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**Municipal Retrenchment  
and Reform.**

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**FINAL REPORT**

**BY THE**

**RETRENCHMENT ADVISER.**

**BOMBAY :**  
**PRINTED AT THE INDIAN DAILY MAIL PRESS**  
**1925.**

City of Bombay.

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BOMBAY.  
FEBRUARY, 1925.

## PREFATORY NOTE

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This compilation contains the specific proposals for retrenchment and control of loan works expenditure, submitted by the Retrenchment Adviser with the help of the Officers associated with him, during the six months ending 31st January 1925. It also includes certain schemes of reform developed simultaneously. It will be seen that the greater part of the work outlined in the original programme (approved in Corporation Resolution No. 4042 dated 17th July 1924) which the Retrenchment Enquiry Staff was in a position to handle, has been completed.

As time and establishment did not permit of his preparing any more detailed schemes the Retrenchment Adviser has endeavoured to submit, as a result of his local studies, a general review of the wants of the City and its administration in their true perspective in the hope that it may be of some value to the Corporation prosecuting the further investigations necessary.

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# BOMBAY CITY CORPORATION.

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## Retrenchment Committee.

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THE PRESIDENT OF THE MUNICIPAL CORPORATION, (MR. V. J.

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MR. N. D. MEHTA, B.A., (District Deputy Collector, Northern  
Division, Bombay Presidency).

*Secretary :—*

MR. T. H. BIRD, Chartered Secretary, (Test Audit Officer, Bom-  
bay Municipality).

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“ I have the honour to forward, for favour of submission to the Standing Committee, a Report upon the Reform and Re-organization of the accounting system of the Municipality.

Sir M. Visvesvaraya regrets his inability to forward his comments upon the Report earlier than the middle of August next, owing to pressure of other important work.”

## ACCOUNTS REFORMS AND RE-ORGANIZATION.

## I.—PRELIMINARY.

1. The statutory provisions relating to the accounting system of this Municipality are to be found in Chapter VII of the Bombay Municipal Act, 1888. Briefly the Act provides for :—

- (a) The establishment of a “ Municipal Fund” to which all receipts shall be credited, and out of which all payments shall be made.
- (b) The preparation of an annual budget estimate of expenditure and taxation.
- (c) The preparation of a schedule of the officers and servants to be maintained, other than the statutory officers.
- (d) The prohibition of payments out of the municipal fund in excess of a current budget-grant.
- (e) The signing of all cheques by the Municipal Commissioner, one member of the Standing Committee and the Municipal Secretary.
- (f) The allocation of any portion of the municipal fund to a separate heading in the municipal accounts.
- (g) The investment of surplus moneys.
- (h) The keeping of accounts of the *receipts and expenditure* of the Corporation in such manner and in such forms as the Standing Committee shall from time to time prescribe.
- (i) The publication of an annual statement of accounts.
- (j) The publication of a weekly abstract of the receipts and expenditure.
- (k) A weekly scrutiny of the municipal accounts by the Standing Committee or under their superintendence.
- (l) The making of regulations with respect to the scrutiny of the municipal accounts.

(m) A special audit by Government at any time.

(n) The examination and audit from week to week of the municipal accounts by auditors specially appointed by the Corporation.

2. The first accounting system of the municipality was established, with the approval of the Bench of Justices, in 1866, and was based upon the then prevailing system of Government Accounts. In 1869, modifications were made on the recommendation of a Committee, of which Mr. Chapman, the then Accountant-General, was Chairman. The system was revised in 1871 by Sir Theodore Hope, and later was again revised by Sir Charles Olivant, this last revised system being approved by the Standing Committee in 1888 under Section 123 of the Municipal Act, and is, in its main outlines, still in operation though many modifications have been made in it in the endeavour to provide for the changing needs of the times. These modifications have, more often than not, only increased the complexity of the system, being made piecemeal, without proper consideration of their accumulating effect.

3. The growth of the City, the extension of the work of the Municipality and the increasing volume and complexity of the accounts to be dealt with, makes it inevitable that the accounting system must sooner or later be re-constructed root and branch. That this reconstruction is overdue is evident from the many criticisms made against the present system, which is, as stated above, more or less the same as when the City was less than half its present size.

4. The late Chief Accountant, Mr. W. E. Waite, so far back as 1907, urged a revision of the accounts and his last proposal was made in September 1919. The question was then referred by the Standing Committee to a Sub-Committee, who, on the 29th October 1919, submitted a report which was adopted in "toto." The recommendations of the Sub-Committee were to the following effect:—

(a) That the accounts and budget should be recast so as to show under fifteen main services or functions the total cost of each service, including debt charges.

(b) That the accounts system should be changed from the *Receipts and Payments* basis, to the basis of *Income and Expenditure*.

only partial effect has been given to these recommendations.

## II.—THE BASIS OF THE ACCOUNTS.

5. There are two recognized systems of municipal accounts, known in municipal finance phraseology as:—

1. The "Cash Receipts and Payments" system and
2. The "Income and Expenditure" system.

The brief history of the accounting system of this Municipality given above shows that, in 1919, the Standing Committee ordered the accounts to be kept upon the second of the systems above-mentioned.

Though the Annual Budget and the Accounts are headed with the words "Income and Expenditure," in point of fact the accounts are a mixture of the two systems and consequently contain many anomalies and complications. That the orders of the Standing Committee issued over five years ago have not yet been carried into effect, is, according to the Chief Accountant, due to the lack of adequate superior staff in his department. To bring about a change of system in so large an organization as this Municipality is a task requiring expert knowledge, and cannot be undertaken by an Officer who is burdened with a large amount of routine work. The change of system in actual fact, and not merely in the printed headings of the Accounts, is of such vital importance to sound and efficient methods of financial control, the prevention of fraud, and the correct presentation of the City's financial position, that it is deemed desirable to state a few reasons why it is necessary to instal the complete "Income and Expenditure" system without any further delay.

6. The Cash Receipts and Payment system is confined solely to recording actual cash receipts and payments during the year and does not take cognizance of the amounts owing to, or by, the authority. It has the merit of simplicity, but this is obtained at the cost of completeness, and it is impossible to produce therefrom a statement of profit and loss. Further it does not lead up to a balance sheet showing the *true* financial position, and violates in many respects the principles of "double-entry" book-keeping.

The Income and Expenditure system is a true "double entry" system and is simply an adaption of commercial and industrial accounts methods to the peculiar needs of municipal administration. It is a system whereby all incomings and outgoings pertaining to any given period, whether actually received and disbursed, or not, are included in the accounts of that period.

7. The following extracts from the Report of the Departmental Committee appointed in 1907 to inquire into the Accounts of English Local Authorities, are an excellent summary of the reasons for, and advantages of, the Income and Expenditure system:—

"29. The weakness inherent in a system of accounts confined to actual receipts and payments are fundamental and

can be obviated only by recourse to a scheme of accounts based on income and expenditure. An income and expenditure system contains a record, so far as possible, of every step in a transaction as it takes place. It thus affords protection against negligence or irregularity, recording as it does all items payable or receiveable by debits and credits which must remain on record until properly discharged. It ensures the presentation of the transactions of any given period completely and accurately and is necessary for arriving at a correct system of profit or loss and of the financial position. And, finally, it may reasonably be concluded that if the ratepayers of any particular year are to be charged with the cost of the operation of that year, the rating estimates should, as far as possible, be framed on a basis of income and expenditure.

30. The advantages of an income and expenditure system may be confirmed by more general considerations. Under the system in its fullest sense, accounts would include records of a great many things (such as materials) which are not money, though they must of course be expressed in terms of money. It would perhaps be true to say that it is the function of a complete system of accounts to record the possession, acquisition, conversion, and alienation of assets or *values* during the period to which the accounts relate. On this view the accounts of any period would include the value of the use of property or services or borrowed money; that is to say, they would include accrued proportions of such items as rents, salaries and wages, or interest on loans quite irrespective of the date on which the actual payment may be or may become due.

31. It is clear, that income and expenditure principles alone afford a proper basis for a complete and comprehensive system of accounts; and this conclusion was supported by the great mass of the evidence received.

38. The accounts of the year in which a change of the income and expenditure system from the cash system is first made will have to deal not only with the income and expenditure properly belonging to that year, but, in addition, with certain items which, according to the income and expenditure system, properly belonged to the preceding year. For purposes of comparison with the accounts of other years, the Committee consider that it will be necessary that the latter items should be distinguished in the abstracts of the accounts of this year by being shown in a separate column or otherwise, and that the accounts should be so kept that this may readily be done."

8. For rate accounts it is not necessary to carry out the full theoretical implications of the Income and Expenditure system, that is, accrued proportions need not be taken into account. In England for rate accounts, the recognized practice is to include not only the cash transactions of the period, but all the items which fall due for receipt or for payment in or at the close of the period, and taking account, not only of the materials purchased, but also of their consumption and of the amounts which remain in store unused. This is, in fact, a full "income and expenditure" system based upon principles which suffice in all cases excepting where elaboration is needed in order to present an accurate statement of profit or loss of a trading undertaking.

9. The Report of the Sub-Committee of the Standing Committee, to which reference is made in para. 4 above, contains the following remarks:—

"The attention of the Sub-Committee was specially drawn by the Commissioner to the effect which this change in the system of accounts would have on the Surplus Cash Balance. Under the present system, as practically all the income from taxes is payable in advance, credit is taken in the year for practically all the income appertaining to that year. On the other hand, the expenditure charged against each year is practically against bills received up to the end of February, as salaries and wages earned in March and bills for supplies received in March are, with few exceptions, paid in April. Similarly, the monthly contribution to the Schools Committee due for March is paid in April and large sums on account of debt charges accrued on the 31st March, would, on the new system, have to be taken into account in the year in respect of which they accrued. The amount paid in the financial year 1919-20 in respect of liabilities relating to the preceding year was stated by the Commissioner to be nearly 20 lakhs as under:—

	Lakhs.
Establishment Charges .. ..	6·28
Miscellaneous Charges .. ..	·54
Commission on Town Duty Collection ..	·07
Haulage Charges (refuse) .. ..	·03
Gas and Supplies for Road Branch ..	·29
Hay and grain for animals .. ..	·28
Pensions .. ..	·19
Schools Committee Contribution .. ..	·82
Debt Charges .. ..	11·39
	<hr/>
Total ..	19·89
	<hr/>

“On the introduction of the new system this year the corresponding charges for March 1919-20 will be debitabie in the accounts of this year. That is, in this year, charges for 13 months, and debt charges accruing within the year, though actually paid after the close of the year, will have to be charged against Budget grants framed to cover charges for 12 months.”

“The Sub-Committee are of opinion that those extra charges *i.e.*, the charges which under the existing system would be debited in April or later, but which under the new system would be debited in March, should be shown separately in accounts. The Sub-Committee are aware that a large special grant or grants will have to be made from Surplus Cash Balance to cover these charges, but they are decidedly of opinion that it is much better that the Surplus Cash Balance should appear to be small with no undisclosed liabilities against it, rather than that it should continue to be large, but carrying a concealed liability equal to the whole of the payments due in March but actually paid after the close of the financial year.”

10. Except in regard to the interest charges, no alteration has yet been made in the accounts, and the expenditure for March is still being debited in the following financial year. So long as this is the practice, it will be impossible to ascertain, with any degree of accuracy, the real position of the Surplus Cash Balance. So many estimated figures have now to be brought into the calculations that it is possible the real balance may vary widely from the figure reported to the Corporation.

11. Stress is laid upon the point that any extra grant or grants required to cover the charges for the month of March will not mean that any additional payment of cash will thereby be necessary. The change of system is simply a question of rendering possible the correct method of account-keeping and not of giving sanction to the payment of one anna more than has to be paid at present. Under the procedure now in force no expenditure can be *booked* against a service-head unless there is a sufficient available balance of the grant to cover the amount though the liability has actually been incurred. Grants estimated to cover the expenditure of twelve months only should normally be inadequate to cover the expenditure for thirteen months. But attention is drawn to the following figures relating to the year 1923-24 :—

	Rs.
(a) Original grants as per Budget	2,99,16,687
(b) Final sanctioned grants ..	3,16,19,512
(c) Actual expenditure for year ..	2,89,50,053
(d) Balance unexpended ..	26,69,459
(e) Grants renewed in 1924-25 ..	18,72,507
(f) Savings for year .. ..	7,96,952



A fair proportion of the amounts to be paid in April in respect of expenditure incurred in the previous financial year would be debitable against item (e) above, and to that extent no additional grants would be required. The savings on the year amount to nearly Rs. 8 lakhs. Instead of allowing these grants to lapse, they could be utilised by means of transfers to meet the March expenditure, and so reduce to a small amount the actual additional grants which would be necessary.

It is emphasised that when change has been effected, the Surplus Cash Balance will represent more accurately the true financial position, for there will be no concealed liabilities against it.

12. It is strongly urged that the Accounts Department be instructed to take the necessary steps to give full effect to the "income and expenditure" system in the accounts for 1926-27, which will allow ample time for the working out of the alterations in the forms which will be required. The accounts for 1926-27 should be so kept as to show what amounts paid in that year pertained to previous years. These items would be separately reported to the Corporation, and would be the basis of the calculation for the extra one-month's grants required.

13. In 1918 the English Government appointed a Select Committee on National Expenditure, to inquire into war expenditure generally, and among other things it critically examined the government accounting system. One of its recommendations was that, in future, both the estimates and accounts should be constructed on the following principals :—

- (1) That a separate and comprehensive account should be set up for each main object of expenditure, and that within each such account, the detailed expenditure should be grouped according to its objects.
- (2) That units of cost should be determined by which the actual expenditure on particular objects might be checked.
- (3) That expenditure should be dealt with on a commercial basis (i.e., on a basis of "income and expenditure," instead of on the old Government basis of "receipts and payments") representing the true aggregate cost of the services of the year, the increase or decrease in stores held, outstanding liabilities, etc.

The first of these principles has been accepted by the Standing Committee and the Budget Estimates and the Accounts are divided accordingly; the other two principles should now be embodied

in the accounting system of this Municipality, for they simply mean applying to Government and Municipal affairs the principles of business economy and common sense.

14. In all the proposals that follow later in this Report, it is assumed that the Corporation desires to place its accounts upon a footing as sound as that adopted in business firms, and the suggestions are framed accordingly.

### III. FINANCIAL CONTROL.

15. It is an accepted axiom that the interest of the ratepayers cannot safely be left entirely to the spending departments of a Corporation. The incentive which operates in commercial affairs being absent, and human nature what it is, there is no security against extravagance and waste in public administration unless there is some supervision or control exercised outside the spending departments.

But this external control cannot, by itself, secure that the funds of the Municipality are being expended with a due and proper regard for economy and efficiency.

16. It is now generally admitted that control by the local authority and its accounts department, has not succeeded in securing economy, though it has been effective in securing regularity. The authority clearly must retain the right to say how the funds it votes shall be spent and upon what conditions. It cannot, however, effectively enter into the every day work of the municipal departments; it can only lay down rules and sanction totals.

The control of the Accounts Departments must also be restricted to those things which require audit sanction, and to securing regularity and order. It cannot be entrusted with power to interfere with the day to day administration of the other departments.

17. It follows therefore, that to secure true economy, financial control from without should be such as not to interfere with the financial responsibility of the administrative officers. By "economy" is meant something almost indistinguishable from efficiency; in other words it means getting full value for money, and is the opposite of "waste."

18. That this is being recognised by students of public finance, is confirmed by the following quotations from two experts:—

- (i) The attitude of the officer who really controls expenditure on the circumference, and what reduction he makes in it, is the central pivot of the machinery for the control of public expenditure. If you do not get that atmosphere right and that willing co-operation on the part of the officer who really handles the expenditure, if you fail to get that, you get a pure

formality of control of expenditure which is not economy at all. You get expenditure conducted strictly in accordance with regulations, and some of the things I have seen, some of the most hideous waste I have ever seen in connection with public expenditure, has been absolutely and strictly in accordance with regulations. The general idea that expenditure must be controlled by a series of inhibitions rigidly laid down and a continuous centralised stream of negations—'You shall not do this—you shall not do that, and you shall not do the other things' and so on—has a most depressing effect: it takes all the faculty of contrivance and all the desire to save out of the minds of the officers who are really conducting your expenditure. (Sir Charles Harris, before the Public Accounts Committee, 1921).

- (ii) With the growing volume, elaboration, and technicality of the work of Government, it is to the expert and semi-independent financial branches of the great departments that the public must look for its substantial protection against waste and loss. External and therefore comparatively inexpert guardians, such as the Auditor-General, the Public Accounts Committee, and the Treasury, high as the value of their work undoubtedly is, and essential in the legal scheme of appropriation, in the practical matter of enforcing economy in administration can only supplement the work done within the departments themselves." (Hilton Young, National Finance, pp. 184-5.)

19. In this Municipality the control of the Corporation over the departmental expenditure is effected by means of the annual budget. Sections 125 to 134 of the Municipal Act prescribe the procedure to be followed in framing and adopting the annual budget, and Section 115 provides that "no payment of any sum shall be made by the Commissioner out of the Municipal Fund, unless the expenditure of the same is covered by a current budget-grant, and sufficient balance of such budget-grant is still available notwithstanding any reduction or transfer thereof which may have been made under Section 133 or Section 134." The Act also contains provisions for additional budget-grants during the year.

20. The Standing Committee which is a statutory part of the Municipal constitution, is the finance committee of the Corporation, and it has considerable power of control over the municipal finances. All contracts over Rs. 5,000 must be sanctioned

by it, and every contract between Rs. 500 and Rs. 5,000 must be reported to it within 15 days after it has been made. All payments out of the municipal fund must be made by cheques, signed by the Commissioner, one member of the Standing Committee, and the Municipal Secretary, and the two latter persons must not sign a cheque without first satisfying themselves that the sum for which a cheque is drawn is either covered by a budget-grant or is an excepted item. The Standing Committee has also to conduct a weekly scrutiny of the accounts, and to publish a weekly abstract of the receipts and expenditure. The Committee has the power to frame regulations for the scrutiny of the accounts, to prescribe the form of the budget, and to prescribe the manner in which the Accounts shall be kept. A schedule setting forth the designations and grades of all officers and servants (other than statutory officers) who shall be employed, with the salaries, fees and allowances to be paid to each, has to be prepared from time to time and sanctioned by the Standing Committee. No new office or appointment exceeding in salary Rs. 200 per month can be created without the sanction of the Corporation.

The Standing Committee is also empowered to frame regulations regarding securities to be furnished; leave and leave allowances; acting allowances; period of service; pensions and retiring allowances; and provident fund contributions.

