy of accounting and internal control systems with respect to project expenditures and other financial transactions, and to ensure safe custody of project financed assets;
- A determination as to whether the borrower and project implementing entities have maintained adequate documentation on all relevant transactions;
- Confirmation that expenditures submitted to ADB are eligible for financing and identification of any ineligible expenditures; and
- Compliance with loan covenants and ADB's requirements for project management.

196. These are specified in section 5.4 of ADB's guidelines and cover Auditing Procedures, Auditor Selection and Appointment, Issues in Auditor Selection, Selecting Auditors, Terms of Reference for an Auditor, Appointing an Auditor – Using the Model Terms of Reference, Contract or Engagement Letter of Auditor, International Standards on Auditing (ISAs), Auditing in an EDP Environment and Government Auditors.

197. Auditing in an EDP Environment requires possession of certain levels of skills and competence with regard to computing hardware and software by the auditor, and of those who they are supervising.

198. The TOR for an auditor should specifically call for a statement of the auditor's skills and competence in this field, and the report by the auditor should contain a statement indicating the extent to which they were able, or could not meet the requirements of this Guideline, and the impact on the audit of any deficiency on their part.

199. Such a requirement is relatively simple to check. In EAs which have computing facilities, if the auditor fails to confirm that they were able to comply with this Guideline, or to make any meaningful statement as to the capability and quality of their audit of information compiled by computing facilities in the agency, it must be questionable whether the audit report and opinion offered could be acceptable to ADB.

200. Further, according to section 6.6.3 of "Guidelines for the Financial Governance and Management of projects financed by ADB", in addition to the standard statements (Balance Sheet, Income Statement and Cash Flow Statement), an FI should be required to provide the additional statements listed below. This listing is not all-inclusive and should be amended to address the objectives and operations of the FI to be audited:

- The income statement and balance sheet adjusted for subsidies, if any;
- Portfolio Report for current and two past years;
- Portfolio Report showing ageing of receivables (arrears);
- Portfolio Report showing ageing of portfolio at risk;
- Capital Adequacy Analysis;
- Assets Structure by Income; And,
- Table of Contingencies, Guarantees, Commitments showing corresponding securities and collateral.

201. In addition to the standard requirements for auditor selection and appointment, including providing a report and an opinion on the annual financial statements, the auditor should be required to include in the report confirmation, or otherwise, that the additional financial statements and various performance indicators listed above can be relied upon. According to ADB's guidelines (section 5.4 and 6.6.3), the Terms of Reference for selection of an auditor should include the provision of a TOR that is specifically geared to operations of NCRPB as a financial Intermediary. The Terms of Reference should also address the following:

- The auditor's impression of the efficiency and effectiveness of the overall operations and condition of the institution;
- The adequacy of the intermediary's risk management systems and internal control procedures, including whether or not the bank uses Value at Risk (VaR), and if so, whether its use is professionally managed under a separate non-lending manager; results achieved during the fiscal year; and the operation of VaR as at the date of completion of the audit;
- The quality of the loan portfolio and adequacy of loan loss provisions, illustrated as necessary by use of performance indicators above;
- The competence and effectiveness of management, including development of strategic plans and their implementation;
- The adequacy of accounting, financial reporting and management information systems;
- The adequacy of public information systems;
- The resolution, or otherwise, of issues identified off-site or during previous on-site supervisory processes;
- Adherence to laws and regulations and terms of licenses and agreements, including loan covenants with ADB;
- A commentary on central bank or other forms of regulatory supervision during the fiscal year; and,
- Quality of human resources employed by the FI and their potential to efficiently sustain all areas of the FI's operations.

9.4 Compliance with Auditing Standards

202. While discharging their attest functions, it is the duty of the members of the relevant auditing institute to ensure that the auditing standards are followed in the audit of financial information covered by their audit reports. If for any reason the member is unable to perform an audit in accordance with the generally accepted auditing standards, his report should

draw attention to any material departures there from, failing which he would be held guilty of professional misconduct under clause 9 of Part 1 of the Second Schedule to the Chartered Accountants Act, 1949. The comparative position of International Engagement Standards, issued by the International Auditing and Assurance Standard Board of the International Federation of Accountants vis-a-vis Auditing and Assurance Standards (AASs) issued by the Institute of Chartered Accountants of India (ICAI).

9.5 Legality Audit, Regularity Audit and Performance Audit

203. The traditional task of C&AG is to audit the legality and regularity of financial management and of accounting. In addition to this type of audit, which retains its significance, there is another equally important type of audit--performance audit--which is oriented towards examining the performance, economy, efficiency and effectiveness of public administration. Performance audit covers not only specific financial operations, but the full range of government activity including both organisational and administrative systems.

9.6 Additional Matter to Be Reported in an External Audit

204. Apart from the above, the Financial Statements Auditor shall also report in respect of the following matters in an Annex to the Audit Report:

a. Whether all sums due to and received by the NCRPB have been brought to account and have been appropriately classified?

b. Whether all grants sanctioned or received by the NCRPB during the year, have been accounted properly?

c. Whether any Special Funds, have been created as per the provision of any statute and whether the Special Funds have been utilised for the purposes for which they have been created?

d. In respect of contracts that are in existence during the year, whether there are any deviations from the sanctioned plans and the estimates without the sanction of the competent authority;

e. Whether the NCRPB is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; whether these fixed assets have been physically verified at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same has been properly dealt with in the books of account?

f. Whether the procedures of physical verification of stores followed by the NCRPB are reasonable and adequate? If not, the inadequacies in such procedures should be reported;

g. Whether any material discrepancies have been noticed on physical verification of stores as compared to book records, and if so, whether the same has been properly dealt with in the books of account?

h. Whether proper procedures are in place to identify any unserviceable or damaged stores and whether provision for the loss in this respect, if any, has been made in the accounts?