21. These statutory provisions are excellent, and it would be difficult to improve upon them. As stated above, however, no control exercised by the Corporation or the Standing Committee can ensure economical administration. Effective control over the multifarious details of the expenditure can be secured only by means of (1) a set of financial rules and regulations, and (2) a strong accounts department. To secure in addition, financial responsibility on the part of the administrative officers, an efficient accounting system is essential.

22. Rules and regulations on financial matters are necessary to secure regularity of treatment, and to co-ordinate the records of the several spending departments with the records of the Accounts Department.

There exists a Store Manual which covers all the points in connection with the keeping and audit of the Accounts of the General Stores, and there is an Assessment Manual prescribing the procedure for assessing properties and collecting taxes. These are the only Regulations which deal with financial matters, otherwise financial and accounts procedure is ruled by established practice, precedent, and numerous resolutions of the Standing Committee and the Corporation scattered in the Proceedings of these

bodies. The necessity for a complete Accounts Code and Manual has been urged on many occasions by the late Mr. Waite, and the present Chief Accountant, Mr. Tambe, is also convinced that regulations are essential if financial unity and efficiency are to be secured. All financial officers who have had experience in such a large organization as a modern municipality, with its numerous departments and ramifications, are convinced that it is necessary for the guidance of all concerned to prescribe with precision the procedure in financial and other matters. An Accounts Code and Manual should, in addition to determining the procedure in purely financial matters such as banking accounts, investments and loans, deal with :—

- (a) The framing of the annual budget estimates by the departments.
- (b) The ordering of goods and materials, and incurring liabilities or spending money.
- (c) The preparation of capital works estimates and financial forecasts.
- (d) The payment of salaries and wages.
- (e) The examination of invoices and accounts.
- (f) The keeping and audit of stores accounts.
- (g) Stock taking and inventory of properties.
- (h) The collection and audit of revenues.
- (i) The duties of all officers and other employees connected with accounting work.

23. The second necessity for effective control is a strong accounts department. The strength of the accounts department is measured by the position of the Chief Financial Officer. In paragraph 45 of the Preliminary Report of the Retrenchment Adviser, it is stated that :—

“ It is necessary to raise the status of the Chief Accountant to that of a City Controller or Comptroller of Accounts and vest in him the general supervision over, and responsibility for, the accounts of the Corporation and its internal audit. He should work in close association with a Finance Committee and deal with all financial questions, budgets, loans, large estimates, all fresh liabilities proposed and all financial programmes. For disciplinary purposes he may be under the Municipal Commissioner, but he should have the privilege of making independent representations to the Corporation, whenever in his opinion sound financial practices or procedure are

departed from. There should be a provision that his views on large schemes, involving heavy outlay, should be considered and specifically dealt with in the financial orders of the Corporation sanctioning such schemes."

This recommendation has been adopted by the Corporation, with the exception of the change of designation, and is a distinct advance in the direction of effective financial control. But if, and when, Executive Committees should come into operation, with a consequent redistribution of powers and responsibilities, the question of making the Chief Accountant directly responsible to the Standing Committee and Corporation should not be forgotten.

24. The remaining essential to effective financial control and to ensuring financial responsibility on the part of administrative officers, is an efficient accounting system. Though this is mentioned last, it is the most important feature, for only by means of accounting it is possible to ascertain if the administration is being conducted efficiently and economically. The whole activities of the Corporation must eventually be translated into terms of rupees, annas, pies and there is hardly a member of the staff whose work does not, in some form or other, have some relation to the accounts.

25. It ought to be the duty of each department to make such arrangements as will ensure that the money allocated to it is expended in the most economical manner. This securing of economy in expenditure will not, it is safe to say, be gained by imposing inhibitions alone, or by separating financial from executive responsibility. What is required is that those officials whose operations directly or indirectly lead to the imposing of taxes, should develop more, not less, of the money sense.

Sir H. N. Bunbury, K.C.B., states that in his opinion, "the solution lies in the development of a system based on such principles as the following :—

- (1) Officials who are responsible for administering services should know continuously in terms of pounds, shillings, and pence, the cost to the taxpayer of what they are doing.
- (2) Advice on the financial aspect of what they are doing, and of the things they propose to do, should be readily available to them and should be freely sought.
- (3) So much financial control (and no more) should be imposed upon them as experience shows to be profitable.

“ These principles do not need much explanation . . . . .  
 . . . . . I believe they go to the root of the matter.  
 Administrators have to be taught to think, and to go on  
 thinking, in terms of pounds, shillings, and pence. They have  
 to be shown that their financial critics are not enemies to be  
 avoided, but friends and helpers to be used ; that in the last  
 analysis the object of both is the same, *viz.*, the per-  
 formance of the work of the department in such a way as is  
 most in the public interest.

“ They (the principles quoted above) imply the scrupu-  
 lous carrying out of the instruction contained in the Trea-  
 sury Circular of March, 1920, that questions involving finance  
 should be referred *at an early stage* to the Finance Branch.

“ This should mean much more than the consultation of  
 financial experts on new proposals ; it implies a constant and  
 close co-operation between the administrative and financial  
 departments : the scrutiny in terms of money not only of  
 services not yet begun but, even more important, of services  
 that have been in existence for many years. It will demand  
 in a Financial Officer initiative on the one hand and re-  
 straint on the other : initiative, because he will sometimes  
 the strength of knowledge drawn from the accounts, have to  
 suggest investigation and offer criticism, without waiting to  
 be asked to do so ; restraint because he will always have to  
 remember that the administrator, no the, is the judge of policy ;  
 that his position is fundamentally that of adviser and that his  
 advice must carry conviction by its intrinsic value rather than  
 by its authority . . . . .

“ One general observation may, in conclusion, be added.  
 Systems are useless without the right men, informed by the  
 right spirit, to work them. Economy, in the last resort, can  
 only be realised to the full by economically minded men and  
 women, and no compulsion, control or inhibition from with-  
 out can be an adequate substitute for that.”

This long quotation is given because it is an excellent summary  
 of the requirements of a sound system of financial control, and has  
 a special applicability to the problems of this Municipality.

26. The system of accounting, and other details of financial  
 control which are recommended in this Report, have been worked  
 out in accordance with the principles outlined above, that is, the aim  
 has been secured, each in their proper degree, financial control from  
 without, and financial responsibility within, the several depart-  
 ments.

## IV. ACCOUNTING PROCEDURE.

27. The Accounts Department is responsible for the whole of the Accounts of the Municipality with the exception of the detailed cost accounts of the Municipal Workshops and other departments, and the accounts of the Schools Committee. The department checks all vouchers for arithmetical accuracy and for sanction to the expenditure, and is responsible for seeing that all expenditure is within the budget-grants. It receives and banks the cash collected by all departments, pays the wages and salaries of most of the employees, maintains leave registers in respect of all employees, and keeps the ledgers of the Provident Fund. There is Revenue Audit Section which audits all cash collected and a Test Audit Officer who makes surprise test audits of outside departmental books and records. The following is an extract from a note submitted by the Chief Accountant to the Retrenchment Adviser in August, 1924 —

“ The system in vogue is far from perfect. That it requires modifications so as to be brought up to date to suit modern conditions and ideas of scientific accounting and financial control has long been urged by me, and many and voluminous notes have been written, but no consistent effort has been practicable owing to the impossibility of getting a sympathetic hearing and the indifference to all account and finance matters, coupled with lack of adequate superior staff. Improvements have now been made in some of the directions where they could be fitted in with the rest of the system without much inconvenience, but much has been done without any authority at all. It is also recognised that the statistical side has not been developed and the success of financial control in the future must depend upon the careful collection of the data gathered from past experience and its intelligent application to problems as they arise from time to time.”

28. It has been stated that the accounts organizations is too highly centralized and the suggestion has been put forward that each department should keep its own accounts. To avoid confusion, it is well to define what the term “departmental accounts” means in English municipalities. When an English municipality owns one or more trading undertakings, the whole of the accounts of such undertakings, are, in a large number of cases, maintained by an accounts staff within the department, independent of the Central Accounts Department, except possibly for audit purposes. Within recent years, however, the tendency has been to centralise all the main accounts work, leaving to the departments only the keeping of certain primary and minor account books and records. In this Municipality the only departments which compare in any



way with the Trading Undertakings of Western Municipalities are the Water and the Markets Departments. It is agreed that it is highly desirable that the accounts of these two departments should be separated from the accounts of the rate services, because they are or should be, self-supporting services, entailing no charge on the General Tax, but rather contributing something towards its reduction. But the necessity for separate accounts does not mean that the account keeping of such self-supporting services should be entirely taken away from the Accounts Department and entrusted to an accounts staff in the trading department independent of, and altogether distinct, from the Accounts Department. Separate accounts are purely a matter of book-keeping and raise no difficulties in administration.

29. The problem in this Municipality is not whether departments should keep their own main financial accounts and books but is, should the detailed accounting be further centralized, or should some steps be taken in the direction of decentralization? The Accounts Department appears to favour further centralization, but the correct answer to the question is, in the opinion of the writer, fully and decisively given in the following quotation from "Municipal Organization" (by Montagu H. Cox, the Clerk of the London County Council) :—

"We will deal first with payments, accounts, audit and financial arrangements generally. It has been seen that most Municipal Authorities are required to appoint a Finance Committee. Does it necessarily follow that a Finance Department must be set up? Or that financial operations should be entirely segregated from the services or departments of which they are an integral part? For, after all, though money (or should one say finance) is not necessarily the governing factor in all transactions, there be but few in which it is not either warp or woof of the fabric.

"The existence throughout the country of Municipal Finance Departments answers the first questions in the affirmative, and it would be so answered also on principle.

"The answer to the second question though almost equally unanimous would seem on principle to be at least open to doubt. With a municipal authority of small dimensions there is much to be said for the answer generally given in spite of principle. But complete centralization of such an integral part of management as are the common and minor financial operations, such as certifications of invoices, account keeping, payment of wages, etc., is, in regard to large and growing masses of diverse services, a matter requiring close consideration. If so applied there is little doubt but that it tends

to overlapping, over elaborations and delay, all vices from which it is one object of organization to deliver us. When therefore the extent of the services to which complete segregation of financial operations has been applied, has reached a certain point, the organizer should at least ask himself the second of the questions given above. Particularly should it be asked and answered when coming events casting their shadows before seem to indicate any considerable accretion of powers and duties, whether in quantity or scope. The fault of the centralized machine lies in its almost inevitable cumbersome-ness for the ascertainment of up-to-date detail. *Heads of executive or spending departments must or should know how they stand financially from time to time and instantly. They must be directly responsible for keeping within the estimates. Completely centralized finance cannot secure this.* Of course distribution of financial advice or of purely financial and separable matters such as the raising of a rate or the borrowing of money is not advocated. Nor would it accord with principle. These operations, however are not *integral* parts of any one service. They relate exclusively to the whole. The keeping of the main or statutory accounts of the authority if not of all accounts, and the duty of audit are properly centralized, but financial checks interposed between the departmental act and its consequences and any attempt at control of departmental expenditure by another official, lead to that divided responsibility which is the negation of the first principle of organization. The answer to the first question then is that there must be a Finance Department, but it is submitted that the answer to the second is that there should be entrusted to that department, not all financial operations which are *separable* from any other department or service, but all financial operations which are not *integral* parts of any other department or service. By this means the Finance Department would be charged with work of a highly responsible and technical character, direct responsibility would be fixed upon departments for their expenditure, and the fundamental principles of organization would be complied with."

30. The sentences italicized in the above quotation are the deciding factor in answering the question whether there ought to be further centralization or some decentralization. It is of the most vital importance to the efficient administration of a department for the head of that department to know from day to day how expenditure is progressing against each and every grant, both revenue and capital, that he is responsible for. Under the existing system he does not know, even month by month, what his expenditure is, and if further centralization should take place, he would

lose all control of, and interest in, the financial side of his administration. Of course, it would be possible to devise a centralized system which would supply the information required, but it would of necessity require the installation of modern mechanical accounting machines. That a machine such as "Hollerith Tabulating Machine" would be of immense value, even under a decentralized system, is proved by the experience of large English Municipalities, and of its vast practical utility there is no question. But these machines are new to India, and pending the obtaining of further information, the suggestions contained later in this report are based upon the assumption that ordinary clerical labour will still be relied upon. A highly centralized system does tend to cause friction between the Spending Departments and the Accounts Departments, and in fact there has been in the past a decided lack of co-ordination and co-operation between such departments in this Municipality. Friction nearly always results from an antagonistic attitude and if a proper spirit of co-operation and good-will exists, should be negligible. It is of the utmost importance that the control of the Accounts Department should be exercised in a sympathetic spirit and with an adequate knowledge of the circumstances and difficulties of the other departments.

31. All authorities on Local Government finance are now convinced of the necessity for each head of a department maintaining a strict and constant watch over the financial position of his department, and the best solution of the problem appears to be to allow all primary books and records, including the subsidiary or appropriation ledgers, to be kept in the departments, leaving to the Accounts Office the keeping of the main ledgers and the main financial accounts, and the dealing with all purely finance matters, such as rating, raising of loans, etc. If this solution is adopted, then the primary books, registers and ledgers will supply all, or most, of the information required by the head of the department, and by a proper system of reports and returns, these primary records can be made to supply all the figures required for the main financial books, without in any way rendering necessary a duplication of work. The Accounts Department could then be relieved of a large portion of the mass of detail it deals with at present, and free its energies for tackling the broader and more important financial problems which are constantly arising.

32. Those who have an intimate knowledge of the inner working of the existing accounts system and organization of this Municipality will, it is thought, admit that now the head of a spending department does not correctly know, day by day or even month by month, how expenditure is progressing against each of the

numerous grants he has to operate against. He may have an approximate idea, but this is worse than useless, for approximation may be so far from actual facts as to lead to a decision which would not have been made if reliable and up-to-the-minute figures had been available. All departments attempt to keep a record of their expenditure, in addition to the detailed ledgers maintained in the Accounts Department, so that they may have some knowledge of how a particular grant stands, without having to make frequent references to the Accounts Department. This record is kept in what are known as "Tabulation Books," which, however, only record bills which have been received and passed on to the Accounts Department for payment. There are many transactions, such as transfers and adjustments, made by the Accounts Department, which the spending departments do not learn of until they attempt to reconcile their tabulation books with the official ledgers. The result is that there is a considerable duplication, and even triplication, of records and work, some of which is inadequate and misleading, and requiring, in the aggregate, the maintenance of a large staff of so-called "accounts clerks" in the spending departments.

33. To obviate this duplication or overlapping, reduce elaboration, and abolish delay in obtaining necessary information, it is strongly urged that the procedure advocated in para. 31 above, be adopted, namely, that the keeping of all primary books, registers and ledgers, both of income and expenditure, be entrusted to account sections in the several spending departments.

34. These departmental accounts sections must, for technical matters of accounts, that is, form of books, method of checking vouchers, returns to be prepared, and the like, be under the orders of the Chief Accountant, but for pay and discipline would naturally come under the respective heads of departments. Some of the present staff of the Accounts Department would be transferred to these accounts sections, and the existing departmental accounts clerks retrenched, or redistributed or transferred to other branches of work.

35. As the control of expenditure is of such importance, a method by which the individual grants can be properly watched, and each head of department informed at any moment of the exact position of each, will now be outlined. An examination of the original budget grants with the final grants, for the past three completed years, shows that very few grants have remained intact, a large percentage having had to be supplemented, either by transfers or additional grants. There is hardly a meeting of the Standing Committee at which lists of transfers are not submitted for approval. Complaints are often made by contractors and others of delay in payment of dues because the Accounts Department states that the

grant has been exhausted, and payment cannot be made until it has been supplemented. Cases have also occurred of the pay of labourers being held up for from two to three months for this same reason.

The question of transfers is dealt with at length in the section of this Report dealing with the Budget, but the delay in paying accounts because of lack of a grant is almost wholly due to the accounts recording cash payments only and not liabilities incurred.

36. A definite procedure must be laid down for the control of expenditure, and it must provide for :—

- (a) The issuing of contracts and orders in terms so definite that no question can arise as to the quality and quantity of the goods which are to be supplied or as to services to be rendered.
- (b) The receiving and acceptance of goods and checking and approving of invoices, and for certifying on orders and invoices as to the quality and quantity of goods received. This will impose upon persons charged with these duties the responsibility for seeing that they certify only to facts of which they have personal knowledge, a procedure which will place in the hands of the Corporation evidence which will enable it to hold its employees legally responsible for false certifications resulting in payments for short deliveries or inferior quality of goods or services.
- (c) The preparation of claims for payment by assembling all the evidence pertaining to each claim, such as copy of the original order, the original invoice, etc., properly certified by persons having actual knowledge of the facts.
- (d) The audit of claims by the Accounts Department (or sections), which should include provision for an independent inspection (test audit) of goods received or services rendered, for purpose of verifying the truth or falsity of the certificates attached as provided in (b) above.
- (e) Procedure which will when properly carried out, bring to the attention of the Chief Accountant, all delays in the audit and payment of claims.

37. The starting point of all expenditure, except that of salaries and labour pay, should be in writing, on a requisition form which should bear a certificate by the person making the requisition that the articles or services are necessary, and should state the

purpose for which they are required. The budget grant to be debited must also be given. If the person who makes the requisition is not sufficiently responsible, the certificate should be signed or approved by some officer who bears a supervisory relation to him.

38. In each department or branch of a department, some officer or officers, should be definitely authorised to issue orders, and no other persons should be allowed, except under very exceptional circumstances, to be afterwards reported to the head of the department, to sign an order. Requisitions or indents should be forwarded to the authorised officers, who will satisfy themselves as to the need for the requisition. The practice of ordering goods and services through the medium of letters or memoranda should cease, and every order should be on an official printed form, which should be on the carbon-manifold system. Four copies of each order should be prepared :—

- two for the supplier ;
- one for the accounts section, and
- one for office record.

39. The copies issued to the supplier should contain the terms and conditions attached to the order. The copy supplied to the accounts section must bear endorsements giving the budget grant to be debited, the known or estimated value of the order, and a certificate to the effect that there is a sufficient balance of the budget grant to meet the amount.

40. It requires no argument to prove that the moment an order is issued or a contract accepted, a contingent liability has been incurred and it is necessary to record this as an incumbrance against the appropriate budget-grant at a definite or estimated amount, so that a sufficient amount of the grant may be reserved to meet the liability when it matures and becomes payable.