i. Whether the parties to whom the loans, or advances in the nature of loans, have been given by the NCRPB are repaying the principal amounts as stipulated and are also regular in payment of the interest and if not, whether reasonable steps have been taken by the NCRPB for recovery of the principal and interest?

j. Whether there exists an adequate internal control procedure for the purchase of stores, including components, plant and machinery, equipment and other assets?

k. Whether the NCRPB is regular in depositing statutory dues including tax deducted at source, works contract tax, other payables to the government etc., and if not, the nature and cause of such delay and the amount not deposited;

l. Whether any personal expenses have been charged to the NCRPB's accounts; if so, the details thereof?

m. Whether the Bank Reconciliation statements have been properly prepared for all the bank accounts of the NCRPB?

n. Whether the year-end and reconciliation procedures prescribed have been carried out;

205. Thus the financial statement auditor is required to report on additional matters which may be of propriety nature as well However, this is because that these matters do have a bearing on true and fair view of the financial statements. For example with regard to point (e) above the auditor may comment that *"the fixed asset register is not being maintained and no physical verification of fixed assets has been carried out."*

9.7 Recommendations

206. The chartered accountancy firm appointed by NCRPB for certification of its accounts should be engaged with the necessary qualifications as per ADB requirements and the engagement letter to this effect should be appropriately changed.

9.8 External Oversight

207. An effective oversight function leads to increased awareness and engagement of beneficiary stakeholders and elected representatives ensuring greater accountability in planning, budgeting, and public spending. NCRPB already has an effective external oversight review structure due to the high power Board consisting of one Central Minister and four state Chief Ministers.

208. However, an additional layer of external oversight may be introduced involving the civil society sector NGOs/ FICCI /CII, in providing effective reviews of Board's policies, practices and operations in respect of furtherance of its goal. The extent of feedback/responses from civil society sector used for Board's Plans, budget estimates, program design, implementation and monitoring etc. needs to be enhanced.

9.9 Responding to Adverse Qualifications

209. The Financial Statements Auditor may make certain comments on the accounts which may affect the true and fair view of the financial statements. It is necessary for the NCRPB management to respond to these and give NCRPB's point of view. It must be remembered that the response should be measured and based on facts. For example, in case of a qualification, where the NCRPB may decide to update its fixed asset register, it may report in the CMR as follows:

210. "The fixed asset register is currently being maintained and is in process of being updated while physical verification of fixed assets is in progress."

211. It is very important to respond to adverse audit qualifications as it would enable the users to know the exact position of the NCRPB in this regard allow them to appreciate the facts, circumstances a well as the remedial action being taken by NCRPB.

10FINANCIAL REPORTING

This chapter on using financial statements and reporting aims at…

- Provide pointers to using basic financial statements for making sound capital, revenue and revenue policy decisions; and,
- Using financial information for planning, monitoring and control purposes.

By the end of this chapter, you should…

- Be aware of the utility of outputs that can be shown on financial reporting statements.
- Be able to use various tools of financial analysis; and,
- Learn how to use this information, in conjunction with other MIS and GIS, for better management, efficient planning and improved decision making.

A good practice standard for reporting includes timely, meaningful, and user-friendly reports that provide reliable financial information and facilitate effective decision making and engagement with stakeholders.

10.1 Background

212. The ultimate aim of the financial accounting is not merely to produce a set of financial statements, but to provide management with adequate financial information for informed decision making. Accounts can, in that sense, can be likened to a compass, which show the direction, but needs someone to actually read the direction, analyze the implication thereof and act accordingly (i.e. move in a certain direction if he is headed that way). Similarly, it is important for management to read, assess and act on financial information in order to maximize the benefit there from. This chapter reviews appropriate financial reporting practices.

10.2 Objective

213. Timely, meaningful, and user-friendly dissemination of financial reports of NCRPB is a prerequisite for effective and transparent management. Preparation of various financial and analysis reports enables comparison and helps identify deviations. This in turn facilitates better budgeting and stakeholder participation.

214. The following section details current and proposed financial reporting practices for NCRPB.

10.3 NCRPB Financial Reporting

215. At present, there is no formal MIS in operation. However, some financial reports are generated through computerized “Tally” system, which are disseminated to senior management staff. These are daily cash report and bank balances report prepared and disseminated in first week of each month. The following routine reports are also prepared using Excel based upon requirements of Ministry of Urban Development.

- Monthly monitoring of Internal and Extra Budgetary Resources (IEBR);
- Overview of expenditure trends; and,

- Position regarding liquidation of pending utilization certificates.

216. The accounts department also keeps important financial information, which is required from time to time by management. Some of this information includes the following:-

- Cost of borrowing from FY 1997-98 to FY 2007-08;
- Statement of Loans sanctioned;
- Net Profit , Income Tax Liability, Income Tax paid year wise from FY 2002-03 to FY 2007-08;
- Yearly project wise loans released;
- Interest Income on Loans, bank deposits from FY 2002-03 to FY 2007-08;
- Interest on bank deposits from FY 2002-03 to FY 2007-08; and,
- Grant–in-aid received from FY 1985-86 to date from MoUD and Delhi Govt. separately for Plan and Non-Plan

217. Additionally, following reporting formats are formalized through issuance of Standing Orders and are presented in annex 8.

- Monthly funds flow statement;
- Monitoring of recovery of interest and repayment of instalment of principal;
- Monitoring of recovery of penal interest on loans;
- Recording of custody of FDRs / FDR Register;
- Statement of expenditure against central plan; and,
- Progress of internal and extra budgetary resources.

218. Besides, Plan and Non-Plan actual expenses are compared with corresponding budgeted allocations during the year for monitoring by management at various levels.

219. Preparation of regular periodic accounts and necessary ratio analysis for monitoring financial health of NCRPB is essential for NCRPB. As such, an effective financial reporting system needs to be designed for meeting the needs of all stakeholders of the Board including rating agencies. Such reporting system shall become an integral part of MIS being designed under the on-going ADB project.

220. The MIS should be able to meet information requirements of rating agencies. In addition, according to the ADB guidelines, Financial reporting by FIs should be required to report in accordance with IAS No. 30 (Disclosures in the Financial Statements of Banks and Similar Financial Institutions), superseded by International Financial Reporting Standard (IFRS) number 7.

10.4 Mechanism to Capture NCRPB Loans Disbursement

221. As in the case of liabilities, there is a need for the NCRPB to capture the detail information on its assets. So far as maintaining information on the financial assets like cash in bank, fixed deposits, cash in hand etc. are concerned, it would not be very difficult for NCRPB to compile such information. As good as equity holdings, mutual funds and debentures, loans disbursed by the NCRPB are also its vital assets as it is likely to provide interest income to NCRPB. As a consequence, there has to be a well defined and well structured mechanism to capture the disbursed loans.

10.4.1 Capturing Loan Information

222. Initially, a strategy to capture the details of loans disbursed by NCRPB could be as follows:

223. Developing a standard format for compiling the financial assets and liabilities. The following data collection formats that are in line with GOI proposals.

Table 1: Detailed Statement of Loans and Advances made by NCRPB

Name of the Administrative Department	**Balance as on 31st March 2004** Rs. (in thousands)	**Amount Advance during 2004 to 2005** Rs. (in thousands)	**Amount Repaid During 2004 to 2005** Rs. (in thousands)	**Balance on March 31, 2005** Rs. (in thousands)	**Interest Received and Credited to Revenue** Rs. (in thousands)

Source: Model Fiscal Responsibility Legislation (2005); USAID/REFORM (2005)

Table 2: Accrued Interest of Existing Loans as At 31/03/2005 (in Rs. Thousands)

Name of the Administrative Department	**Dates of Interest Payments**	**Last Interest Paid**	**Amount of Interest Paid**	**Number of Days**	**Interest Rate (%)**	**Annual Interest**	**Accrued Interest**

Source: Model Fiscal Responsibility Legislation (2005); USAID/REFORM (2005)

10.4.2 Maintaining Information on Loan Disbursements

224. The following set of information (as shown in Table 3) to be collected for maintenance of information on loan disbursements.

Table 3: Debt Service Payments for Period 01/04/2007 – 31/03/2008 (in Rs. thousands)

Description	**Amount**
Total Commitment Fees	
Total Penalty on Arrears of Interest	
Total Penalty on Arrears of Principal	
Total Interest Payments	
Total Principal Payments	
Total Service Fees	
(Note --- Leave Space for foreign loans etc)	

Source: Model Fiscal Responsibility Legislation (2005).

10.4.3 Information on Outstanding Loans and Advances Received as per NCRPB Rules

225. Annual statement of "Outstanding Loans and Advances by the Board" as per prescribed "Form G" under NCRPB Rules, 1985 (to be submitted to Board)

FORM G													
NATIONAL CAPITAL REGION PLANNING BOARD													
Statement of Loan/ Advances sanctioned by the Board													
Financial year 20___													
[See Rule 47 (1)]													
Name of person/ party receiving the loan/advance	Amount Rate of loan/ of advance interest sanctioned	Rate of interest	No. and date of orders authorising the loan/ advances	Balance from last year	Amount advanced this year	Total	Repayment of principal				Payment of interest		
							Instalments of repayment during the year and arrears of installment due relating to earlier years, if any (figures to be shown year-wise)	Amount of principal repaid during the year	Amount of defaults in repayments of principal (col. 8-9) (figures to be shown year wise)	Balance of loans/ advances at the close of the year (Col. 7 & Col. 9)	Amount of interest due for and up to the year under review	Amount of interest received and credited to revenue during the year	Balance of interest unpaid
1	2	3	4	5	6	7	8	9	10	11	12	13	14

Foot Note:

1. The amount of loan consolidated during the year shall also be indicated in Column 6.
2. Simple interest recovered in respect of individual instalments paid during the year may be indicated against the particular instalments in column 13.

226. Annual statement of “Outstanding Loans received by the Board” as per prescribed “Form H” under NCRPB Rules, 1985 (to be submitted to Board)

FORM H

NATIONAL CAPITAL REGION PLANNING BOARD

Statement of loans/ advances received by the Board- Financial year 20___

[See Rule 47(2)]

Name of person/party receiving the loan/advance	Amount of loan/advance received	Rate of interest	No. and date of orders authorizing loan/ the advances	Balance from last year	Amount received during the year	Total		Repayment of	principal		Payment of interest		
							Instalments of repayment during the year and arrears of instalments due relating to earlier years if any (figures to be shown year-wise)	Amount of principal repaid during the year	Amount of defaults in repayments of principal (Cols-8-9) (figures to be shown year-wise)	Balance of loans/ advances at the close of the year (Col. 7-Col.9)	Amount of interest due for and upto the year under review	Amount of interest paid and credited to revenue during the year	Balance of interest unpaid
1	2	3	4	5	6	7	8	9	10	11	12	13	14

10.5 Improving NCRPB Financial Reporting Practices

227. To support an entity's financial reports, it is generally accepted accounting practice (GAAP) to disclose the principal accounting policies as a note to the annual financial statements. Although there is general convergence internationally on the accounting treatment of like items/transactions, some accounting standards permit a choice between options. Depending on the option chosen, the results presented in the financial statements can vary considerably. It is therefore necessary to provide relevant information on the basis on which the financial statements have been prepared. Where an entity has departed from a generally accepted accounting principle or standard in preparation of its accounts this fact and the reason for departure should be disclosed.