41. The subsidiary or appropriation ledgers maintained in each departmental account section should be so designed as to enable a record to be made of all the orders issued or contracts let. Other columns should be provided for the actual amount of the invoice to be entered when it is received, and for any additions to or deductions from, the estimated amounts. The entries in the invoice column, plus or minus the adjustments, would operate to, counteract or clear the related charges in the estimated amount column. The contingent liability at any time against a particular grant would therefore be the difference between the total of the estimated amount and the actual invoice charges, plus or minus the adjustments. The deduction of the invoice column total from

the original budget grant will give the unexpended balance of the grant. Take from this balance the contingent liability, and there is given the unencumbered balance, that is, the balance available for further orders and contracts.

42. The Municipal Act, Section 115 (i) prohibits the Commissioner from making any payment out of the Municipal Fund unless there is sufficient balance of a current budget-grant available. Further no cheques must be signed by a member of the Standing Committee or the Municipal Secretary without they first satisfy themselves that the sum for which a cheque is drawn is either covered by a budget-grant or is an excepted item. The accounting suggested above, would, if it is submitted, not only be a "tell-tale" giving warning of the approaching exhaustion of a budget-grant, but would go even further, and warn the executive of the danger existing before the contingent liability is actually incurred and would thus be an additional safeguard, not only to the executive, but to the Standing Committee and the Municipal Secretary as well.

43. The appropriation of subsidiary ledgers must be proveable, and in the main ledgers maintained in the Accounts Department there must be controlling accounts which will test and prove the correctness or otherwise of the entries made in the subsidiary ledgers. This is a simple matter of book-keeping.

44. Every month at least there should be abstracted from the subsidiary ledgers, in respect of each budget-grant, the following information :—

Title of budget grant.

Original grant.

Transfers, if any.

Total amount available.

Invoices passed for payment.

Unexpended balance of grant.

Contingent liabilities, in respect of orders and contracts sanctioned, but not completed.

Unencumbered balance of grant.

45. These statements should be prepared by the Accounts Department, and the attention of the head of the department concerned drawn to all cases where the danger line is being approached. In cases where the unencumbered balance is non-existent, or nearly so, and replenishment of the grant is urgently needed, the Accounts Department should, specially report thereon to the Commissioner.

46. Before the departmental accounts sections forward an invoice to the Accounts Department, they must prepare a voucher or allocation sheet, giving the grant or grants debited, and attached to the voucher must be the original order fully certified and the invoice. This voucher should contain certificates, as to the following facts :—

- (a) That the order or invoice attached bears the proper certificate of the person who was responsible for receiving the goods or inspecting the work or services.
- (b) If a contract payment, that the goods or work are in accordance with the terms of the contract.
- (c) That when the order or contract was issued there was a balance of the budget-grant sufficient to meet the estimated amount thereof.
- (d) That there is now a balance of the budget-grant sufficient to meet the amount of the voucher.
- (e) That the claim has not previously been presented for payment to the Accounts Department.
- (f) That all calculations have been verified.

47. These points should be certified to only by the persons who have actual knowledge of the facts. If such a rule be strictly enforced, it will soon be clearly understood that the persons who have signed the certificates cannot, in case of dispute or question, raise the defence that they signed as a matter of perfunctory routine. The head of the department should certify only as to the genuineness of the signatures, and approve the voucher upon the information in the certificates. With such a voucher and its supporting documents, and with occasional test audit and inspection, the Chief Accountant will be in a position intelligently to audit and certify the claim for payment.

48. The certificates may be either printed on a gummed form or stamped on the voucher, the initials or signature against each certificate fixing the responsibility. The object aimed at in this procedure is to have "goods received" or "services rendered" just as carefully checked and verified as "cash received" or "cash paid out," for losses by defalcations by treasury officials are insignificant compared to losses which may occur through laxity in accounting for goods purchased.

49. To enable contracts to be properly audited, the Accounts Department must be supplied with the original or certified copies of all contracts entered into by the Spending Departments.



50. Contract ledgers should be maintained by each departmental accounts section in respect of all constructional work, showing the expenditure under each individual item of the contract, the ledgers in the Chief Accountant's Department recording only the expenditure under the budget heads of account.

51. There now remains the accounting for the income of the Municipality. So far as the income from taxes is concerned, the procedure to be adopted is laid down in the Assessment Manual, and it is a very sound, though elaborate, procedure. The revision of this Manual with a view to simplifying the procedure and record of the Assessment Department will be separately reported upon. It is the large and extensive miscellaneous income such as licenses, fees, permits, privileges, and rents, which requires adequately safeguarding, and this can only be obtained by having records made of it from the moment of its inception. Each departmental accounts section should maintain primary income registers in respect of each class of income, recording the following information :—

- (a) Amounts due in the period,
- (b) Arrears brought forward,
- (c) Total amount to be collected,
- (d) Amounts actually collected,
- (e) Amounts irrecoverable and written off,
- (f) Arrears carried forward.

52. The accounting for actual cash collected is soundly based, and though the procedure may, in certain details, be a little elaborate, it does provide for the prompt payment to the Municipal Treasury of all departmental collections. But that all the miscellaneous revenues which the Corporation is entitled to receive, have been collected, is what the present records do not establish. To complete the control of these miscellaneous revenues it is very necessary that the income registers should record every rupee due. Most of the information to be recorded is available, all that is now required being to properly collect and collate it. So far as licenses and permits are concerned, where counterfoils are kept, the records are complete but it is in connection with rents of properties, sales of rights, recoveries for damages to municipal properties, where the records appear to be defective. There must be a complete record of all municipal lands and buildings in the charge of each department, showing to what use the property is put, and, where it is not being utilised for municipal purposes, what is happening to it. These records would be the basis for ascertaining the income which ought to be received, and they are essential to a complete audit. At present such records are incomplete, and the Audit

Section is therefore unable to state with any degree of accuracy that all sums due to the Corporation are properly and correctly accounted for. The completion of these records is a matter of urgency.

53. The Accounts Department should maintain general ledgers containing "control" accounts, that is, accounts recording periodical totals only, which would be a check on, and proof of, the accuracy of the entries in the subsidiary records and ledgers. In these general ledgers there should also be recorded the several fund revenue accounts and balance sheets. The printed annual accounts should be copied from these general summarised controlling accounts.

54. The system suggested above is given in outline only, the many minor details which will require elaboration being a matter for administrative action when the principles have been approved by the Standing Committee.

55. The following extract from the Annual Report of the London County Council for 1921-22, is quoted as being an authoritative instance of the recognition of the principles recommended above :—

"In 1921, the County Council appointed a Special Committee to examine the organization of the Council's service. In January 1922, the Committee presented a Report which was adopted by the Council. The main proposals concerned the Council's accounting work. In place of the existing highly centralized system, the Committee proposed a system of decentralization, with adequate safeguards. The Council decided that the several heads of departments should be held directly and solely responsible for (i) the certification and check of all invoices for payment; (ii) the complete preparation and check of wages sheets and teachers' salary sheets; (iii) the restriction of expenditure to the amounts voted or sanctioned for any particular purpose; and (iv) the collection of moneys due to the Council relating to the work of the department and for securing that such moneys are either paid direct to the comptroller of the Council, or if received in the department are promptly paid over to him; and also that the payment of wages should be the responsibility of the heads of the executive departments concerned, the method, time and place of payment to be determined in collaboration between the comptroller of the Council and the several heads of departments, and the arrangements to be approved by the Council. Provision was made in the department of the comptroller of the Council for the new audit duties involved, and the staff for this was obtained by modifications of existing work."

## V. COSTING ACCOUNTS AND STATISTICAL RECORDS.

56. Administrative Officers, if they are to have a really efficient grasp of the financial working of their departments, must be supplied with the costs of the work they are carrying out. As previously mentioned, they must be responsible for keeping their expenditure within the limits of the budget-grants, but the accounting necessary for appropriation accounts will not supply all the detailed figures and costs that a departmental head ought to know. It is being increasingly recognised that there is no machinery for the control of expenditure except accounting, and the necessity for this control has been met in large businesses by the development of costing and statistical accounts. The lessons of the War brought home to the Governments concerned, the great benefits which accrue from scientific costing and statistical methods, and now the accounts of the English Government are, wherever possible, being recast on a costing basis.

Many of the large Municipalities of Europe and America have also recognised the value of cost accounts, and attempts are now being made by the City Corporation of New York to re-model their budget on a cost data basis.

57. In the section dealing with the Revenue Budget, mention has been made of the fact that many of the budget-grants for works and supplies are a provision of money only and not estimates in the correct sense of the word. The Retrenchment Adviser, in para. 98 (4) of the Final Report, for this reason, states that "the mere sanction of the Budget should not, of itself, be held to be sufficient authority for expenditure on works and repairs. All works of maintenance and repairs should, as a rule, be carried out on the authority of detailed estimates prepared in advance by the Assistant Engineers or Sub-divisional Officers and sanctioned by the various sanctioning authorities, such as Deputy City Engineers, Chief Engineer, Municipal Commissioner, the Standing Committee or the Corporation, according to the amount and character of the estimates."

58. It is possible for expenditure to be kept within the budget-grant, but this is no criterion that value has been obtained for such expenditure. Heads of Departments may keep a general watch over all works under their control but with so many varied duties to perform, they cannot personally supervise all the works. There must be some accounting machinery which will keep them fully informed of the progress of expenditure on each job, and enable them to see at once where proper progress is not being made, Unit cost accounts are essential to proper administration, and

wherever possible, ought to be introduced without delay, particularly in the Roads Department. This department carries out nearly all its work by direct labour, and it is one which is responsible for an expenditure of about Rs. 20 lakhs per annum on revenue account alone. It is therefore selected to illustrate the present methods of working and the methods which should be adopted if departmental heads are adequately to control their expenditure on works executed by direct labour.

#### ROADS BRANCH.

59. *Present Procedure.*—When preparing the figures for the annual budget, preliminary estimates are made out showing the area which it is anticipated will be taken in hand during the next financial year in respect of each of the following forms of construction :—

- (a) Tar-macadam.
- (b) Tar-painting tarred roads.
- (c) Tar-painting water bound roads.
- (d) Full metalling water bound roads.

The amount required is based on a fixed rate per unit of 100 square yards, as determined by the figures of the last completed year.

The amount thus obtained gives the estimated total requirements for the year. The splitting-up of this amount among the various budget-heads and sub-heads, is based more or less on the actuals of the previous year. For patching and other uncertain items lump sums are provided.

After the budget has been finally approved by the Corporation, the sanctioned grants are divided between the 7 wards proportionately to the area and class of roads in the wards.

In the middle of each month, each Ward Sub-Engineer submits a list of the roads he intends to take in hand in the ensuing month, so as to enable notice of the intending repairs to be given to the several municipal departments and the public utility companies who have works either on or under the roads. The lists are sanctioned, or amended, according to the replies received to the notices.

The provisional areas to be repaired are rough calculations only, so that in actual fact, all the budget provisions for repair and maintenance of the roads are lump sum provisions only.

The monthly lists submitted by the Sub-Engineers contain only the names of the roads, and the particular portions thereof which it is proposed to take in hand, no estimate of the cost is given, or the period the work is likely to last.

At the end of each month each Ward Sub-Engineer submits a statement showing the work he has actually carried out during the month, and the expenditure incurred thereon. There being no estimate or standard test in existence, no proper check or criticism of the expenditure is possible.

Every six months a statement is submitted to the Corporation showing the roads, streets and lanes metalled, repaired and tarred during the half years ended June and December. No comparative figures are given and as the repairs for each Ward are given month by month, it is not possible readily to ascertain the total cost of repairs to a road which have spread over two or more months. It is extremely doubtful if, in its present form, this half-yearly statement is of utility to the Corporation or even the department. It should be remodelled, so as to present the costs in a more intelligible form.

60. *Suggested Procedure.*—The preliminary estimate should be prepared in more detail than they now are. If correct records are maintained of the repairs executed to each length of road, showing kind of foundation, class of surface, traffic conditions, normal life of surface, date of last repair, the necessary information will be available enabling a fairly definite programme to be laid down. This programme should be adhered to as far as possible, revision being made only at stated intervals. It is stated that at present a programme cannot be settled more than a month in advance because when complaints are made by residents of a particular road and others interested, such road has to be given preference over other roads which equally (or more so) need attention. The Retrenchment Adviser in para. 97 of his Final Report says: "In the case of road repairs, it is stated that the members of the Corporation and the public utility companies largely influence expenditure. Repairs are not executed on regular estimates previously sanctioned according to the actual needs of the roads."

The preliminary estimates should be treated merely as a basis for the amounts to be provided in the Budget, and not as *carte-blanche* authority to spend the money without any further preparation or authority. As soon as the Corporation have approved the Budget, the preliminary list of roads to be repaired should be revised in the light of the Standing Committee and Corporation's sanctions, and the new contract rates for materials and cartage. This revised list should be submitted to the Commissioner for approval, and when approved communicated to the Ward Engineers, who should be instructed to take up the roads in order of urgency or necessity. Each Sub-Engineer

should then prepare, in respect of each separate work or job of re-surfacing or tarring, a detailed estimate, giving, *inter alia*, the following particulars :—

- (a) Name and portion of road.
- (b) Length, average breadth and area.
- (c) Nature of work.
- (d) If re-surfacing, whether new foundation is required; if so, depth of same, and kind of material it is proposed to use.
- (e) Quantities and values of the several kinds of materials.
- (f) Number of labourers, days they will be required, rate per day and total cost.
- (g) Hired carts required, and cost.
- (h) Steam Roller and Scarifier, number of days and cost.
- (i) Supervision, number of Overseers, Mukadams and Mistries, and cost.
- (j) Tools and plant.
- (k) Any other charges.

These estimates should be submitted in sufficient time to allow of their being considered, amended or approved, by the several sanctioning authorities (see para. 57 above) at least a fortnight before the proposed date of commencing the work.

Loose leaf cost ledgers, suitably ruled, should be maintained in the Roads Department Head Office, and entered up from the daily labour slips, diaries and other returns submitted by the Ward Sub-Engineers. The estimate figures should be shown at the head of the ledger folio, for ready comparison, and once every week, a statement should be prepared comparing the estimates with the actual expenditure. The Road Engineer, from his inspection of the Roads, would be aware of the progress of each work, and the comparative statement would enable him to see at once whether the Sub-Engineers were keeping within their estimates.

61. There is a sort of costing system now in operation but the figures are prepared in the Ward Offices, and the monthly statements prepared therefrom do not reach the Road Engineer until 3 to 4 weeks after the close of the period to which they relate. Such statements are obviously useless for the purpose of controlling expenditure, for there is no basis of comparison, and even if the cost appeared high to the Road Engineer, it would be too late for him to take effective action.

A really efficient costing system can be based on the records and returns now in use, and by adopting a distribution of the work between the Ward and Head Offices which would render unnecessary duplication of labour, the clerical staff in the Ward Offices could be reduced to two clerks per Ward, a saving altogether of seven clerks. The present system is expensive, complicated, and dilatory, with no compensating advantages.

It is in connection with costing and the preparation of "live" progress statements, that a mechanical tabulating machine (to which reference is made in para. 30) would be of the greatest use.

The whole of the cost records of the Birmingham and Glasgow Corporation are tabulated upon Hollerith machines and the Birmingham Public Works Department Accountant says, "The machines have proved beyond doubt an economical investment and also provide a more detailed analysis of costs, and what is much more important, have had the effect of 'speeding up' the returns of expenditure, thus providing items of information having an important bearing upon current expenditure, in place of returns which were obtained so late as to be of little more than historical interest."

When the necessary information has been obtained, definite suggestions will be made for the adoption of mechanical accountancy in this Municipality.

62. *Other Departments.*—The Drainage, Water Works and other Departments, which carry out constructional and repair works by direct labour, should also keep proper cost accounts of such works. The necessary accounting procedure would be on somewhat the same lines as that outlined above for the Roads Department.

The Repairs Section of the Executive Engineer's Department maintains a cost ledger of the various repair works it is responsible for, and as a result of the accurate record of the expenditure so given, the Section very rarely has an excess on any of the numerous grants it controls.

63. The Municipal Workshops system of costing is the subject of the special report, and here it is not necessary to do more than emphasise the need for an early revision of the existing methods, particularly in abolishing *open* standing orders, which are by their nature, difficult to control and may be likened to "quick-sands."

64. Correct cost accounts of the maintenance and upkeep of the large mechanical transport fleet are very necessary. If the proposal of the Retrenchment Adviser to place the whole of the

mechanical transport under the Mechanical Engineer, is adopted by the Corporation, it will be a comparatively easy matter to put into operation an efficient system which will give comparative costs and statistics of each class and type of motor vehicle in use. The present divided responsibility for the mechanical transport seriously militates against efficient and economical administration.

In due course it may be considered desirable to extend costing to such items as feeding of bullocks, cost of maintaining patients and staff in the infectious diseases hospitals, and similar items of expenditure.

65. In addition to the goods and materials stocked by the Central Stores, there is a large floating stock of consumable stores in each department, particularly the Roads, Drainage and Conservancy Departments. The purchases for these departmental stores are charged direct to budget-grants, and thus disappear from the main financial accounts. This is a defect of a serious nature, for the omission of these departmental stocks, amounting in the aggregate to several lakhs of rupees in value, from the accounts, means that no audit control exists over the use of the stores, and assets of an important character are omitted from the Balance Sheet. Steps should be taken to make the records of these departmental stores part of the financial system. Where cost accounts have to be maintained, these records are essential, for it is goods actually used that have to be charged to the several jobs, not the purchases, as is now the case in at least one department.

66. Statistics of departmental work, such as the running costs of the mechanical transport, should be prepared by the departmental accounts sections, but statistics of a general nature should be prepared by the Accounts Department.

The following is a short list of items of a statistical character which should be embodied in the annual report of Chief Accountant :—

(a) *Rating*—1. How many houses, persons, and rupees of rateable value does Bombay contain ?

2. What is the average rateable value of houses in Bombay, and in Calcutta and Madras and certain foreign towns, and the average rateable value per head of population ?

3. What increase per cent. per annum is taking place in Bombay's rateable value as compared with the increase per cent. in expenditure chargeable to rates ?

4. How much does a rate of 1 per cent. produce in cash, and how much is this below a rate of 1 per cent. on the assessable value ?



5. How much per cent. of the rates levied is lost in voids, refunds, drawbacks, and defaulters, respectively ?

6. Where is the loss in rate collection taking place in house property, business premises, manufactories, or public buildings (*e.g.*, banks) ?

7. How much per cent. of the rateable value is on Government property, City Improvement Trust property, Port Trust property, Municipal property, and private property, respectively ?

(*b*) *Loans*.—8. What is the amount of Indian National Debt, and how much is that per head of population ?

9. What is the amount of the Bombay Provincial Government's debt, and how much is that per head of the population of the Province ?

10. What is the amount of Bombay City's debt, and how much is that per Rs. 100 of assessable value, and per head of population ?

11. What percentage of Bombay's whole debt is due to productive or self-supporting undertakings, and to non-productive services, respectively ?

12. Is Bombay repaying debt more quickly than it is borrowing ?

These items are not exhaustive, but illustrative only, and are given to show the kind of statistical information which it is considered would be of value to the Corporation, and to the ratepayers generally.

## VI. THE REVENUE BUDGET.

67. The New York Bureau of Municipal Research has made a long study of budget practice in America and Europe, and has adopted certain principles by which to test the soundness of the budget system of a public or a private corporation. These principles have been applied to the Bombay Revenue Budget and it may at once be said that the Revenue Budget of the City is in form and detail equal to and even in advance of that followed in most Western Cities, though in certain particulars and in the typographical set-out it is capable of improvement.

There are several points of procedure which require revision to secure better consideration of the budget proposals both by the Executive and the Corporation, and these are dealt with later.

68. The present form of the Budget is criticised in detail below, and the modifications and improvements required are shown against each note or statement. :—

- (1) *Final Note by Municipal Commissioner.*—This note appears to be of temporary interest only, and it is suggested that it be discontinued, there being substituted for it an abstract of the budget as finally approved by the Corporation, in the form set out in page 1 of the skeleton form submitted herewith.\*
- (2) *Remarks by Standing Committee.*—No alteration recommended.
- (3) *Note by Municipal Commissioner on the Budget Estimates.*—This is an essential statement, and it is suggested that an attempt should be made to present it in the form of a continuous narrative. The working out of the surplus cash balance is rather complicated, and very difficult for any person not trained in the reading of accounts to follow. It is suggested that it would be simpler if this balance be set out on a form similar to that shown in the skeleton form and headed "Details of Surplus Cash Balance Account." This form would show the actual surplus on Revenue Account for the financial year ended the previous 31st March, and what proportions of such surplus were locked up in Stores, Advances, etc., the balance being the free surplus available for further appropriation or working capital. Two other columns give the same information (but estimated figures only) in respect of the current year and the next ensuing year.
- (4) *Note on Revised Estimates.*—To this note it is suggested that there should be added a summary of the Revised Estimates, so that the estimated balance at the end of the current year may be more clearly shown than at present.
- (5) *Revised Estimates of Income, and*
- (6) *Revised Estimates of Expenditure.*—These two statements show how the revised figures have been calculated. As the revised estimates are repeated in the summaries of the new estimates, it seems hardly necessary for these details to be printed separately. It is suggested that these statements be dropped in future budgets, for the cost of printing them cannot be justified unless they serve a really useful purpose,

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\* Will be laid on the Table.

which is doubtful in view of the fact that the comparison with the original estimates is given in the summaries referred to above.

- (7) *Statement of Plant and Machinery.*
- (8) *Statement of Items each costing more than Rs. 10,000.—*  
These two statements should appear in the appendices at the end of the budget.
- (9) *Estimates of Water Works Income and Expenditure.—*  
This estimate is prepared to show that the water tax proposed is sufficient to meet the estimated expenses of providing the water supply. The details of these estimate are set out in the budget. The reason for this duplication is that all expenditure must appear in the budget. However a reference to the Municipal Act, Section 125, shows that the annual budget estimate shall be prepared in such form as the Standing Committee shall from time to time approve. There is no prohibition against the budget estimates being divided into as many parts as the Standing Committee consider desirable, and the fact that the Budget is even now divided into two distinct parts, Revenue and Loan, would appear to prove that this contention is correct. The argument in favour of separating the Water Works Expenditure from General Rate Expenditure is set out in Section VIII and the skeleton budget is prepared on the assumption that this suggestion will be approved, not only for Water Works but for Markets as well.
- (10) *Introductory Statement of Income and Expenditure.*
- (11) *General Statement of Revenue, Expenditure and Balances.*  
—The information given by these two forms will, it is suggested, be easier understood if given in the proposed new form "Detailed Abstract of the Sanctioned Budget Estimates." This abstract will show under the main classified heads the sanctioned expenditure, the income from sources other than taxation available to meet such expenditure, and the excess expenditure which has to be met by the raising of taxes. It shows what each service costs the taxpayer, and enables him to see at a glance how the money he pays to the Municipality is being spent. A statement of this kind is now recognised in England to be an essential part of every budget and the annual accounts.

(12) *Summary of Income.*

(13) *Summary of Expenditure.*—These two forms are unaltered, except that the number of columns of previous actuals has been reduced to two and the entries in the Income Summary curtailed as stated in (14) below.

(14) *Details of Income.*—The present "Summary of Income" (12 above) gives the details as well. It has been thought desirable to make it a true summary and to give the details in a separate statement.

(15) *Details of Expenditure.*—At present this statement is classified under 14 or more main heads which are held to represent the chief functions or services of the City. In analysing the Expenditure for various purposes in connection with the retrenchment enquiry considerable difficulty was experienced in allocating the numerous detailed budget grants to the departments actually responsible for the expenditure. The universal practice in England and America is to classify according to the Committees or Departments so as to fix the responsibility on the departmental heads concerned, and the experience gained in the course of the enquiry has led to the conviction that such practice is sound. The several heads of departments are, it is believed, strongly in favour of the recasting of the budget according to departments in preference to the present classification according to services. The following extract from "The Administration and Politics of Tokyo" by Dr. Charles A. Beard of the New York Bureau of Municipal Research is quoted as the opinion of one who has an international reputation as a municipal administrative expert:—

"Students of budget practices in America have long been divided into two schools. One favours a classification of appropriations according to the functions of the City; another according to the Departments of the City Government. The former say, with justification, that citizens wish to know what work is undertaken by the municipal administration and what the work costs. Appropriations to department heads, they urge, are meaningless to the average citizen, who does not know what functions

are entrusted to each department head in the City Government. On the other hand, the advocates of the departmental budget urge that, in final analysis each appropriation go to some department, that accounts be kept by departments, and that department heads be held responsible for preparing their work programmes and spending the funds allotted to them.

“The truth is that this old dispute is really unnecessary. It is due to the fact that there is a confusion in the minds of the disputants as to terms. They do not always distinguish between a budget and an act of appropriation. The act of appropriation is merely one element in a budget. The budget itself should contain a great deal of information which ought not to appear in the appropriation bill. No doubt, it is useful for the citizens to know what functions are undertaken by the City Government and what is the cost of each. These functions and the support given to them indicate the spirit, character and ideals of the community. Such a functional analysis of past and proposed expenditures can readily be included among the papers of a budget for the purpose of giving general information as to the City's work programme.

“But the act of appropriation itself should be a departmental act; that is each title of appropriations should be made to a specific department or division of the City Government. This facilitates book-keeping and makes department chiefs responsible for the proper expenditure of the money voted to them.

“The act of appropriation, if departmentalised, can readily be spread upon the ledgers of the treasury and spending officers and can be easily held accountable. As the New York Bureau of Municipal Research stated in its survey of Newark, New Jersey; Unless every dollar appropriated is appropriated to an organization unit, and unless

some division head is clearly shown in the act of appropriation to be definitely responsible for every appropriation, responsibility will be confused.

“However, it should be borne in mind that there is a close relation between the structure of a City Government and the system of itemization by general Titles in the act of appropriation. If a City administration is properly organized, each major function (such as police, fire, health, &c.) will be assigned to a department of the City Administration. The departmental organization will be functional and the act of appropriation being divided into Titles of main heads by departments will be automatically functional. Thus the problem will be solved in an ideal way.”

The Bombay Budget is an appropriation ordinance and therefore in the recasting of the budget the classification by departments should be adopted as being more in accord with the practical requirements of this Municipality than the present classification by services.

The analysis and the classification of the details of the grant is capable of improvement, the same methods of presentation not being employed by all departments. Some of the grants are divided too minutely, and others do not give sufficient detail. In many cases the wording used is not a clear description of the expenditure. In revising the budget a uniform method of presentation should be adopted and the amount of detail closely scrutinised. Some of the descriptions should be altered so that the wording will sufficiently explain the item even to one unacquainted with the details of the administration.

Care should be taken in approving of the typographical set out, uniform styles of types should be used for all headings of a similar character, and subtotals and grand totals should be properly ruled off and distinctly shown.

(16) *Appendices—*

- (a) *New Works.*—No alteration is required.
- (b) *Schedule of Pensioners.*—No alteration is required.
- (c) *Consolidated Loan Account “A”.*—This should be headed “Debt Charges Statement” and the

number of columns greatly reduced, for only essential information regarding the Interest and Sinking Fund Charges should be given. The other information now given is repeated in the annual accounts, to where it correctly belongs.

- (d) *Consolidated Loan Account "B."*—The actual utility of this statement is not apparent, but it may be retained pending the debiting of the debt charges to each separate main head in the budget, as ordered by the Standing Committee in 1919.

(17) *Advance Account, Municipal Workshops.*—No amendment is required, but similar details should be given of all the many advance accounts. The absence of such details is a weak spot in the system of financial control.

69. Generally, the objects kept in view in this suggested revision of the Budget have been —

- (1) to cause as little disturbance as possible to the present form of the budget,
- (2) to simplify the statements wherever they appear to be complicated, and
- (3) to give all the essential information required to enable any one to understand the trend of the Corporation's financial policy and also to obtain easily any details required.

The several forms have been devised so that additional columns for comparative figures may be added if required, though in all cases three years' comparison has been given.

70. The procedure now in operation for reporting to the Commissioner all requirements for the coming financial year adequately provides for all proposals for increase of expenditure being thoroughly examined before being incorporated in the tentative budget. It does not, however, provide for any examination of the proposals where no increase is involved. In a very large number of cases the entries in the budget, for supplies, repairs, etc., are not based on detailed estimates of the probable cost of the supplies or repairs which will or may be required in the course of the year. Most of the entries are based simply on what was passed in the previous year or years, and not on actual requirements. An estimate of, say, Rs. 3,00,000 for materials for road repairs, is really only a provision of money and not an

estimate. This being so it appears desirable that a thorough examination should be made of the methods adopted by departments in framing their estimates, and wherever possible, approximate details of the work, which it is actually proposed to carry out in the ensuing year out of the grant applied for, should be placed on record.

71. It is now a practice to present to the Corporation for the first time proposals for new and additional expenditure, such as increases in establishment, and new works, through the medium of the budget. It is obviously impracticable for either the Standing Committee or the Corporation to consider in detail every item entered in the budget, and in practice their attention is directed more to the larger questions of policy rather than to the details making up the total of a demand. For this reason it seems desirable to suggest that no proposal for expenditure on increased establishment or for any *new* class of work should be included in the budget unless the proposals have previously been considered and sanctioned by the competent sanctioning authority. This would ensure that no new expenditure is incurred without a thorough examination of the necessity therefore and the effect it would have on the finances of the Municipality. In the tentative budget a reference should be given opposite all items for increase of establishment, and for new expenditure on works or supplies, to the resolution of the Corporation or Standing Committee sanctioning the inclusion of such expenditure in the budget.

72. The existing establishments should be critically examined every year, for the retrenchment enquiry has brought out the fact that certain establishments had been retained year after year at the old strengths, even although new methods of working had been sanctioned by the Corporation in expectation that savings in establishment would follow therefrom.

73. Section 131 of the Municipal Act gives power to the Corporation, on the recommendation of the Standing Committee to increase any budget-grant, or to make an additional budget-grant. Section 133 empowers the Standing Committee to reduce a budget-grant and to sanction transfers from one budget-grant to another, such reductions or transfers to be brought to the notice of the Corporation. When a reduction or a transfer exceeds Rs. 500 the Corporation may pass any order thereon as they think fit.

74. Though the budget does not come into operation until the 1st April in each year, the preparation of the estimates is commenced as early as the previous August, that is, eight months



before the commencement of the financial year to which they refer. It is difficult for officials to forecast requirements so far in advance, and they are compelled, of necessity, to frame their estimates upon insufficient data. At such an early stage of the current financial year they are unable to estimate with any degree of accuracy what progress they will make with the works included in the current year's budget, and they naturally err on the safe side. The requirements of the Municipal Act as to the dates of submission of the budget make it impracticable to delay the preparation of proposals later than the first week of September.

This early preparation of the budget estimates, and consequent liability of errors, has its reflex in the number of transfers which are put forward from time to time. Even if the estimates were prepared later, and with a greater degree of accuracy than they now are, transfers would still be required, for in a busy City like this, with the population of about a million and a quarter, many minor matters must arise which it is impossible to foresee.

The bringing of every *minor* excess in a *detailed sub-head* of a budget-grant to the attention of the Standing Committee, in time to avoid delays in payment should be possible under the revised procedure suggested in Section IV, but would to some extent, hamper the administration, in addition to burdening the Standing Committee with a large amount of comparatively unimportant detail. Neither is such meticulous control required by the Municipal Act. Section 130 of the Act defines a "budget-grant" as being any sum entered on the expenditure side of a budget-estimate which has been adopted by the Corporation. The grants are therefore, it is submitted, those amounts which are entered in the budget in the column headed "Budget Estimates for 1925-26." The figures entered in the "Particulars" column are merely details of the grant.

75. The Budget for 1925-26 is divided into eighteen main heads of divisions, viz. :—

- I. General Supervision, Collection of Revenue, etc.
- IA. Debt—General.
- II. Water Works.
- III. Education—Primary.
- IV. „ —Secondary.
- V. Public Health.
- VI. Hospitals and Medical Relief.
- VII. Street Cleansing and Conservancy, including Road Watering.

- VIII. Road and Overbridges.
- IX. Public Lighting.
- X. Drainage and Sewerage, including the Halalkhore Branch.
- XI. Fire Brigade.
- XII. Building Regulations and other measures for securing the Public Safety.
- XIII. Gardens and Open Spaces.
- XIV. Markets and Slaughter-houses.
- XV. Contribution to City Improvement Trust.
- XVI. Contribution to Provident Fund.
- XVII. Retrenchment Enquiry.

Most of these main divisions are divided into "Major heads," as shown in the Budget Summary of Expenditure. Each of these major heads is divided into a number of "Minor heads" and it is these minor heads which are the real budget-grants. The details or "Sub-heads" shewn in the "Particulars" column are for the purpose of providing the Accounts Department with information as to the details of the budget-grants.

In the Budget for 1925-26 there are about 84 Major Heads, 600 Minor Heads (budget-grants proper) and 1,000 Sub-Heads. It must be pointed out, however, that there is no uniformity in the present method of presenting the figures in the Budget, some Departments keep to the correct division of Major, Minor and Sub-Heads, but others mix up their figures to such an extent that it is at present difficult even for one well acquainted with the Budget, to pick out instantly the different classes of figures. In the revised form mentioned in the first part of this Section, care has been taken to so devise it, that the columns into which the different figures are to be entered are clearly distinguished.

76. The Corporation and Standing Committee must alone have the power to revise a budget-grant, otherwise the control given to them over the finances of the Municipality would be weakened. But there appears to be no legal or practical difficulty in giving to the Commissioner power to authorise transfers from one sub-head of a grant to another sub-head of the *same* grant, say up to Rs. 250 in amount. This power could, it is submitted, be given to the Commissioner by resolution of the Corporation, if the definition of a "budget-grant" given above is accepted. It would be necessary for the Standing Committee carefully to consider the items which should be shewn as "sub-heads" and which should be entered as "minor heads" or budget-grants proper. To further improve and facilitate financial administration it is recommended that the powers of the Standing

Committee and Corporation regarding budget transfers should be amended as follows :—

- (a) The Standing Committee to be empowered to sanction a transfer for an amount not exceeding Rs. 1,000 from one budget-grant to another one budget-grant within the same *major head*.
- (b) The Standing Committee to be further empowered to sanction a transfer of an amount not exceeding Rs. 500 from one "major head" to another "major head" within the same main service head.
- (c) Transfers in excess of the amounts mentioned above to be reported by the Standing Committee to the Corporation under Section 133, sub-section (2).
- (d) Transfers of whatever amount from one main service head to another to be within the power of the Corporation alone, subject to a recommendation of the Standing Committee.

#### VII.—LOAN WORKS EXPENDITURE.

77. The provisions of Sections 125 to 134 of the Municipal Act, which govern the Annual Budget Estimate, were drafted at a time when the capital expenditure of the Corporation was of negligible proportions compared with present day expenditure out of loan moneys. This may be the reason why the Act makes no specific reference to budgeting for loan works expenditure, and why the procedure laid down is applicable only to expenditure on revenue account. Most loan works, by their nature and size, must necessarily spread over one or more years, and procedure governing annual maintenance grants cannot in practice be applied to loan works expenditure without causing many complications, and forcing the executive to technical evasions of the provisions of the Municipal Act.

The whole tenor of Sections 125 to 134 implies that it is expenditure out of revenue which is referred to, and if it were not for Section 115 there would be little doubt on the matter. That section, however, prohibits payments being made out of the municipal fund unless the expenditure is covered by a budget-grant, and by Section 111 all moneys received by or on behalf of the Corporation from part of the municipal fund.

78. The Municipal Act could, with advantage, be amended so as to provide for the preparation of a Loan Works Budget or programme on the lines suggested by Sir M. Visvesvaraya in Chapter

XI of his Final Report on Municipal Retrenchment and Reform, and by adding to Section 115 (1) the following words or to like effect :—

“ Or is expenditure out of loan moneys on any purpose included in the loan works programme, in respect of which the Corporation have approved an estimate and made an allocation of funds and which is included in a loan which has been duly sanctioned under Section 106 of this Act or under the Local Authorities Loans Act, 1914, and the rules made by the Local Government under sub-section (2) of section 4 of that Act.

“ Provided that the Local Government may on the application of the Corporation and as a matter of urgency sanction expenditure as a temporary measure out of the accumulated loan fund balances of the Corporation on any purpose included in an application for sanction to the raising of a loan, pending the final decision of the Local or Central Government upon such application.”

79. The Loan Works Budget, in form, requires little alteration, but the entries should be amplified wherever possible, that is, where a work includes acquisition of land, construction of roads, sewers, and/or drains, etc., each of these major heads should be shewn. The object of repeating in the final print the original proposals of the Commissioner and the recommendations of the Standing Committee is not apparent. When the Budget is approved by the Corporation, it is only the amounts sanctioned by the Corporation which are binding, the other figures being historical only and not of practical value. It is suggested that the final print be restricted to the amounts sanctioned by the Corporation.