228. Best practice includes:

- Disclosing the principal accounting policies on which the accounts are prepared noting any material departure from generally accepted accounting principles or standards.
- Requiring the Member Secretary and Director- Finance and Administration to state in writing that the entity's financial reports present a true and fair view, in all material respects, of the company's financial position and are in accordance with relevant accounting standards.
- Requiring an Audit Committee to review the financial accounts and to formally recommend them to the Board.

229. In order to ensure consistency in the preparation of financial statements, information must be provided by NCRPB that is materially consistent with generally accepted accounting practice and Instructions for Uniform Format of Accounts for Central Autonomous Bodies also recommended by CA&G.

10.5.1 General Purpose Financial Statements

230. Financial statements issued for users that are unable to demand financial information to meet their specific information needs are general purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term “financial statements” used here and in the standards covers all statements and explanatory material (notes to the financial statements) which are identified as being part of the general purpose financial statements.

231. When the accrual basis of accounting underlies the preparation of the financial statements, the financial statements will include the statement of financial position, the statement of financial performance, the cash flow statement and the statement of changes in net assets/equity. Because NCRPB makes publicly available it's approved budget, a comparison of budget to actual amounts within the primary statement as a separate column or as a separate statement is required. In addition to preparing general purpose financial statements, an entity may prepare financial statements for other parties (such as MoUD, governing bodies, the legislature and other parties who perform an oversight function) who can demand financial statements tailored to meet their specific information needs. Such statements are referred to as special purpose financial statements. For example, please refer Annex 9 for financial statements issued by IDFC Ltd and HDFC Ltd.

10.5.2 Transparency in Investment Reporting

232. NCRPB has engaged in significant efforts to increase the transparency of financial

reporting of its investments. However, this reporting can be improved and should be developed in a manner that allows interested parties to obtain a clear view of the overall performance and evolution of all NCRPB lending investments.

233. NCRPB already provides an aggregate investment report, but it should also include a general statement of its ownership (investment) policy and information on how NCRPB has implemented this policy. The aggregate financial report should provide main financial indicators including total lending, net income, cash flow from operating activities, gross investment, return on equity, and gearing ratios. Information should also be provided on the methods used to aggregate the financial data.

234. Income and Expenditure statements, asset and liability balance (balance sheets) and cash flows should be required documentation for all reporting enterprises to NCRPB. Each borrower accountable to NCRPB should at a minimum present a review of profitability, liquidity, capital structure, guarantees issued and contingent liabilities, and cash flow results.

10.5.3 Reporting Formats

235. As per uniform format of accounts and financial statements recommended by CA&G for Central autonomous Bodies, based upon recommendation of Committee of Experts, following annual statements are prepared by NCRPB:-

- Balance Sheet;
- Income and Expenditure Account;
- Schedules to the above statements; and,
- Statement of Receipts and Payment Account.

10.5.4 Assessment of NCRPB's role as a Financial Institution

236. It is necessary that ratio analysis from above is also presented for ease of understanding of financial health of NCRPB.

237. For assessing NCRPB's performance, the Basel Committee on Banking Supervision (BCBS) of the Bank of International Settlement (BIS), has recommended Capital adequacy, Assets Quality, Management Quality, Earnings and Liquidity (CAMEL) as criteria for assessing performance of financial intermediaries. The same model is used by ADB and rating agencies as well..

238. The financial information and analysis for the last five fiscal years ended March 31st, 2008 has been provided in annex 10. A brief CAMEL framework for assessment of NCRPB is also provided in the following paragraphs:

239. **The capital adequacy** for the last five years has been computed as follows

Capital Adequacy Ratio = (Grants + Internal Accruals *100) / (Total Assets – Loan Loss Provision – Risk Free Assets)

  - Asset Quality
  - Management quality
  - Earnings
  - Liquidity

240. Interest earnings on loans to States/Agencies for the year have been analyzed by

comparing it with loans/funds at the beginning of the year since most of the loans repayments and interest payments fall due towards year-end. Abnormal receipts on account of penal interest, interest on prepayment and one time upfront fee for resetting of interest rates etc. have been excluded for analysis.

241. Interest earnings on bank deposits have been calculated on opening balance of all deposits including bond redemption reserve fund. Cost of borrowed funds has been calculated on the closing balance of borrowings. Net revenue grants / Non-plan grants excludes amount used for financing fixed assets

- **Interest Spread Ratio** = (Interest on loans *100/ Average Loans) – (Borrowing cost * 100 / Average Borrowings)
- **Earning Spread Ratio** = ((Total Income – Non operating Income * 100) / Average Total portfolio including investments) – ((Interest expenses and other financial charges *100) / Average Total Resources)

242. Non-Plan grants have been excluded while calculating Earning Spread ratio, Return on Assets and Return on Equity. (See Table below for selected financial and efficiency ratios that NCRPB should explore using.