80. When an estimate for capital works is submitted to the Standing Committee there should accompany it a report dealing with such points as :—

- (1) Whether there is legal power to incur the expenditure proposed, and as to the power of borrowing.
- (2) The charge which will fall on the rates, and how the expenditure (where large) will fall in the current and subsequent financial years ; also the annual cost of maintenance where such is involved.
- (3) The basis of the estimate ; for example, whether in the case of building work it is based on quantities ; in the case of a tender whether the tender proposed to be accepted is the lowest, and, if not, the reasons for not accepting the lowest ; and whether the estimate includes all incidental expenses.

- (4) The cost of the proposal judged by precedents and other comparative information available.
- (5) Whether the proposal will result in recoupment on capital or income account and the data on which estimates of the financial results are based.

81. The following are some of the Standing Orders of the London County Council relating to capital expenditure, which have been found to be very effective in regulating and controlling such expenditure :—

“ 232. (a) In considering the capital estimates the Finance Committee shall have regard to the maximum amount which in their opinion the Council should seek to borrow in the year.

(c) In submitting the annual estimates to the Council the Committee shall make their recommendations accordingly, and shall accompany them with such reports as they may think fit.

236. The amounts stated under the various heads of the estimates of expenditure on capital account, when approved by the Council, shall be deemed to be appropriated to the objects specified under such heads, and shall be termed “Annual Capital Votes” and the amounts stated under the major divisions or “sub-heads” and the minor divisions or “details” of each vote shall also be deemed to be appropriated to the specific purposes stated under such “sub-heads” and “details” respectively. Expenditure under any such vote may be incurred in accordance with the provisions of Standing Orders Nos. 238 and 251. The Finance Committee shall make any adjustments in the sub-heads and details of any capital vote which are necessitated by the reduction of such vote or the approval of a supplemental estimate.

248. (a) (i) No recommendation or proposal involving expenditure on capital account shall be submitted to the Council until an estimate of the total costs, debt, or liability, under Section 80 (3) of the Local Government Act, 1888, is submitted by the Finance Committee to the Council.

- (n) Such estimate shall be submitted to the Council by the Finance Committee without delay, with any observations they may wish to make upon its financial bearings, and the report of the Finance Committee shall be considered by the Council simultaneously with the report of the Committee making the recommendations.
- (iii) Any such estimate which does not comprise the total liability involved in any proposal shall be accompanied by a statement of such total liability and of the amount (if any) of estimates previously approved.
- (b) Notwithstanding the provisions of Standing Order No. 71 no question of financial policy shall be discussed in the Council upon any estimate of costs, debt, or liability, if provision for expenditure thereunder has been made, in whole or in part, in the current annual capital votes.
- (c) Except in cases of urgency, which the Council shall determine upon a report from the Committee concerned, or where the Council is under statutory obligation to proceed, it shall not be in order to submit to the Council any proposal involving expenditure on capital account in the current financial year, or to submit an estimate in respect thereof, unless provision for such expenditure has been made, in whole or in part, in the current annual capital votes; provided that the Committee making the proposal shall be at liberty to report to the Council under the conditions laid down in Standing Order No. 258.
- (d) Any anticipated excess of costs, debt or liability over the amount of an approved estimate shall be the subject of a supplemental estimate, which shall be put forward by the Committee concerned as early as possible. The submission of the estimate shall be made and the Council's approval thereof obtained in the manner prescribed for estimates.
- (e) The approval of a capital estimate (or supplemental estimate) of costs debt or liability shall not constitute a vote. Expenditure under

any such estimate may be incurred in accordance with the provisions of Standing Orders Nos. 238 and 251.

- (f) Any Committee putting forward an estimate of capital outlay shall furnish to the Finance Committee such particulars and estimates as are available of any consequential expenditure involved on capital or on maintenance account.

251. Expenditure on capital account may be incurred provided that—

- (i) The Council has approved, in the current or any previous financial year, an estimate of costs, debt or liability submitted to the Council by the Finance Committee under Sections 80 (3) of the Local Government Act, 1888.
- (ii) The expenditure in any financial year be within the amount provided in an annual capital vote in respect of that year ; and
- (iii) The concurrence of the Finance Committee has been obtained where required under Standing Order No. 238.

252. The submission of an estimate to the Council by the Finance Committee shall, unless the Committee report to the contrary, be deemed to imply that the Committee approve the said estimate."

The adoption of similar rules by this Corporation should be seriously considered.

82. In the estimates for Land Acquisition, the land which is being acquired for purpose of re-sale must be shown separately from the land which is being acquired for construction of roads and other permanent purposes. Until this is done, it will be impossible for Accounts Department to keep correct accounts or to exercise any supervision over the recoveries for land sold. When an estimate is being prepared the Engineering Department must know which areas are intended for re-sale and which for permanent acquisition, and when an acquisition claim is sent to the Accounts Department for payment it should bear an endorsement stating to which of these two classes it refers. A register should be maintained of all lands acquired showing, (1) authority for purchase, vendor, description of land, area, price per square yard or other unit, total amount

of claim, date paid ; (2) in respect of land re-sold, the name of the purchaser, the area re-sold, amount per square yard, total realised, and authority for sale, and (3) the area permanently acquired, and the value thereof according to price of acquisition.

83. Capital stores ought not to be financed from revenue but an advance should be made from accumulated loan balances and adjusted by periodical debits to the works on which the stores are used.

84. For all works carried out by direct labour (that is, departmentally), detailed estimates should be prepared and submitted to the Corporation for approval. Lump sum estimates, or unit rate estimates should not be accepted. By a unit-rate estimate is meant an estimate similar to that approved for the filling in of the Storm-water Reservoir, the only information regarding the work which was given in such estimates, being ;—

“ Excavation, filling wagons, hauling to bank, unloading and levelling :—

26,561,949 cubic feet at Rs. 8-12-0 per 100 c. ft.”

If the work is being executed by contract such a unit rate estimate is admissible, but is of no value whatever to the Accounts Department when the work is being executed departmentally. In this case of the Storm-water Reservoir, the estimate was held to cover erection of a workshop, purchase of machinery and plant value several lakhs of rupees, and engagement of a large staff, all of which may have been essential, but the absence of a detailed estimate gives the department, in effect, a blank cheque on which to operate.

85. Constructional works, particularly those which deal with underground works, are admittedly subject to many unforeseen contingencies, and for this reason some authority must be given to the officials in charge to deal with such contingencies. During the progress of any large work deviations from the estimated quantities are almost bound to arise, and to obviate any undue restriction upon the engineers, a rule should be adopted to the effect that variations made be in the details of an estimate, up to say 10 per cent. of any individual item, on the authority of the engineer in charge, provided such variations do not have the result of increasing the total estimated cost. When the variations are such as to increase the total cost, the sanction of the Corporation to a revised estimate should first be obtained.



86. Sir M. Visvesvaraya, on page 85 of his Final Report, makes the following comment:—

“The practice of transferring loan funds obtained for one service or purpose to another leads to loose methods of financing and to considerable confusion and complication in calculating the interest and sinking fund charges, and should be avoided as far as possible.”

When a loan is sanctioned by Government it is presumably sanctioned for the specific purpose set out in the application for permission to borrow. The sinking fund and interest charges are allocated by the Accounts Department on the basis of the application, and transfers and re-appropriations nullify all their calculations causing a great deal of labour in working-out adjustments at frequent intervals. If transfers or re-appropriations were restricted to items within the same main service head of account, these difficulties and complications would be considerably reduced.

#### VIII. SEPARATE ACCOUNTS FOR TRADING UNDERTAKINGS.

87. Municipal Trading Undertakings have been defined as “those enterprises of Local Authorities which are financed entirely, or primarily, out of the receipts obtained from the sale of some product or service, as contrasted with enterprises which are financed entirely, or primarily, out of the rates.”

Bombay Municipality has two departments which fall within this definition, namely:—

- (1) The Water Works Department, and
- (2) The Markets and Slaughter-houses Department.

It is a generally accepted proposition that the accounts of Trading or Productive Undertakings should be kept upon a commercial basis, and must therefore be entirely separated from the accounts relating to rate services. They must be kept upon a complete Income and Expenditure basis to show the true profit or loss for the financial period. That is to say, all income which relates to the period, whether actually received or not, must be taken into account, and all expenditure, whether actually paid or not, must be debited to the period in which it was incurred. Even propositions of charges accruing due or paid in advance must be calculated and allowed for in order to obtain correct results. Capital Expenditure, whether made out of borrowed moneys or current revenues, must be separated from the working or operating expenses, and full provision made for depreciation. The Balance Sheet should be prepared upon the Double Account System, and in every respect commercial principles and methods adopted to the fullest possible extent.

88. The first question that arises is, is it possible to separate the accounts and budget estimates of the Water Works and the Markets from the main rate accounts and budget estimates, having regard to the provisions of the Bombay Municipal Act? The relevant sections of the Act appear to be:—

- (1) *Section 123.*—Accounts of the receipts and expenditure of the Corporation shall be kept in such manner and in such forms as the Standing Committee shall from time to time prescribe.
- (2) *Section 121.*—With the approval of the Corporation, any portion of the Municipal Fund may, from time to time, be credited to a separate heading in the municipal accounts, provided that there shall be credited and debited to such special heading such sums only as shall expressly relate to the objects for which a special fund is so created.
- (3) *Section 125.*—The Commissioner shall on or before each tenth day of November have prepared and lay before the Standing Committee, in such form as the said Committee shall from time to time approve ;
  - (a) An estimate of the expenditure which must or should, in his opinion, be incurred by the Corporation in the next ensuing official year ;
  - (b) An estimate of all balances, if any, which will be available for re-appropriation or expenditure at the commencement of next ensuing official year ;
  - (c) A statement of proposals as to the taxation which it will, in his opinion, be necessary or expedient to impose under the provisions of this Act in the said year.
- (4) *Section 130.*—Any sum entered on the expenditure side of a budget-estimate which has been adopted by the Corporation shall be termed a " Budget-grant."

89. Acting under the power conferred by Section 121 the Corporation have already sanctioned the creation of several special funds, e.g., Land and Building Funds, Worn-out Water Main Renewals Fund, Fire and Accident Fund, and Net Premia Fund. These separations are mainly a question of account-keeping, and it is considered that under this Section the Corporation could order the creation of two further divisions in the accounts, namely :

- (1) Water Works Fund, and
- (2) Markets and Slaughter-houses Fund,

All the special accounts formed under Section 121 are part of the Municipal Fund, *vide* opinion of the late Mr. J. D. Inverarity quoted on page 603 of Michael's History of the Municipal Corporation, in which it is stated that "The moneys standing to the credit of such special accounts still form a portion of the Municipal Fund. The surplus moneys at any one date to the credit of the Municipal Fund is apparently composed of the balances appearing to the credit of all the special accounts and the general account kept of the Municipal Fund."

In England, Trading Undertakings form part either of the Borough Fund or the District Fund, according to the nature of the Undertaking or Act of Parliament granting the Powers, but for account purposes, each undertaking is shown separately from the rate accounts.

90. As regards the budget-estimates, Section 125 of the Municipal Act empowers the Standing Committee to settle the form of the annual budget estimate. Though no reference is made in the Act to a separate loan works budget yet it has always been the practice to show expenditure proposed to be met out of loan moneys separate and distinct from the revenue expenditure. There is no prohibition preventing the revenue budget being divided into several parts, for such division as is required to show the Water Works and Markets budget-estimates distinct from the rate-budget, is a question of form only.

It is suggested that in future the Revenue Budget should be divided into three parts:—

- (1) General (or rate) Account.
- (2) Water Works Account.
- (3) Markets and Slaughter-houses Account.

All items entered on the expenditure side of each of these three divisions would be "budget-grants" as defined by Section 130 of the Act.

The Loan Accounts for these works and the borrowing powers should be kept separate from the general account and borrowing power. In the Annual Accounts separate Revenue Accounts, Net Revenue Accounts and Balance Sheets should be given for each separate Trading Undertaking.

91. The Tenth Report of the Water Supply Committee, dated the 15th July 1924, regarding the interpretation of Section 140 (a) of the Municipal Act has been carefully considered. Counsel's opinion quoted therein does not contain any reference

to this question of keeping a separate account for the water supply revenue and expenditure, but it is clear that the Corporation has no power to levy a rate in excess of the estimated expenditure of the year. This being so no provision can be made in the water supply budget for the creation of a reserve to meet *future* replacements. But the operation of the year may result in an actual profit on water-supply, and the question then arises, should such surplus or profit automatically be credited to the general portion of the Municipal Fund or should it be carried forward and used in reduction of the water tax for the ensuing financial year? As the incidence of the water tax is not wholly the same as the incidence of the general tax, in theory the latter part of the question is the correct procedure, and to enable it to be carried into effect a separate water supply account is essential. The amendment of the Municipal Act on the lines suggested in the Report of the Water Supply Committee will place the Water Works Accounts on a legal basis free from doubt. If it should be held that Section 121 does not give the necessary power to create the separate accounts advocated above, then it will be necessary to embody in the amendments of the Municipal Act similar provisions in respect of the Markets and Slaughter-houses as the Corporation have approved for the Water Works.

IX.—VALUATION OF PROPERTY, PLANT, MACHINERY AND OTHER RELIABLE ASSETS.

92. In the Capital Fund Balance Sheet published in the Annual Accounts there will be found on the Assets side the following entry:—

“Unbooked property—Provisional Figures as per valuation of 1884 pending re-valuation now in progress Rs. 45,37,835-11-11.”

A valuation 40 years old is obviously no criterion of the present value of the property included in the valuation, also in such a lengthy period some of the property may have passed out of the possession of the Municipality. Furthermore the entry is very vague, what it represents—lands or buildings or works—is a matter of conjecture or research.

The re-valuation now in progress which is referred to in the entry quoted above, has been in progress for several years and enquiries in the Engineering Department have elicited the fact that at the same rate of progress it will take at least another three years to complete the re-valuation, by which date the earlier portion of the re-valuation will require revision. If the accounts of the Municipality are to be re-organized on a business and scientific basis, this question of the valuation of the Municipality's properties must be dealt with thoroughly as an urgent matter.

93. The Accounts of the Municipality contain no complete record of the lands, buildings, plant, machinery, loose tools and other realizable assets, which are in the possession or charge of the several departments. No one will question the necessity for keeping strict accounts of the acquisition and disbursement of cash, yet when cash has been converted into valuable property, the importance of keeping a record of the use or disposition of such property is very often forgotten. Without such a record there is no check upon the fidelity and efficiency of the officials in caring for and using property and equipment. Property of a valuable character may be lying idle in one department, while another department may be purchasing similar property.

94. Detailed records of property and equipment are essential to efficient administration. By means of such records those charged with the duty of preparing budget estimates would have before them all the information needed to show how much should be included in the Budget for "replacement" of properties. Property acquired out of loan moneys is now permanently recorded in the accounts, but each year a large amount of permanent property is acquired or constructed out of funds provided in the Revenue Budget. This expenditure is charged against the requisite budget-grants, but the acquisition of the property is not permanently recorded in the accounts. This should be done by debiting the assets accounts, and crediting an account which may be called "Revenue contributions to Capital Outlay."

Similarly in the case of gifts of land and property, the assets accounts must be debited with the market or estimated value of the property at the time of being handed over, and an account called "Gifts and Donations of Property, etc.," credited. The cost of the loose plant and tools consumed annually amounts in the aggregate to a very large sum, and the floating stock is large in quantity and value, but no accounts record of it is maintained. In respect of each department or branch there should be opened in the main ledgers a "Loose Plant and Tools" Account, to which should be debited the value of tools in use at the beginning of the year and those purchased during the year. At the end of the year, the tools then in use are re-valued, and this value credited to the account. The difference will represent the value of loose plant and tools used during the year, which would be written off either to the jobs on which used, or to a specific budget-grant.

95. Finally the necessity for the accounts to be a true and correct of all the assets and liabilities of the Municipality requires no elaboration and a balance sheet which fully and correctly sets out the real financial position must necessarily be of great value when the Municipality is issuing stock or debentures.

96. The recommendation is therefore now made that immediate action be taken by every department to make inventories of all property and equipment in its possession, viz :—

1. Land, Buildings and other permanent property.
2. Plant, Machinery, Fixtures and Accessories.
3. Furniture and Dead Stock.
4. Loose Tools.

Specimen inventory forms are attached,\* on which provision is made for the following information being recorded :—

1. Description of property.
2. Date of purchase or acquisition.
3. Original cost.
4. Present condition.
5. Probable remaining life.
6. Present value.

Columns are also provided for independent appraisalment or adjustment of values reported. Each Inventory Sheet should be signed by the persons actually making the inventory and certified as correct by the departmental head concerned.

When this inventory has been completed the necessary accounts should be opened in the ledgers, and the accounting records remodelled to provide for future acquisitions and dispositions being promptly recorded.

The Accounts should be reconciled with actualities by means of periodical checks. These checks should not be made all at one period, but should be constantly taking place, one department or one class of property at a time, so arranged that every item is physically verified once at least in every three years.

#### X.—AUDIT OF THE ACCOUNTS.

97. The provisions of the Municipal Act relating to the scrutiny and audit of the Municipal accounts are to be found in Sections 135 to 138 inclusive. These sections provide for—

- (1) A weekly scrutiny of the accounts by the Standing Committee, or by some person under their superintendence.
- (2) The examination and audit of the accounts from week to week by auditors specially appointed in this behalf by the Corporation.
- (3) A special audit at any time by auditors appointed by the Local Government.

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\* Will be laid on the Table.

Under Section 49 the Standing Committee have power to make such regulations with respect to the scrutiny of the municipal accounts as they think fit.

98. In addition to these prescribed audits, an audit of the receipts of the several departments is carried out by the Accounts Department (Revenue Audit Section), and there is a special officer known as the Test Audit Officer, who makes special audits of the books and records maintained in the Ward and other outside Offices. He also examines the administrative workings of departments, points out inefficient and wasteful methods, and suggests improvements in the accounting methods, particularly with a view to the introduction of costing accounts wherever possible.

Both Revenue and Test Audits are internal audits, by which is meant an audit conducted by members of the Accounts staff, who are directly responsible to the Chief Accountant. The audit conducted by the Municipal Auditors is an "external audit," that is, such auditors are entirely independent of the Accounts Department.

An internal audit is necessarily an audit of detail, for it is on such an audit that the Commissioner relies to see to that the annas which go to make up the lakhs of rupees of income are (as far as can with all possible care and precaution be ascertained) brought into account.

99. The Revenue Audit Section is supposed to verify the books of all departments relating to income so as to ensure ;

(a) That all amounts due to the Corporation are correctly accounted for.