Table – Financial Ratio Analysis

Sr. No.	Financial Ratio	Method of Computation	Description of the Ratio
	Expense Ratios		
6	Establishment Expenses to Total Income Ratio… (%)	Establishment Expenses X 100 / Total Income	These ratios depict the share of each expense in the total income of the NCRPB. NCRPB should try and keep these ratios as low as possible so that a higher surplus can be earned.
7	Administrative Expenses to Total Income Ratio… (%)	Administrative Expenses X 100 / Total Income	
8	Operations & Maintenance to Total Income Ratio… (%)	Operations & Maintenance X 100 / Total Income	
9	Interest Expense to Total Income Ratio… (%)	Interest Expense X 100 / Total Income	
	Net Income Ratios		
10	Cash Surplus / Deficit to Total Income Ratio… (%)	Cash Surplus or Deficit X 100 / Total Income	This ratio indicates the cash surplus or deficit generated as a percentage to the total income of the NCRPB.
	Efficiency Ratios		
18	Operations & Maintenance to Gross Fixed Assets Ratio… (%)	Operations & Maintenance X 100 / Gross Block of Fixed Assets (as at the end of the year)	This ratio indicates expenses incurred towards repairs & maintenance as a percentage of gross block of fixed assets.
19	Interest Expense to Loans Ratio… (%)	Indicate range (highest & lowest) of interest percentage and nature of loan (for highest & lowest) in respect of loans outstanding at the end of the year	This ratio indicates the range of interest expenditure on loans availed by the NCRPB.
	Leverage Ratios		
20	Loans to Reserves Ratio or Debt-Equity Ratio… (times)	Loans / Reserves & Surplus	This ratio measures the use of debt finance as a percentage to own funds of the NCRPB.
21	Interest Coverage Ratio… (times)	Surplus + Depreciation + Interest (incl. interest capitalised) / Interest (incl. interest capitalised)	This ratio indicates the comfort level with which the NCRPB can meet its interest burden. This ratio is very important from the lender's point of view also.

Sr. No.	Financial Ratio	Method of Computation	Description of the Ratio
22	Debt Service Coverage Ratio… (times)	Surplus + Depreciation + Interest (incl. interest capitalised) Debt instalments to be serviced (paid) during the next year + Interest (including interest to be capitalised)	This ratio indicates the comfort level with which the NCRPB can service (pay) its debt instalments and meets its interest burden. This ratio is very important from the lender's point of view also.
	Liquidity Ratio		
25	Current Assets to Current Liabilities Ratio… (times)	Current Assets Current Liabilities	This ratio indicates the ability of the NCRPB to meet its obligations in the short run, usually one year.
	Asset Ratios		
26	Fixed Assets to Total Assets Ratio… (%)	Fixed Assets X 100 Total Assets	This ratio indicates the share of fixed assets in the total assets of the NCRPB.

11 BUDGETING SYSTEM

This chapter on budgeting aims at…

- Explaining the concept of budgeting in the context of NCRPB;
- Understanding the basic legal provisions for budgeting; and,
- Developing a system of budgetary control.

By the end of this chapter, you should be able to…

- Appreciate the importance of budgeting process in NCRPB; and,
- Understand the budget coding structure for recording transactions.

A good practice standard for budgeting and planning entail that budget planning is realistic, comprehensive, and participatory.

11.1 Background

243. In simple terms, a budget is an entity's plan of financial activity for a specified period of time including all planned revenues and expenses for the budget period. The budget is often called an operating plan; it serves as the basis for financial reporting to its Board, all lenders, investors and citizens.

244. A budget is a powerful tool for allocating limited resources among competing priorities.

245. The budget includes:

a) Planned activities of new and ongoing programs, projects, and services.
b) Proposed sources of revenue and receipts for the period(s).
c) Proposed appropriations for expenditure for the succeeding period(s).
d) Estimates of expenditures necessary to finance planned activities over the medium term.

246. These are elements common to almost all budgets. What differs among budgets is how they are prepared and the way they are presented. The term 'appropriation' refers to an authorization made by law or other legislative approval directing the payment of goods and services out of government funds under specified conditions or for specified purposes.

11.2 Objectives

247. The principal objectives of the budgeting system are:

a) To provide a framework for the assessment and allocation of resources, execution, monitoring and evaluation of all programs/projects/activities under a comprehensive fiscal plan developed, authorized and executed in accordance with laws, rules and regulations and the principles of sound fiscal management.

b) To provide for the budgetary status of the NCRPB in such detail that persons entrusted by laws, rules, and regulations with the responsibility can determine the adequacy of budget actions taken, authorized or proposed, as well as the financial position of the NCRPB.

248. To enforce effectively the various means of raising revenues and receipts and the limitations on the expenditure of NCRPB funds

11.3 Budget Concepts and Principles

249. The fundamental aim of the budgeting system is to ensure that each individual manager at every level in NCRPB knows the resources for which (s)he is responsible, the contribution (s)he is expected to make with those resources and the standard of her/ his performance. The total system sub-divides into a set of basic principles which are summarized below:

- The budget is constructed via cost centers (and profit centres for units responsible for generating income).
- These cost / profit centers should be assigned to individual managers whose sphere of control might be termed responsibility centers.
- Budgets at cost center level upwards should be expressed in terms of physical outputs as well as resources required so that a target return, output for input, can be established.
- Key output measures and performance indices should be developed for each cost center and thereby for each responsibility center as an integral part of the budgetary control process.
- Actual results in terms of expenditure and output should be measured within the budget framework thus providing meaningful control information and a suitable basis for taking corrective action.

250. Government agencies (including NCRPB) shall not spend more than what has been appropriated and they shall use funds only for purposes specified in the approved budget. They are prohibited from spending or committing payments in advance/in excess of budget sanction. The budget concepts and principles of the NCRPB shall be based on programs/projects/activities in terms of expected results encompassing:

a) The concept of balance (i.e. limiting money spent to resources available).

b) The concept of budgeting as per outputs and outcomes based on functions, projects, programs and activities.

c) Budget control and accountability, defining responsibilities and goals of the various levels of organization in relation to the fiscal limits within which tasks are accomplished. Each organizational level shall be accountable to the next higher level for its work accomplishments and utilization of funds.

d) The concept of frugality and prioritization, indicating that NCRPB shall live within its means and shall prioritize its activities accordingly. NCRPB must define what it can achieve within its institutional resources and constraints.

11.4 Budget Planning and Maximizing Resource Allocation

251. Budget planning should be used as an exercise for efficient resource allocation, supported by appropriate policy direction, participation by people, and realistic estimates.

The budgeting in NCRPB is an important tool to enable management discharge its roles required under section 7 and 8 of the NCR Planning Board Act, 1985, especially the following:-

11.4.1 Section 7 of NCRPB Act

i. To co-ordinate the enforcement and implementation of the Regional Plan, Functional Plans, Sub-regional Plans and Project Plans through the participating States and the Union Territory;

ii. To ensure proper and systematic programming by the participating States and the Union Territory in regard to project formulation, determination of priorities in the National Capital Region or Sub-regions, and phasing of development of the National Capital Region in accordance with stages indicated in the Regional Plans;

iii. To arrange for, and oversee, the financing of selected development projects in the National Capital Region through Central and State Plan, funds and other sources of revenue.

11.4.2 Section 8 of NCRPB Act

i. To ensure that the preparation, enforcement and implementation of Functional Plan or Sub-Regional Plan, as the case may be, in conformity with the Regional Plan.

252. Focus of budgets should be on results achieved and not merely money spent. The good practice benchmark for budgeting and planning entail that budget planning is realistic, comprehensive, participatory and transparent.

11.5 Best Practice Indicators

- Budget preparation is participatory and based on needs and multi-year time horizon.
- Annual Budget linked to target / service delivery gaps based on a longer-term document like Regional Plan, Sub-regional Plans, functional/ Sectoral Plans, City Development Plan (for Counter Magnet Towns), Business Plans etc.
- Annual Budgets focus and emphasize on progressive achievement of ultimate outputs and outcomes set up by Regional Plan taking into consideration what is already achieved with the completed projects and to be achieved with on-going projects.
- A number of public and/or internal discussions need to be held before budget finalization.
- Budget includes percent of last year's incomplete works and works in progress.

11.6 Program / Performance Budgeting, Output and Outcome Indicators

253. Budgets should be prepared using outputs and outcomes. Information about outputs and outcomes is an essential aspect of the performance measurement and is necessary for assessing accountability and in making informed decisions. It is recognized that in the long process of conversion of outlays into outcomes, there are several intermediate stages and complementary resources are also required in achieving intended outcomes. The cause and effect chain is not always direct and several environmental factors come into play and that influence the actual outcomes, not just the outlays earmarked. Nevertheless, a broad understanding of these would be helpful in preparation and assessment of the program budgets.

- **Outlays** imply total financial resources deployed for achieving certain outcomes. Part of this money may come directly from the NCRPB's budget and part may be contributed by other stakeholders such as the state governments, or even private parties in the growing area of Public Private Partnerships.

- **Outputs** are a measure of the physical quantity of the goods or services produced through an activity or process required under implementation of Plans e.g. Regional Plan.
- **Outcomes** are the end products/results of various government initiatives and interventions, including those involving partnership with the state government, autonomous bodies, private sector and the community. The outcomes are different from outputs, since they cover the quality and effectiveness of services produced as a consequence of an activity under a scheme or program.

Outcomes could also be guided by vision and policy directions from relevant decision-makers and NCRPB. However, the NCRPB should plan and focus on meeting the outcomes for its various initiatives taken directly and through participating states. The "intermediate 'outputs' should be captured before identifying and measuring the 'final outcome'. The intermediate and final outcomes should be defined specifically in measurable and monitorable terms.

11.7 NCRPB Budgetary process

254. Presently the process of formulation of annual budget starts with an Office Memorandum received from the Budget Section of Ministry of Urban Development in late November or early December each year. The budget preparation uses "Outcome Budgeting" approach, which was introduced for the first time in NCRPB as per Office Memorandum No. F/No. 2 (1) Pers/E-Coord/OB/2005 dated 12th December, 2006 in respect of "Guidelines for Preparation of Outcome Budget 2007-08. Outcome Budget for FY 2009-10 is prepared based upon guidelines received from Budget section, MoUD. The budgets for FY 2009-10 are prepared using Outcome Budget approach based on guidelines issued by Budget Section, MoUD dated December 1st, 2008.

255. Presently the Board prepares annual budgets estimates as well as inputs for each Five Year Plan. The Annual Plan Budgets (program expenditure) are generally guided by applicable yearly Plan figures as per approved inputs for the Five Year Plan provided to planning Commission, assuming that there is commitment for the earlier inputs for approved Five-Year Plan. The details under the Plan Expenditure for Annual Budgets are, however, guided by the projects already approved by Project Sanctioning and Monitoring Group (PSMG) I and II.

256. The outputs and outcomes with related time frame in the Annual Budget are based on actual approved loan applications in hand with NCRPB and are not result of the calculated and controlled plan of action to achieve the outcome of Regional Plan. As stipulated under Rule 28 and 29 of the NCRPB Rules, the budgets are to be sent to MoUD before 15th October, each year after its approval by Board in the first week of October each year. The Board submits the revised budget estimates for the current year and budget estimates for next fiscal year by around middle of September. The Board 's approval is taken on post facto basis. However, in view of budget guidelines received from MoUD, the Member-Secretary can place the Annual budget before the Board by end of December only.

11.8 Additional Grants and Re-Appropriation

257. At mid-year review, the Budget Committee may alter any budget grant by increasing or decreasing the amount under any head making any additional provision for meeting any special or unforeseen requirement and transferring the amount or a portion thereof from one head to another.

258. Any such alteration made in the budget grant prior to revision of the annual budget estimate shall be incorporated in the revised budget and alteration made subsequently shall be reflected in the appropriate column of the annual budget estimate for the next financial year

259. Additional grants and/or reappropriation shall be made only if the resources are available within the NCRPB. Any proposal for additional grants and re-appropriation shall be submitted for approval by the Board within 31st December each year.