(b) That all cash actually received by collecting officers has been paid into the Municipal Treasury, and then into the Bank.

In actual practice the Section only does the second kind of work completely. The first duty cannot be effectively carried out, because, apart from taxes, the books do not, in most instances, correctly record the amounts due, but only the amounts actually received.

All income must be recorded from the moment of its inspection, as pointed out in para. 51, Section IV above. If the income registers record the information mentioned in that paragraph, it will then be possible for the Revenue Audit fully to verify, not only that cash shewn to be received is duly paid into the Treasury, but that all amounts which ought to be received

are duly and correctly accounted for and collected, or written off as irrecoverable under proper authority.

100. The Revenue Audit sanctioned establishment for 1925-26 is :—

- 1 Senior Assistant Accountant.
- 1 Chief Clerk.
- 1 Head Clerk.
- 9 Clerks.
- 3 Peons.

For some considerable time the Senior Assistant Accountant has not been in charge of the Section, having had to do other duty in the Accounts Department, owing to the shortage of senior officers in that Department. The Section ought to be placed without delay under the supervision of an officer who has a thorough knowledge of audit work, so that the work of the staff may be properly supervised. The work of the staff at present appears to be carried out mechanically, a set routing being followed which mitigates against the real effectiveness of the audit. Audits has a great moral value, and it loses this as soon as it degenerates into perfunctory routine, for its actions are known in advance and can thus be guarded against.

It is suggested that the Senior Assistant Accountant should be shewn in the establishment schedule under the section where he is actually employed, and that the revenue audit staff be placed under the direct control and supervision of the Deputy Accountant or the Test Audit Officer. This recommendation is made because it has been found from actual experience that the detailed audit work requires co-ordination and direction. This section ought to be strengthened by the addition of three or four more clerks, who could be obtained from other sections when the accounting system is revised.

This detailed internal audit should, to be really effective, follow closely on the heels of all accounting officers, all financial transactions being audited within a few days—often within a few hours—of the closing of the books ; it is a day-to-day audit.

101. The following is an extract from a letter from the City Treasurer of Birmingham, and shows the importance attached to internal audit work by English Municipalities :—

“ With regard to the financial control of the Rating Departments, I have a system of internal check, under which the whole of the records of each Department, with one exception, are subject to audit by my internal Audit Staff.



In fact, Professional Auditors have been dispensed with and their place has been taken by trained Professional Accountants in my Department. This provides excellent opportunities for that control and supervision over the financial operations of a Department, which is very essential in a large City. You will appreciate the full force of this when I tell you that I have on my Internal Audit Staff at the present moment six professional Accountants all engaged on this class of work."

102. Of equal importance to an efficient internal audit, is an external audit by auditors independent of the executive, and answerable only to the Corporation or some higher authority.

This external audit is in this Municipality conducted by two Auditors appointed by the Corporation annually, and who are designated the "Municipal Auditors." The powers and duties of the Municipal Auditors are defined in Sections 136 and 137 of the Municipal Act. The Local Government is authorized by Section 138 of the Act to appoint an auditor for the purpose of making a special audit of the Municipal Accounts and of reporting thereon to Government.

103. In England all the smaller Local Authorities are subject to the audit of District Auditors appointed by Government. Among the larger Local Authorities, County Councils, Education Authorities, and some fifty Town Councils are subject to Government Audit. Practically the whole of the Municipal Corporation of towns of 50,000 inhabitants and over (approximately 300), are free from government interference with their finances, except as regards education, housing, and other services towards which government subventions are given.

There are three Auditors of the Accounts of an English Municipal Corporation, two elected by the burgesses, called "Elective Auditors" and one appointed by the Mayor, called "Mayor's Auditor."

The powers and duties of the Elective Auditors are not clearly defined, but they have no power of surcharge, or means of enforcing any decision to which they may come during their examination as to the validity or propriety of any item or entry in the Accounts.

The Audit by the Mayor's Auditor is, in practice, almost a dead letter, and is not now treated seriously by anyone.

As there is no power of surcharge vested in an Elective Auditor, the remedy available in the event of a Corporation incurring illegal expenditure, is to remove the matter to the High Court of Justice, on a writ, praying for an order that the rate and other fund may not

be charged with the expense disputed. The statutory provisions are:—

- (1) The Municipal Corporation Act, 1882, Section 141, provides that “an order for payment of money out of the Borough Fund shall be signed by three members of the Council and countersigned by the town clerk. Any such order may be removed into the King’s Bench Division of the High Court by a writ of *certiorari*, and may be wholly or partly disallowed or confirmed on motion and hearing with or without costs according to the judgment and discretion of the Court.”
- (2) The Public Health Act, 1875, Section 246, enacts that where an Urban Authority are the Council of a Borough, any order of such authority for the payment of money out of the District Fund may be removed by *certiorari*, as in Section 141 of the Municipal Corporation Act, 1882.

104. Recognizing the limitations of the statutory audits most of the Municipal Corporations, and in particular the larger and more important ones, have appointed Professional Auditors to audit their accounts either in substitution for, or in addition to, the audit by the Borough Elective Auditors. These authorities have their own internal auditors for detailed checking and verification, and the professional auditors are required to give particular attention to the higher and more important problems of finance and accounting.

105. The Municipal Auditor (Khan Saheb H. S. Katrak), in a letter, dated 2nd December 1924, addressed to the Standing Committee and Corporation, suggests that he and his colleague should be given the powers of surcharge and disallowance possessed by English Government Auditors. In paragraph (3) of that letter a quotation is given from Scott and Rovertson’s Commentary on the Bombay Municipal Act, in which quotation the Municipal Auditor has underlined the following words “The Auditor (in England) has the power to disallow items and certify charges and against his decision there is in many cases practically no appeal.” The latter portion of the sentence is inaccurate, for all Local Authorities subject to the government audit, as a body, and all members and officials individually and collectively, have the following rights of appeal:—

- (1) To the Ministry of Health (formerly the Local Government Board).
- (2) To the High Court of Justice.

The former mode of appeal is generally adopted, and the Ministry has the power to remit the surcharge, even though confirming the disallowance, and this it does in the great majority of cases.

The right of appeal to the High Court is only resorted to when important points of principles are involved.

The Municipal Auditor also draws attention to the Madras Municipal Act, 1919, which confers powers of surcharge and disallowance on the Municipal Auditors of that City. These Auditors are appointed by the Local Government, and are therefore Government Auditors, as are also the Auditors of the Calcutta Corporation. But in Bombay the Municipal Auditors are appointed by the Corporation, and merely act as servants of the Corporation under the immediate control of the Standing Committee.

106. The whole aim and object of the power of surcharge and disallowance is to protect the ratepayer against a mis-use of the local funds by the elected representatives, for the English Acts and the Madras Act state that the Auditors shall disallow every item *contrary to law*.

This power of surcharge and disallowance is not intended to be used in cases of technical and minor infractions of the rules and regulations of a local authority. In cases where it is within the power of a local authority to incur expenditure, but there is some defect in the sanction, or some omission or error in the facts upon which the sanction was based, the decision of the authority is binding upon the auditors, including the Government Auditors.

107. Many attempts have been made in England to bring the major Municipal Corporations under the control of the government auditor, with his power of surcharge and disallowance, but these authorities are very jealous of their ancient rights and privileges, and so far they have successfully resisted all attempts to reduce them to the status of subordinate authorities. By the appointment of Professional Auditors, and the strengthening of the internal audit staffs, the control of the finance and accounts of the large Corporations has immensely improved, and compares favourably with the methods adopted in other parts of the world.

108. Section 138 of the Municipal Act states that the auditors shall forthwith report to the Standing Committee any material impropriety or irregularity which they may at any time observe in the expenditure or in the recovery of moneys due to the Corporation or in the municipal accounts. Under this power

the Auditors have authority to report every infringement of the Act or of the Rules and Regulations in force and their reports are always given full consideration by the Standing Committee, who report to the Corporation in all cases where such a report is required. In actual practice the defects and irregularities brought to light by the Auditors are thoroughly investigated, and the orders of the Corporation taken thereon, which orders should be final and conclusive upon all servants and employees.

Further, when the proposals to appoint executive committees have received legislative sanction, the Corporation, it is submitted, will have, by framing and adopting a complete code of financial rules and regulations, full control over all the expenditure of the administrative departments, for expenditure would then be subject to the approval of the executive committee concerned. When the executive committees are functioning any power of surcharge or disallowance would naturally be directed against the executive committee which had sanctioned the expenditure, and not against the officials, who would simply be giving effect to the orders of the committee.

The Municipal Auditors of this Municipality being servants of the Corporation, it would be derogatory to the power and dignity of the Corporation for it to give any of its servants the right to call in question any of its decisions.

109. The Audit of the Municipal Auditors should not be a mere ticking or vouching audit, but should be such as to exercise a check and control over all financial transactions right from their inspection to their close. For this purpose the auditors should be qualified accountants and auditors, capable of initiating, and regulating anti-audit arrangements, *e. g.*—

- (a) The alteration and improvement of existing systems or initiating new systems ;
- (b) Initiating, altering, improving and controlling the system of internal check ; and
- (c) Initiating, altering, improving and controlling the system of internal audit.

110. In addition they should be entrusted with the powers and duties of Professional Auditors, set forth in the recommendations of the Joint Select Committee on Municipal Trading, 1903, given hereunder:—

- 17] “The Committee are of opinion that it should be made clear by statute or regulation that the duties of those entrusted with the audit of local accounts are not confined to mere certification of figures

They therefore further recommend that—

- (a) The Auditor should have the right of access to all such papers, books, accounts, vouchers, sanctions for loans, and so forth, as are necessary for his examination and certificate.
  - (b) He should also be entitled to receive from officers of the authority such information and explanation as may be necessary for the performance of his duties.
  - (c) He should certify—
    - (i) That he has found the accounts in order, or otherwise, as the case may be ;
    - (ii) That separate accounts of all trading undertakings have been kept, and that every charge which each ought to bear has been duly debited ;
    - (iii) That in his opinion the accounts issued present a true and correct view of transactions and results of trading (if any) for the period under investigation ;
    - (iv) That due provision has been made out of revenue for the repayment of loans ; that all items of receipts and expenditure and all known liabilities have been brought into account ; and that the value of all assets has in all cases been fairly stated.
18. Auditors should be required to express an opinion upon the necessity of reserve funds, of amounts set aside to meet depreciation and obsolescence of plant in addition to the statutory sinking funds, and of the adequacy of such amounts.
19. The Auditor should also be required to present a report of the local authority. Such report should include observations upon any matters as to which he has not been satisfied, or which in his judgment called for special notice, particularly with regard to the value of any assets taken into account.
20. The local authority should forward to the Local Government Board both the detailed accounts and the report of the Auditor made upon them. It should be the duty of the Auditor to report independently to the Board any case in which an authority declines to carry out any recommendations made by him.

22. After careful consideration the Committee are of opinion that, in view of the thoroughness of the proposed audit, powers of surcharge and disallowance could be altogether dispensed with in the case of the major Local Authorities."

111. These suggested powers and duties will demand a very high standard of accounting and auditing knowledge, which is not possessed by those persons whose only experience is in Government Accounts. The drawbacks and defects of subordinate Government Accountants are admirably summarised in the following extract taken from the Municipal Commissioner's letter No. M. C. 2-B, dated 11th November 1924, and printed on page 2995 of the Corporation Proceedings for 1923-24:—

" Their general education.....is not of a high standard. This defect, together with the fact that the greater part of their service has been spent in dealing with routine matters of book-keeping rather than broad questions of accounts, must tend to make their outlook very narrow. Their natural tendency, therefore, is to undertake detailed checking instead of satisfying themselves as to the existence of a really effective system of internal check, which would enable them to avoid a great deal of detailed checking as unnecessary, and thus leave them free to concentrate upon the more important questions of principle, and they are, therefore, generally no better than old fashioned auditors, who were regarded as little more than checking clerks."

112. An Auditor to-day is expected to be far more than a mere book-keeper, or ticking clerk. He should have a wide knowledge of accounting systems, office organization, statistics, and economics, and he should bring to bear on every audit the benefit of his experience on every other kind of audit. It may be stated with confidence that every member of the Corporation's Accounts staff would welcome the aid and assistance of properly qualified auditors in the complicated and arduous task of watching, controlling, recording and verifying the innumerable financial transactions of this Municipality.

#### XI.—ANNUAL ACCOUNTS AND ANNUAL REPORT OF CHIEF ACCOUNTANT.

113. The Annual Report of the Chief Accountant occupies some 130 pages of the Annual Administration Report, and consists of the Report proper and 20 appendices, 13 of which relate to the Accounts, the remaining 7 being statistical tables.

The Report proper is a mass of small tables, and notes explanatory of the figures given in such tables. There is very little comment on the financial position of the Corporation, as revealed by the Accounts, what there is being lost in the wilderness of figures. The form and most of the wording of the Report is practically the same now as it was twenty or more years ago, only the figures being changed from year to year.

The majority of the tables and figures quoted in the Report are merely repetitions or summaries of the figures set out in the several appendices.

It is submitted that in its present form the Report cannot be of much assistance to anyone who desires to obtain a clear-cut picture of the financial position of the City. It goes into too much detail for a summary statement—so much so that it does not help one to grasp readily significant facts which should be brought to public notice but has the effect of causing confusion in the mind of any one who attempts to read it through.

The Report should be in continuous narrative form, sparingly interspersed with figures, only those absolutely essential being quoted. The language used should be simple, and the exact effect of the various accounts and of the financial position generally should be explained.

114. Appendices I to XIII represent the Annual Statement of Accounts. There are several essential statements omitted and those that are given are not printed in the correct order nor is the typographical set-out conducive to clearness. Each appendix will be dealt with separately, and suggestions made for recasting its form and order :—

- (a) *Appendix I.*—This is a statement showing the income realised during the year, contrasted with the actuals of the previous year, the original budget estimates and the revised estimates. The value of the three comparative columns is not commensurate with the clerical labour involved in their preparation, and is of no permanent value. These columns may be dropped.
- (b) *Appendix 2.*—This statement shows the actual expenditure for the year, compared with the final sanctioned grants, and the actuals of the previous year. It is suggested that the columns of the increases and decreases over the previous year be dropped.

- (c) *Appendix 3.*—This is the Revenue Account for the year. It is not set out in the recognised form, and is an instance where prolixity has been severely restricted, so much so that the value of the statement has been seriously impaired. It is now printed after the details of income and expenditure whereas its correct position should be in front of these tables, whose correct use is as supporting details to the summary given in the Revenue Account. Prior to 1916–17 the Revenue Account was printed in the correct summarised form and appeared in its correct position in the statements. This earlier practice should be resumed.
- (d) *Appendix 4.*—There are nine statements of special funds given in this appendix. The first three and last one require no alteration, but the others are a combination of a fund account and a balance sheet and because of this incorrect method of setting-out the fund balances are shewn as the total income of the funds, and not the free balances which are available for future expenditure. These statements should be restricted to their proper sphere, that of Fund Accounts, the assets and investments of the Funds being shewn either in separate Balance Sheets or in the Revenue or Capital Balance Sheet, as the case may require.
- (e) *Appendix 5.*—The Revenue Account Balance Sheet is a most important statement, for it should be a clear and concise exposition of the financial position of the Corporation in regard to its revenue income and expenditure. The present form of the Balance Sheet is correct, the only criticisms to be made being that it includes on the liabilities side an item which does not appear in any ledger account, and that several important items are omitted altogether. This inclusion of an estimated liability; the omission of assets such as recoverable areas of taxes and rents, and liabilities such as salaries and wages due but not paid and amounts due for goods supplied, is wholly due to the defective basis of the accounts. When the basis is altered to that of "Income and Expenditure," as recommended in Section II of this Report, the defects of the Revenue Balance Sheet will automatically be corrected.
- (f) *Appendix 5A.*—Is a comparison of the face, purchase and market values of the securities in which the balances of certain special funds have been invested?



It is a necessary statement, but should appear after the purely financial statements.

- (g) *Appendix 6* which is the Capital Fund Balance Sheet contains several entries which require amplification or alteration, the assets side in particular requiring revision :—

*Assets Side.*

- (i) *Block Account.* This account is supposed to represent the property acquired and outlay incurred on works of varying kinds since the inception of the Corporation. The amounts shewn should agree with the figures given in *Appendix 8*, the details of the property and outlay, but there are discrepancies which, though capable of explanation, are not clearly explained on the face of the Balance Sheet.

Then there is the problem whether all the items in the detailed Block Account are really assets? Are the roads, the pavements, the street lamps, the sewers, and the drains assets in the accepted meaning of the term?

“ These may be the matters for which most of the loans have been raised, and they may therefore appear to be the chief assets, but looked at from a different point of view they may be regarded as the chief liabilities. For obvious reasons no statements of cost or of value can be attempted in regard to the public highways themselves; and, this being so, it would appear to be absurd to record the expenditure upon street widenings, great as they are in many cases. Narrow and tortuous streets, steep pitches, sea fronts which need protection, streams which need bridging, and embankments which need retaining walls are liabilities which have been bequeathed to some towns and not to others; and there is perhaps more reason to include as liabilities those works of this nature which have not been carried out than to include those which have been as assets.

When we pass to the ordinary works connected with streets—the foundations, the pavements, the sewers and the lighting plant—a problem of a different order presents itself. It is practically impossible to separate the cost of the works which remain in use from the cost of those which have been exhausted or to allocate the expenditure of each successive year as between new work and renewal.

Attempts have been made in a number of cases to include on the balance sheet works of the order referred to in the last paragraph, and also works of street improvement, of sea defence, etc.; but the results have been such as to prove the hopelessness of the task. In most cases it has been a record of the loan expenditures dating from some selected year which these balance sheets have preserved, but it is obvious that this record has no relation either to the value or to the cost of the works in being. It may show a "capital surplus" of great amount—several millions sterling perhaps but, unless a full explanatory note has been added to inform the reader from what date the record starts, and what it is designed to include, the figure has no meaning and may indeed be most delusive. It will probably include the costly strips added to the highways, while neglecting the highways themselves and the new roads and streets dedicated to the public during the period. It may very possibly include the cost of pavements or sewers which have been discarded as well as the cost of those which have taken their place.

These and other considerations lead to the conclusion, which was arrived at by the Accounts Committee, that no attempt should be made to preserve a record of the expenditures upon such matters as street improvements, paving or sewers. The only serviceable definition of the assets, apart from trading plant, of which it is ever worth while to preserve a record in the accounts of a rating authority appears to be real estate, including the original cost of fitting and furnishing buildings." (Extract from "Accounts of Local Authorities" by A. Carson Roberts, Government Auditor).