11.9 Basis of Budget Estimations

The basis for preparing the budget will be the inputs from various departments/units. Budgets preparation shall be based on a bottom up approach. Estimates shall be made from the lowest unit and then consolidated at the Head Office. The NCRPB shall take into consideration, any benefit which is deemed to be received or provided. NCRPB should prepare their budgets on a prudent public financial basis, providing detailed working sheets to support the budget estimation. In case of revenue, these would require an objective review of past dues, current years taxation levels and targeted level of recoveries through tax collectors, self compliance etc. The expenditures should be based on the NCRPBs policy and supported by quantitative details of expenditure / estimates. If there are any abnormal variations in fluctuating receipts and charges brief explanations for such variations should be given. Budget Information Detail Sheets (BIDS) shall be used for detailing the calculations to be incorporating into the budget.

11.10 Inclusion in Budget

The Budget shall necessarily include the following nonexclusive list expenditures:

- Payments for services required for fulfillment of the duties (i.e. wages and salaries, office equipment and supplies, etc.,);
- Payment of all installments of principal and interest for which the NCRPB may be liable due to loans raised;
- Where amounts for certain heads cannot be reasonably estimated such as in the case of general administrative expenses etc., they shall be based on the average of the past three years, and any increase or decrease from that clearly explained.

11.11 NCRPB Action Plan for Improving Budgetary Processes

260. The following section outlines possible NCRPB budgetary process improvements in improving its effectiveness and budgetary appropriations.

11.11.1 Budgets Based Upon Realistic Medium Term Plans

261. Annual budget preparation in NCRPB should follow and be informed by NCRPB's Business Plans, which are, in effect, medium term forecast of resources and expenditure over medium term, say next 5 years.

11.11.2 Align Budget Performance Indicators to Regional Development Goals

262. For better budget preparation, NCRPB budget outcomes and outputs should dovetail (align) more smoothly with the Regional Development Plans as well as budget documents. There is a need for clarity in use of outputs and outcomes by staff in planning as well as finance. Regional and other plans documents should clearly delineate outputs and outcomes relating to each plan year. To realize the linking of annual budget preparation activity with long-term planning as per Regional Plan 2021, it is recommended that a Budget Committee is constituted in each of four States' NCR Cells and "Counter Magnet Towns".

The members of Budget Committee should have representation from the Urban Development department of the concerned state and Regional Planning department of NCRPB.

11.11.3 Improving Efficiency of Project Planning and Development Budget

263. The responsibilities of the Budget Committee in each Cell should include the following:

- Take stock of actual status of infrastructure in terms of quantifiable indicators vis-a-vis approved plans;
- Prepare long-term Capital Investment Plans for reaching targets as per approved regional/ functional plans;
- Initiate action to prepare DPRs for the prioritized and preferred investment guided by long term plans;
- Decide on the DPRs /projects proposals for inclusion in next year's budget;
- The recommended proposals with outputs and outcomes and time frame for their implementation inputs should reach the office of Chief Regional Planner by end of October each year;
- The Chief Regional Planner shall review recommendations from each cell, consolidate them along with centrally initiated programs, prioritize proposals/ projects for next year budget and communicate the selected projects with financial outlays, outputs and outlays for budget year to each NCR Cell **and** Director-Admin and Finance by end of November.
- NCRPB should follow the instructions and formats received from MoUD regarding preparation of Outcome Budgets.

11.11.4 Improving Efficiency of Project Planning and Development Budget

264. An Executive Budget Committee should be formed under chairmanship of Director-F&A. The Executive Budget Committee shall be responsible for budgeting processes in NCRPB as per Budget Guidelines from Budget section, MoUD. The Executive Budget Committee shall also be responsible for allocation of available and new funding resources to be secured as per budgeted Plan and Non-Plan expenditure.

265. The Plan budget shall indicate for each project/scheme financial outlays, outputs and outcomes. In the budget presentations, physical and financial achievements for the last three years and current year are to be provided along with the same information for the Budget Year. The lack of this information has been adversely commented by the Parliamentary Standing Committee.

266. The Executive Summary of the Budget submission, apart from summarizing relevant chapters, should prominently highlight the details of the monitoring mechanism and the public information system put in place by NCRPB to regularly monitor physical and financial progress during the course of the year and inform general public about it.

11.11.5 Budgeting for Non-Plan Expenditure

267. These include appropriations for establishment expenditures, the purchase of goods and services for current consumption or for benefits expected to terminate within the fiscal year. Examples are personnel emoluments including wages and salaries (i.e, personnel benefits, LTA, medical benefits, and special allowances); goods and services including

travel, utilities, stationary, rental of property, supplies and materials (i.e, maintenance of property, maintenance of vehicles), operating expenses, interest on loans etc, interest payments; subsidies, grants and social expenditures; and, acquisition of fixed assets.

268. The Plan and Non-Plan expenditures (Code 200) shall be classified into several primary categories, as applicable, namely:

Establishment Expenses (210)
Other Administrative Expenses (220)
Expenditure in Grants, Subsidies etc. (230)
Interest (240)
Expenditure on Market Borrowings (250)
Depreciation (260)
Codes in parentheses are major account codes.

269. The establishment expenses shall be budgeted using **Form C, D, E and F** as provided in NCRPB Rules.

11.12 Relation of Budgeting to Accounting

270. Same codes (Account) for Plan and non-Plan income and expenditure should be used for budgeting as used in Accounts.

271. The accounting system, which records and reconciles transactions in accordance with the accounting standards and guidelines from CA&G, is the information system that continuously monitors revenues and expenditures so that they can be balanced in real time. The accounting system tells department heads how much more money they have left to spend: it tells the Budget Controller or officer assigned for this purpose whether revenues are available to commit; and it tells everyone whether the NCRPB succeeded in balancing the budget and how closely budget implementation followed the approved or revised budget.