The views of the Departmental Committee upon the Accounts of Local Authorities (to which reference has been made earlier in this report) regarding this question are as follows:—

"61. We are strongly of opinion that original cost, when known, is the only satisfactory basis for the statement of the values of assets on the balance sheets; and this view is supported by the evidence given, and is in fact acted upon by almost all local authorities. Any system of periodicals valuation, apart from the question of the expense involved would in our opinion be open to serious objection: it would be more liable to variation than the usual method, while the balance sheet would lose one of its most important characteristics as a historical record of the actual cost of the assets.

62. There is, however, considerable divergency of practice in writing off wasting assets, the permanent retention of which on the balance sheets would be undesirable;

and a necessity thus exists for regulations under which an uniform method of dealing therewith may be ensured.

The Committee consider that in regard to all capital assets having an abiding or realisable value it is desirable to preserve a current historical account. For this purpose the original cost of such assets should be shewn on the balance sheets from year to year, and *per contra* the loans and the re-payments (or other provisions, if any) in respect thereof.

Only in the case of an asset passing out of possession or becoming valueless would its original cost on the one hand, and on the other the provision already made for the redemption of debt, disappear from the accounts.

In the case of expenditure out of borrowed moneys upon works such as street improvement, paving or sewers, or for such matters as the promotion of Bills in Parliament or compensations, the cost of which has to be borne by the rates over a sanctioned number of years and may therefore be described as Deferred Expenditure, it is obvious that it cannot be regarded as being in the same category with expenditure which has produced abiding or realisable assets. Consequently the indefinite retention of the original costs of such items would be misleading and without compensating advantage. The Committee consider, therefore, that under each head of such expenditure the amount shewn in the balance sheet should be that portion of the original costs which would remain after deducting the loan repayments or other provisions, and that the liability shown *per contra* should be only the outstanding unpaid amounts of the loans.

But on the other hand as regards each separate trading undertaking, the whole of the assets and capital outlays of the local authority should be shown in the balance sheet at their original cost, and *per contra* the full amounts of the loans and the provision for their repayment."

The principles embodied in these two quotations would, if it were possible to adopt them, make the Capital Balance Sheet a much more accurate presentation of the real financial position than it is at present. Whether it is now possible to abstract from the records the necessary information is problematical, but in any case, the assets should be grouped under the following heads:—

- (a) Permanent and realisable assets.
- (b) Outlay of a permanent nature but not resulting in a realisable asset.

- (c) Outlay of a character which is really in the nature of revenue expenditure, but which is spread over a period of years, in order to ease the present-day burden.

There should be included in the list of permanent assets, all those assets acquired year by year out of revenue or special funds, or by way of gifts or donations.

- (ii) *Unbooked property.*—This is stated to be a provisional figure as per a valuation of 1884, pending revaluation now in progress. What it represents is a matter of conjecture, and how it should be dealt with is fully described in Section IX of this Report.
- (iii) *Land Transferred* from the City Improvement Trust. This is presumably the value of lands handed over from time to time by the Trust to the Corporation. Particulars of it ought to be included in Appendix 8, details of the Block Account.
- (iv) *Municipal Land and Buildings Fund.*—The land and buildings acquired out of this Fund should be included in the block account, the investments being separately shewn under the head “Investments.”

The item of Rs. 1,37,446 being the amount written off as the depreciation in the value of certain securities is obviously not an asset. The correct treatment of this amount is to enter it in the Fund Account as a loss or expense, and so reduce the balance of the Fund (see remarks relating to Appendix 4).

- (v) *Investments.*—Calls for no comment.
- (vi) *Mahim Development Scheme Fund.*—Expenditure ought to be included in the first item of the Balance Sheet, the Block Account.

#### *Liabilities Side.*

- (vii) It is not understood why the advance of Rs. 31 lakhs from Government for the Mahim Development Schemes is not included in the item “Loans outstanding due to Government” but shewn separately, nor why the sum of Rs. 5 lakhs for private street works is omitted from the Balance Sheet altogether?

- (viii) The items "Municipal Land and Building Fund" and "Mahim Development Scheme Fund" should be restricted to the actual fund balances, and not include the whole of the receipts of the funds since they were formed. This defect would be remedied if proper fund accounts were kept, as stated in the remarks above regarding Appendix 4.
- (ix) As regards the item "Surplus" a clearer way to set out these items should be devised.
- (x) When assets have been discarded or alienated they should be expunged from the list of assets shewn on the credit side of the balance sheet. To show the amounts written off as a deduction from the "Surplus" gives no intimation of the particular assets which are defunct.
- (h) *Appendix 6 A.*—Is a comparison of the face, purchase and market value of the securities in which the Sinking Funds are invested. All the comparative statements of securities should be combined, and shewn after the purely financial statements.
- (i) *Appendix 7.*—Is a statement of loans raised, the expenditure thereout, and the unutilized balances. The figures given are incomplete because the Vehar Water Works debt and the Rs. 42 lakhs borrowed to repay the Government Consolidated Loan, are not included. Consideration should be given to the method of setting-out this statement. It should be possible to simplify it slightly, and to link up the figures given therein with those shewn in other loan statements.
- Column 18 of this appendix shows the unexpended balances of the several loans at the end of the year. The statement for 1923-24 shews that these unexpended balances date back as far as 1922. In those cases where all the works for which the loans were raised have been completed, the unexpended balances should be definitely re-appropriated to new works.
- (j) *Appendix 8.*—The Block Account has been dealt with in the remarks under Appendix 6.
- (k) *Appendix 9.*—Is the statement of loans outstanding, and the Sinking Funds accumulated. It is a necessary and valuable statement.

- (l) *Appendix 10.*—Gives particulars of the Sinking Funds comparing the actual condition of the Funds with the schedule amounts, and shows that proper provision is being made to meet the Corporation's legal liabilities in respect of the repayment of the loans.
- (m) *Appendix 11.*—Gives particulars of the sanctions of the various loans, the interest due and actually paid, and the amounts outstanding at the end of the year. The Vehar Water Works debt should be included, in order that the figures may be agreed with the interest column of Appendix 9.
- (n) *Appendices 12 and 13.*—Are the Revenue Account and Balance Sheet of the Water Works. These are necessary.
- (o) *Appendices 14 to 17.*—Are statistical tables relating to the Town Duties. It is a question for the Corporation whether the information given is of real value. If the tables are retained, they could possibly be considerably condensed without loss of value.
- (p) *Appendices 18 to 20.*—Are comparative statements of Income and Expenditure over a long period of years and possess considerable historical and statistical value.

115. Having now dealt in detail with all the Account Statements that are at present published, it is necessary to point out that there are several deficiencies, which should be supplied in future if the accounts are to be of real value.

It is suggested that the Published Accounts should consist of:—

- (1) *General Financial Statistics.*
- (2) *An aggregate Balance Sheet* of the whole of the Capital and Revenue Funds of the Municipality. This is necessary to give a summarised view of the whole of the financial position, and should be so framed that the would-be investor or critic, endeavouring to put his hand on the City's pulse, should, by a brief survey of this Balance Sheet, be able to ascertain at a glance all the necessary information.
- (3) *A summarised aggregate Revenue Account* of all the funds.

- (4) *Revenue Account of the Rate Fund.*—(Present appendices 1 to 3).
- (5) *Revenue Account's of all the Special Funds* affecting the Rate Fund (Part of present Appendix 4).
- (6) *Balance Sheet of the Rate Fund Accounts.*—(Present Appendix 5).
- (7) *Water Works Revenue Account, Net Revenue Account, and Balance Sheet.*—The Revenue Account should be restricted to the operating and maintenance expenses, the gross profit of the working of the Works being transferred to the net revenue account, which should be debited with the loan interest and sinking fund charges the resulting balance being either the net profit or loss for the year. If a profit, the account should show whether it has been transferred to Rate Account, or to a Reserve Fund.
- (8) *Capital Account Balance Sheet.*—(Present Appendix 6 re-constructed).
- (9) *Details of Capital Assets and Expenditure.*—(Present Appendix 8).
- (10) *Workshops Account.*—This is a new statement, though the figures are now shown in the body of the Chief Accountant's Report.
- (11) *Other Special and Advance Accounts.*—The operations upon these accounts should be correctly shewn in the form of debit and credit account rather than by setting out the figures in a running form in the midst of the Chief Accountant's Report.
- (12) *Loan Statements.*—Present Appendices 7, 9, 10 and 11 revised, and made to link up with each other and with the balance sheet.
- (13) *Sinking Funds Comparative Table* (present Appendix 10).
- (14) *Comparative Tables of Securities* in which the Sinking and other Surplus Funds have been invested (Present appendices 5a and 6a).
- (15) *Reports and Certificates of the Municipal Auditors.*
- (16) *Statistical Tables* of various kinds.

116. It will be admitted that the Annual Administration Report in its present form is a bulky document, which is read by very few persons other than those intimately connected with the Municipal Administration. For this reason most of the value of the Report and Accounts is lost. A large number of English and American Municipalities have recognised that these annual massive tomes, though essential to the town's administrators, do not interest the general public, and to overcome this defect, little booklets have been issued, giving brief summaries of the financial accounts and statistics. These summarised Accounts are generally acknowledged to be of great practical value, and it is suggested the Corporation should favourably consider the issue of a similar summary for this City.

## XII.—LEAVE AND SERVICE RECORDS.

*Note submitted by Mr. C. M. Correa (Indian Audit and Accounts)  
Retrenchment Officer.*

117. There are some 3,000 persons in superior service and not one of these men can get a day's regular leave or even casual leave in some cases without the report from the Chief Accountant as to title. This necessitates the maintenance in the Chief Accountant's office of service records for each of these 3,000 men even though both heads of offices and, I understand, the men themselves maintain similar records, *i.e.*, 9,000 in all where 3,000 would do. In addition to this as the entries in the Chief Accountant's records are not checked by any one when made there is an annual comparison between the Chief Accountant's service records and those maintained by heads of offices. Further all leave sanctioned has to be intimated to the Chief Accountant and is recorded in a Section Register. As the leave rules are simple the leave due can and should be calculated in the great majority of cases in the executive offices and sanctioned by competent authority without reference to the Chief Accountant, the only intimation to him being through absentee statements attached to pay bills. Only one service book need be maintained for each man. These service books should ordinarily be kept in the executive office save the service records of officers whose appointment rests with the Corporation, or of officers under special covenants which should be maintained by the Chief Accountant who should report to their title to leave, etc. When this change is introduced 4 if not 5 men will be set free for other work and the officer in charge of this work would save 2-3 hours which could be devoted to other work. But the aggregate gain would be much more because there would be so much correspondence to and fro curtailed all round. Still further he reports on orders affecting establishments in their administrative aspect, *e.g.*-



questions of promotion and supersession. He is not in a position to offer an opinion in such matter carrying more weight than that of the departmental officer. If he were not required to report on such cases there would be still further appreciable reduction of work.

C. M. CORREA.

### XIII.—ORGANIZATION OF THE ACCOUNTS STAFF.

118. The Accounts Department is at present divided into six main sections, namely :—

- (1) Budget and finance and general.
- (2) Expenditure Audit.
- (3) Revenue Audit.
- (4) Cash and Provident Fund Audit.
- (5) Test Audit.
- (6) Accounts.

Section (1) Budget, finance and general, is under the direct control of the Chief Accountant, and requires no detailed explanation.

Section (2) Expenditure Audit, is sub-divided into :—

- (a) Establishment Audit Section, which deals with—
  - (1) Salary Bills.
  - (2) Labour Paysheets.
  - (3) Travelling Allowances and Overtime Bills.
  - (4) Pensions.
  - (5) Leave.
  - (6) Maintenance of Service Registers and Records.
- (b) Revenue Expenditure Audit Section, which audits and checks prior to payment, all vouchers of revenue expenditure incurred by all departments excepting the Public Health and Markets Departments.
- (c) Capital, Stores, Workshops, Health and Markets Audit Section, which audits and checks all vouchers relating to Loan Works, Stores and Workshops, and the Public Health and Markets Departments.

Section (3) Revenue Audit Section, checks all cash received with amounts due, sees that the receipts are duly entered in the books of the department concerned, and that the cash has been promptly paid into the Municipal Treasury.

Section (4) Cash and Provident Fund Section, is divided into two parts :—

- (a) The Cashier's Office or Municipal Treasury. Receipts are issued for all cash received, cash is paid daily into the Bank, the office books checked with the Bank pass books, and all such work as is incidental to a counting-house or Treasury.
- (b) The Provident Fund Section keeps the individual ledger accounts of all contributors to the Fund, including advances and the recovery thereof.

Section (5) Test Audit Section, consists of one officer only, who moves about the City, examining the accounts and working of the several departments, pointing out waste and inefficient working, and when necessary thoroughly overhauling the working and records of a department. This Officer is also the Cost Accountant, and he has to check the Cost Accounts in existence, report on their adequacy or otherwise, and revise or instal proper systems when required.

Section (6) The Accounts Section, is responsible for all main ledgers, subsidiary ledgers, cash books, journal abstract registers of deposits and advances, paymasters accounts, debt and sinking fund charges, debenture issues and registers, and the compilation of the weekly accounts abstract, the annual accounts, and the annual administration report.

This organization is the result of many years experience of the necessities of the department, and in its main outline no alteration appears necessary or desirable.

119. In each of the other Departments, there are a number of clerks varying according to the size of the department employed upon ordering materials, checking bills, keeping tabulation books, preparing establishment records and pay-sheets, and other work bearing upon the accounts and budget.

A full statement of the staff employed upon accounting duties is given in appendix "A" attached hereto, which shews the total number to be 186, costing in the current year Rs. 3,27,300.

120. The placing of the responsibility for maintaining the primary records and subsidiary ledgers of income and expenditure upon the departmental heads (see paras. 31 to 34 above) will free

at least six clerks in the Accounts Department. It would be desirable, in view of the knowledge of accounts which these clerks possess to transfer them to the departmental accounts sections, and to reduce the existing departmental accounts staffs accordingly.

In the Health, Conservancy, Roads, Drainage, Water and Markets Departments the clerk in charge of the accounts section should have an accounts qualification and be given the status of a Chief or Head Clerk.

121. If the leave records maintained by Departments are accepted as the official records (see para. 119 above) then the Establishment Section of the Accounts Office can be reduced by four clerks.

122. A re-organization of the accounts work in the Roads Department should lead to a reduction of seven clerks, one in each ward office (see Appendix VII, page 98 of the Retrenchment Adviser's Final Report).

123. These reductions would result in a saving on the maximum rates of pay, as under :—

	Rs.
6 Clerks from departmental accounts sections at Rs. 150 p.m. × 12 .. .. =	10,800
4 Clerks from Chief Accountant's Office at Rs. 150 p.m. × 12 .. .. =	7,200
7 Ward Clerks, Road Department, at Rs. 100 p.m. × 12 .. .. .. .	8,400
Total ..	26,400

124. It may be that when details of the revised organisation are fully worked out, and efficient and economical methods of working introduced, a further reduction in the strength of the clerical staff may be found possible, but as a large re-distribution of duties is involved, which may necessitate the strengthening of some sections, such as audit, it would be inadvisable to make any definite pronouncement at the present stage. The main savings will undoubtedly accrue from the control of expenditure before the liability is actually incurred, and when incurred, the control of the departmental heads by appropriation and costing records, which should ensure the obtaining of full value for the money spent.

## XIV.—SUMMARY AND CONCLUSION.

The suggestions made in this Report may be summarised as follows :—

- (a) That the Resolution of the Standing Committee, No. 9150 of 29th October 1919, ordering that the Accounts of the Municipality be kept upon the basis of "Income and Expenditure" be given full effect to in the accounts for the financial year 1926-27. (Para. 12).
- (b) That an Accounts Code and Manual be prepared at an early date. (Para. 22).
- (c) That all primary records, registers and subsidiary ledgers be entrusted to account sections in the several departmental offices. (Para. 31).
- (d) That such departmental accounts sections be under the orders of the Chief Accountant in regard to technical matters of accounts, but under the departmental officers for pay and discipline. (Para. 34).
- (e) That the accounting system outlined in paras. 36 to 53 be adopted in principle.
- (f) That the procedure of the Roads Branch relating to Budget Estimates, Works Estimates and Costing Accounts be revised. (Para. 60).
- (g) That the cost records of other departments be also revised. (Para. 62).
- (h) That the system of cost accounting in the Municipal Workshops be revised on the lines suggested in the Test Audit Officer's Report, dated 5th March 1924. (Para. 63).
- (i) That the departmental stock records be verified, and the transactions of these stock accounts be recorded in the main financial account books. (Para. 65).
- (j) That departmental statistics be prepared by the departments, and general statistics by the Accounts Department. (Para. 66).
- (k) That the Revenue Budget be revised on the lines outlined in para. 68 and the specimen blank budget to be submitted to the Standing Committee.
- (l) That the methods adopted by the several departments in framing the budget estimates be thoroughly examined and reported upon. (Para. 70).

- (m) That no proposal for expenditure on increased establishment or for any new class of work be included in the tentative budget unless previous administrative sanction has been obtained to the proposals. (Para. 71).
- (n) That all establishment entries in the Revenue Budget be critically examined. (Para. 72).
- (o) That the provisions of the Municipal Act relating to the transfer of budget grants be amended. (Para. 76).
- (p) That the Municipal Act be amended so as to provide for the preparation of a separate Loan Works Budget. (Para. 78).
- (q) That some of the entries in the Loan Works Budget relating to major works be amplified. (Para. 79).
- (r) That a financial forecast accompany every estimate for capital works. (Para. 80).
- (s) That Standing Orders or a Code be framed for capital expenditure. (Para. 81).
- (t) That all land acquired should be shewn under (1) land acquired for re-sale, (2) land acquired for permanent purposes; and that a register of lands acquired be maintained. (Para. 82).
- (u) That an advance be made from Loan Fund Balances for financing capital stores. (Para. 83).
- (v) That detailed estimates be prepared for all works it is proposed to carry out departmentally. (Para. 84).
- (w) That the Engineering Department be empowered to vary details of an estimate up to 10 per cent. of any individual item. (Para. 85).
- (x) That transfers or re-appropriation of loan moneys be restricted to items within the same main service head of account. (Para. 86).
- (y) That the Accounts of the Water Works and the Markets be separated from the rate accounts. (Section VIII).
- (z) That valuations be made of all lands, buildings, plant, machinery, dead stock, loose tools and other realisable assets in the possession of all departments. (Section IX).