272. The accounting system plays an important part in the preparation and execution of the budget. Budgeting is the means by which the NCRPB accomplishes its mandate. These plans are translated into financial plans, are enacted and are carried out. The budget system (i.e., budgetary control and execution policies) determines the structure and nature of budgetary accounts. The accounting system in turn provides financial data for administrative control over the execution of budget plans as well as the data required for the development of subsequent financial plans.

11.13 Financial Analysis

273. The following key questions and suggested analysis will assist NCRPB budget analyst staff to review budget user requests. Such questions can be useful indicators of waste and opportunities for improved efficiency.

11.13.1 Current Expenditures

Establishment Expenditure (code 210)

- What is the budget execution rate in the first seven-twelve months for wages and salaries? Are expenditures too low or too high? Is there justifiable cause for any discrepancy?
- Determine Average salary

  - o Is growth in average salaries consistent with Government approved salary increases?
- Allowances
  - o Is growth in allowance consistent with Government approved allowance levels?
- Proportion of gross wages and allowances and allowances
  - o As a percentage in user's current expenditure; and
  - o As a percentage of total wage and allowances in total budget.
  - o Trend in the share of wages and salaries in the overall operational cost and long-term sustainability

Goods and Services Costs (code 210)

- Budget execution in the first seven to twelve months; Are expenditures too low or too high? Why?
- Proportion of travel, transport, maintenance, rent, and contracted services as a percentage of
  - o The budget user's current expenditure; and
  - o The budget user's operational and maintenance costs.
  - o Trend in the share of wages and salaries in the overall operational cost and long-term sustainability; Is there sufficient resources for materials and other goods and services?

Expenditure on Market Borrowings

- Is % of Expenditure on Market borrowings comparable with previous expenditure
- Is % comparable with market benchmarks

Plan (Project Lending) Expenditures

- What is the budget execution rate in the first seven to twelve months? Is it too low? What were the problems - by project? Is it likely implementation will improve?
- What is the purpose of the development (capital) expenditure?
- What is the authority for capital expenditure?
- Does the project follow country Public Financial Management (PFM) system?
- What is the commencement/completion dates?
- How much is new and how much is being rolled over?
- Are actual costs of approved capital accurately reflected in outlying years?

Fund Source

- What are the funding source of the lending program ?
  - o Is it financed from grants or bonds owned funds ?
  - o Has the donor fund been specified?
  - o Have resources been already committed?

11.13.2 Recommendations for Budget User Requests

274. Based on the above analysis, NCRPB budget analyst should make recommendations to NCRPB Management on the following:

- Suggested savings due to waste or inappropriate spending - in terms of identified overestimates in the cost calculations, or overlaps in financing between operating (Non-Plan) and development (Plan) budget
- Rank proposals in priority order based on above analysis and provide brief justification to support ranking;

11.13.3 Policy Analysis Review and the Budget

275. The following questions should be included when reviewing the budget submission with respect to its impact and effectiveness on NCRPB's policy.

Consistency with Board's Policy and Priorities:

- Do the strategic objectives align with the MoUD / Board's long-term policy objectives?
- Is there a legal requirement to implement the project?
- Do the program/project objectives conflict with Regional/functional plans?

Appropriateness and Feasibility

- Is the program/project and its objectives something that the NCRPB should be involved?
- Is the same operational objective addressed by other programs or other bodies (budget users) of participating State Governments?
- Is there overlap in the activities of the budget user with those of another Government agency?

Objectives and Results

- Are the objectives measurable and verifiable?
- Are the expected outputs and outcomes i.e. results and impacts clearly specified for each year?
- Do the expected results relate to the objectives?
- Does achievement of outputs contribute to the achievement of outcomes?
- Are there any potential unintended consequences from focusing on the proposed outputs? Adverse incentives? Potential for fraud or corruption?
- Are output and outcome targets realistically achievable with requested resources?
- If there is an increase in the requested funds for a specific program is it justified through the similar increase in the outputs?
- Do the outputs and outcomes provide value for money?
    - Is the unit cost per output reasonable?
    - Is the program cost-effective (i.e. do the outcomes justify the resources)?
    - Is average cost per unit of output being decreasing/increasing over time?
    - Are the resources/program/objectives targeted to greatest need (e.g. consider income (or other criteria) testing benefit payments to reduce overall cost).
- Do all performance measures relate to the intended beneficiaries of the service?
- Are projects contributing to outputs and outcomes achievements?

Resources and Affordability:

- Is funding of the program/projects within the budget ceiling?

- Have all potential costs of the program/project been included?
- Has the budget user specified the basis of the cost estimates? Are cost estimates objectively verifiable?
- Are program/project cost allocated across participating States?
- What proportion of costs of the program/project are allocated to operational and administration costs (i.e. running costs as a proportion of total costs)?
- Do the forward (future) years reflect the ongoing costs of the program /project -based on current service levels and delivery standards?
- What is the share of administrative program(s) in the overall budget request?

Relative Priority

- Is this program/project clearly defined as priority in the Regional Plan Strategy?
- Are there other programs or proposals of higher priority (based on Government policy) than the existing program?
- Are there other programs or proposals that provide better value for money (in terms of outcomes/ impacts)?
- Who are the final beneficiaries?

11.13.4 Mid-Year Review of the Budget

2.20 The finance department shall hold a mid-year review to check if the budget is on-track. The Mid-Year Review shall result in:

- Revised budgets for Plan and Non-Plan expenditures.
- Revision of rolling budgets for subsequent years.
- **Budgets are realistic and achievable -** Analysis of budget vs. actual reflect not more than a X, say 5% percent of variation.
- Actual outputs and outcomes during budget period are in alignment with planned outputs and outcomes.
- A percent of proposed programs /projects completed.
- Level of spending outside the budget is less than X%.

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