- (aa) That the Revenue Audit Section be placed under the direct control of a responsible supervising Officer. (Para. 100).
- (bb) That the Municipal Auditors to be appointed in future be qualified professional accountants and that their powers and duties be revised. (Paras. 110, 111 & 112).
- (cc) That the Annual Report of the Chief Accountant be submitted in future in continuous narrative form. (Para. 113).
- (dd) That the appendices to the Chief Accountant's Report be remodelled. (Paras. 114 and 115).
- (ee) That the capital balance sheet in particular be revised so as to show the assets of the Municipality divided into (1) Permanent and Realizable Assets, (2) Permanent but Unrealizable Assets, and (3) Capital outlay not resulting in the acquisition of a permanent asset. (Para. 114) (g).
- (ff) That a summary of the accounts and general financial statistics be published. (Para. 116).
- (gg) That the leave and service records of all employees drawing Rs. 500 or less per mensem be maintained in the departmental offices only, and that the duplicate leave and service records maintained in the Accounts Department be discontinued so far as they relate to such employees.
- (hh) That the staff of the accounts department and the clerks of other departments who are employed on accounts work be reduced by not less than 17 clerks. (Para. 123).
- (ii) That the remaining accounts staff be re-distributed among the Accounts Department and the departmental accounts sections in such manner as will best secure efficiency and economy. (Para. 124).

125. The Chief Accountant and the Accounts Department have, for many years, been aware of the many defects in the existing system and methods, but for various reasons, the chief one being lack of adequate superior staff, little could be done to improve matters.

The following extract from a Note to the Retrenchment Adviser written by the late Mr. W. E. Waite in June last is quoted in support of the above statement :—

“ I have for years asked for a revaluation of our assets and our liabilities in order to be satisfied that all the property

we are supposed to have is really there, and to add any property that we have acquired by gift or exchange.

For years the Engineering Department have had a special staff engaged for the purpose and I am as far of the end as when I made my suggestion 12 years ago. I have wanted to write off unproductive assets on certain well recognised principles; I have desired to bring assets paid for from revenue on our books; I have desired to bring on to my balance sheet engineering stores and tools and plant, recorded nowhere; I have wanted a continuous verification of stores, furniture, tools, plant, etc., and all that has been done so far in years is to appoint an outside accountant knowing nothing of the main accounts to make suggestions as to how the subsidiary accounts have to be kept! Needless to say his work is wasted, as his proposals do not fit in with our main accounts or principles already accepted by us."

That somewhat similar conditions prevail in other fast growing cities to what prevails in Bombay is evident from the documents gathered by the Retrenchment Adviser in the course of his enquiry, and the following extract from the Report of the Toronto Civic Survey Committee summarises so lucidly the difficulties of administrative officers in effecting changes in organization and methods of working that the infliction of another quotation will, the writer hopes, be forgiven. The word "Bombay" has been substituted for the word "Toronto" throughout the extract:—

"In pointing to some of the obvious defects in methods of reporting of the treasury department, officers of this department are not charged with incompetence or neglect. (Bombay) officials are in the same situation as are the officials of other fast-growing cities. The current work increases rapidly, the daily routine demands on official attention are such that persons in responsible positions have little time or opportunity left to study the business system as a whole, much less to take the time needed to work out constructive plans and obtain the co-operation essential to a successful installation of new methods and procedures. Each day's work must be done or the business will stop. Each day is a full day. The larger the City the more difficult it becomes to make a change (1) by reason of the increasing demands on the responsible officers; (2) by reason of the large number of institutional adjustments which must be brought about to make any change effective. The working out of some systematic method of doing business and the installation of new procedure must necessarily be performed by persons who are relatively free from the grinding

details of administration. The only solution is either in a temporary or permanent staff which is not charged with making the decisions essential to direction and control. As a matter of organization, (Bombay), like most public Corporations, has its full quota of "line" officers and men but is lacking on the "staff" side. So long as matters of this kind are left to men who must keep the wheels of business moving, those in command must find themselves at an increasing disadvantage. Changes may be made, and frequently as a matter of adaption, but unless the whole subject of institutional needs is taken up systematically, change after change in method will be made under circumstances such that while they may be adapted to getting better results, each change may increase the cost and red tape of doing business.

(Bombay) has been peculiarly fortunate in having had many years of continuous service of the principal officers in its departments. But the best thing that these officers can do for (Bombay) and for themselves is to focus public attention on the difficulties of the problem before them in order that they may have support of public opinion in bringing about the adaption of organization and methods to service requirements."

T. H. BIRD,

1st May 1925.

*Secretary, Retrenchment Enquiry.*



ACCOUNTS REFORMS AND REORGANIZATION.  
APPENDIX "A."

Department.	Designation.	No.	No.	Annual cost.	Total amount.	
				Rs.	Rs.	
Secretarial Office ..	Chief Clerk .. ..	1		1,800		
	Clerk .. ..	1		1,260		
			2		3,060	
Municipal Commis- sioner's Office ..	Clerks .. ..		2		2,760	
Audit and Accounts	Chief Accountant ..	1		18,000		
	Deputy Accountants	2		18,000		
	Test Audit Officer ..	1		12,000		
	Senior Asst. Acctts. ..	4		19,780		
	Cashier .. ..	1		3,190		
	Assistant Cashier ..	1				
	Senior Paymaster ..	1		6,300		
	Senior Receiving Clerk	1				
	Chief Clerks .. ..	4		11,940		
	Head Clerks .. ..	10		20,555		
	Clerks .. ..	78		1,02,000		
	Shorthand Typist ..	1		1,200		
	<i>Temporary Staff.</i>					
		Chief Clerk .. ..	1		3,000	
		Paymaster .. ..	1			
		Senior Clerks .. ..	2		7,860	
		Clerks .. ..	3			
			112		2,23,825	
General Stores ..	Clerks .. ..		7		5,940	
Assessment and Col- lection .. ..	Clerk .. ..		1		1,320	
Licensing .. ..	Head Clerk .. ..		1		1,980	
Town Duty Refund ..	Head Clerk .. ..	1		2,040		
	Clerk .. ..	1		1,620		
			2		3,660	

Department.	Designation.	No.	No.	Annual cost.	Total amount.
				Rs.	Rs.
Executive Engineer, General Branch ..	Clerks .. ..	1	5	1,800	8,580
Road Branch ..	Head Clerk .. ..	10		14,280	
	Clerks .. ..		11		16,080
Executive Engineer, Building Branch ..	Clerks .. ..		2		3,060
Drainage Department	Head Clerk .. ..	1		1,800	
	Clerks .. ..	4		6,540	
			5		8,340
Workshops .. ..	Clerks .. ..		7		8,220
Water Works Depart- ment .. ..	Clerks .. ..		3		4,560
Public Health, General	Clerks .. ..		5		6,960
Conservancy .. ..	Head Clerk .. ..	1		2,040	
	Clerks .. ..	5		7,896	
			6		9,936
Hospitals (Maratha and Arthur Road) ..	Clerk .. ..		1		780
	Clerk .. ..		1		960
Fire Brigade Estbt. ..	Clerks .. ..		4		5,280
Markets and Slaughter- houses .. ..	Head Clerk .. ..	1		1,860	
	Clerks .. ..	7	8	8,700	
					10,560
Gardens .. ..	Clerk .. ..		1		1,440
	Total ..		186		3,27,301

(b) Memorandum from the Commissioner, No. M. C. 38/A., dated the 8th February 1926—Forwarding copy, as follows of a letter to his address, dated the 29th January 1926, from Sir M. Visvesvaraya, K.C.I.E., for the information of the Sub-Committee appointed by Standing Committee Resolution No. 4194 of 23rd July 1924 :—

“ In submitting my Final Report on Municipal Retrenchment and Reform on 31st January 1925 I gave a promise, which you welcomed at the time, that I would be addressing you again on the subject of Municipal Accounts. In pursuance of that promise I have the honour to invite attention to the report on “Accounts Reforms and Reorganization” submitted by Mr. T. H. Bird, Secretary to the Retrenchment Enquiry, on 1st May 1925, and to bespeak the favourable consideration of the Municipal Corporation to his proposals.

2. The more important of the Accounts Reforms suggested by me are epitomized in Appendix I of my Final Report, referred to above, from which I take the following :—

Appointment of a new Controller of Accounts.

Re-organization of the Accounting System of the Municipality.

Valuation statement of Municipal properties, lands, buildings, etc.

Valuation Statement of machinery and plant, tools, stores, dead stock, etc.

List of Revenue-yielding properties and amount of annual revenue derived.

Statement of assets and liabilities of the City Corporation.  
Separate accounts of trade undertakings like Water Works and Markets.

Preparation of an Accounts Manual.

Opening a Statistical Section in the Accounts Department.

Additional recommendations suggested as a result of the further investigations in progress.

Among others :—

(i) Remodelling form of Budget.

(ii) „ „ Annual Accounts.

(iii) Codes and Manuals for Engineering and Public Health Departments.

3. Mr. T. H. Bird has pursued the subject further and prepared a very comprehensive and valuable report on the reforms needed. He traces the origin of the present system of

accounts, its development through various stages and the numerous anomalies and deficiencies which have crept in from time to time through lack of a connected system, and ends by making a number of definite recommendations.

4. I would suggest that Mr. Bird's report be examined by a Committee of experts consisting of, say, (1) the Accountant General, Bombay, (2) a representative of one of the firms of Chartered Accountants in the City and (3) the Chief Accountant of the Bombay Municipal Corporation. The Committee may be asked to recommend which of the proposals in Mr. Bird's report may be given effect to at once and in what directions the remaining suggestion should be improved so that they may be acceptable. The former set of proposals may be sanctioned by the Corporation and brought into operation at once and the letter referred to Mr. Bird or the Chief Accountant for further revision in the light of the suggestions made by the Committee.

5. The members of the Committee may be paid a fee with the permission of the Government, if necessary, so that they may be able to give adequate time and early attention to the work. Since the yearly savings resulting from these measures may be counted in lakhs of rupees, the expenditure on such a Committee will repay itself many times over. Even if its work should result in nothing more than the adoption of a few of the self-evident suggestions in Mr. Bird's report, the Committee will have done substantial service to the Municipality. I therefore venture to suggest that the subject be brought to the notice of the Municipal Corporation with a view to obtaining their decision at a very early date."

Letter from Khan Sahab H. S. Katrak, Municipal Auditor, dated the 24th April 1926 :—

" May I request you to kindly place the accompanying letter before the Sub-Committee of the Standing Committee appointed to consider the report by the Retrenchment Officer in connection with the reform and reorganisation on the accounting system of this Municipality."

*Letter to the Chairman of the Sub-Committee of the Standing Committee appointed to consider the report on the Accountancy System of this Municipality, dated the 24th April 1926, from Khan Sahab H. S. Katrak, Municipal Auditor:—*

" I take leave to forward to you a copy of my letter of 4th December 1924 to Sir M. Visvesvaraya on the subject of the system of accounts of this Municipality, from which it will be seen that the subject-matter was taken up by me as far back as

1904-05 and was then fully discussed by a Sub-Committee of the Standing Committee in consultation with the Commissioner and the Chief Accountant and the Auditors. The report of the Sub-Committee which was in favour of the "Receipt and Disbursement" system was adopted by the Standing Committee (*vide* Standing Committee Resolution No. 157, dated 10th April 1907) and all papers underlying it. The subject-matter was again taken up by Mr. Monie and his proposals for the introduction of the Income and Expenditure system were adopted by the Standing Committee in their Resolution No. 9150, dated 29th October 1919. Under Corporation Resolution No. 4404, dated 6th August 1920, the Standing Committee were requested to ask the Municipal Auditors to express their views with regard to the new system, *viz.* 'The Income and Expenditure System.' Their report of the 1st September 1920 with Commissioner's remarks thereon was recorded, *vide* Corporation Resolution No. 9997, dated the 13th January 1921, and papers underlying it. Though the Standing Committee had finally approved of the introduction of the new system effect was not given to it (*vide* Standing Committee Resolution No. 13956, dated 10th March 1920, and No. 4371 of 17th March 1920). In this connection attention of the Sub-Committee is further invited to Commissioner's letter No. C/48-D, dated 26th September 1921, underlying Corporation Resolution No. 7284, dated 10th November 1921, which deals with the difficulty in giving effect to the 'system' at once.

2. From the 14th report of the Retrenchment Committee of the Corporation (Item No. 111 of the April Agenda) I notice from page 3 of the report (last para.) that the Sub-Committee have called for the opinions of experts on the system advocated by the Reform Officer. I therefore humbly request that the Sub-Committee will be pleased to favour me with copies of the views of these experts for perusal before laying down any fixed ruling in the matter. The accounts of the City Improvement Trust will sooner or later have to be amalgamated with our accounts and it is advisable to give this question a very careful consideration."

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*Letter to Sir M. Visvesvaraya, K.C.S.I., dated the 4th December 1924, from Khan Saheb H. S. Katrak, Municipal Auditor, above referred to:—*

"In continuation of my letter of 18th November 1924, may I most respectfully submit to you one more point for your consideration. I humbly request you to kindly examine the present system of accounts followed by this Municipality. Sir,

you know that there are two established systems of accounts. One is the Income and Expenditure Account and the other the Receipt and Disbursement System. The former is followed by almost all Banking and Mercantile firms and the latter is followed in Government Accounts. Owing to several legal technical difficulties, it is not possible for this Municipality to follow any of the established systems of Accounts. When I was here in 1904 I had drawn the attention of the Standing Committee to several irregularities in accounts and amongst these the system of accounts was one. The then Municipal Commissioner to whom the matter was referred to for opinion and decision by the Standing Committee after holding two or three conferences with the late Mr. Waite and the Auditors advised the Standing Committee to appoint a small sub-committee and leave the whole subject to them for decision. The sub-committee after holding several meetings (in which the Chief Accountant and Auditors were asked to attend) and discussing all the points in their report (embodied in the abstract of proceedings of the Standing Committee, dated the 10th April 1907) para. 5 recommended to the Standing Committee that the Municipal Accounts should be a record of actual transactions, i. e., they should be kept on the basis of Receipts and Disbursements, stating further that once a ruling to that effect is laid down, the cause of difference in regard to one of the most fundamental principles of accounts will be removed. The late Mr. Waite also in his note on the irregularities had expressed that the system of accounts followed by this Municipality was erroneous and left the matter to the Standing Committee to decide. The report of the Sub-Committee was adopted by the Standing Committee, *vide* their Resolution No. 157, dated the 10th April 1907. It appears however that effect was not given to the orders and the present system followed is neither of the two established systems. I was not here from 1907 to 1918, but on my return here in 1918, I found that there was no change made as required by the orders of the Standing Committee. I may further point out that Mr. Monie, Mr. Clayton's predecessor in Office, formulated proposals to introduce the Income and Expenditure System of Accounts. The proposals were sanctioned by the Standing Committee and the Corporation but the system could not be given effect to for want of sufficient funds to cover the adjustments of outstanding liabilities. On an examination of the accounts for the past three years you will notice that there have been several changes in the classification of charges and owing to a want of an established system there is confusion in the accounts. I hope you will excuse me for writing to you at such length, but as I think that you are the right person to do the needful in the matter, I have approached you."

(c) Letter from the Commissioner, No. R. E. 27, dated the 19th May 1926 :—

"As desired in your memo. No. 14325, dated 1st March 1926, I have the honour to forward herewith for the information of the Sub-Committee of the Standing Committee appointed to consider the proposals contained in paras. 46 to 48 of the Preliminary Report on Municipal Retrenchment and Reform, the opinion of Mr. S. B. Billimoria, F.S.A.A., upon the Report of Mr. Bird regarding the Reform and Re-organization of the Accounting System of the Municipality.

The Accountant-General has been requested to consult the Auditor-General as to the services of one of the Government Account Officers being lent to the Corporation to criticise the Report."

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*Letter to the Commissioner, dated the 26th April 1926, from Mr. S. B. Billimoria :—*

"I have perused with great interest the report of Mr. Bird and have had an opportunity of discussing the main features of the report with him at the Municipal Offices.

Owing to my being away from Bombay on another important professional engagement, I regret, I have not been able to submit my views at an earlier date.

I had to traverse at some length in discussing the various points arising out of such an instructive and useful report, but I have felt that a very brief expression of opinion was not called for by the Committee now considering Mr. Bird's Report when the same was referred to me. I have with that end in view attempted to discuss the main principles of accounting in the enclosed report by my firm at some length."

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*Report from Mr. S. B. Billimoria, F.S.A.A., above referred to :—*

The note submitted to us regarding the accounts reforms and reorganization is divided into the same main heads as in the report and consequently for facility in discussion we have followed the same order in expressing our views.

(1-4) This embodies a summary of the Statutory provisions relating to the accounting system of the Municipality and a brief history of the same together with proposals for reforms as put forward in recent times.

We take it that the object and purpose of the reform and reorganization of the Municipal Accounting System is to carefully formulate, for the guidance as much of the accounting and auditing officers as for that of the several authorities in the Corporation itself which have to deal with the finances of the Municipality.

The main objects which have to be aimed at in organizing and maintaining the accounts of a public Corporation like the Bombay Municipality are twofold—(a) the maintenance of proper up-to-date accurate accounts, or record of all transactions of the Corporation, which have, or can be expressed in, a monetary form. In this, attention is confined necessarily to the accuracy of the form in which accounts are prepared and presented, hence this object will be attained by the proper devising and regular keeping and checking of suitable books of account, forms of contract, order or indent, or certification of invoices, etc.

In the pursuit of the first named of the above objectives information will have to be compiled and presented which would make not only returns of the cost per unit worked out in the case of each department of trading venture but try and give the same comparison with the corresponding cases under private management or in similar Corporations in this or other countries, with a view to ascertain the degree of economy and efficiency prevalent in the Municipal administration.

It ought, however, to help to prevent misuse of the Municipal Funds, to detect at once errors or abuses even if they are not prevented *ab initio*, to avoid undue arrears or bad debts in the collection of revenues and guard against wrongful, irregular, unauthorized or illegal payment. For this last-named purpose, specific authority of the Statutory provision, or Corporation Resolutions, of budgetary grant, must invariably be appended to every item demanding payment, and the paying officer must in each case verify the same. Besides mathematical accuracy and formal exactness, there will be little more in this connection, and the auditing authority would be satisfied if a complete tally and a satisfactory maintenance of the forms, accounts and vouchers is obtained. (b) The second, and, in our opinion, the more important, though less emphasized, object of accounting in regard to the transactions of all public corporations ought to be to see that full value is received for the moneys spent by such public bodies. This means that on the revenue side such public bodies do not obtain or exact more funds from their constituents (citizen tax-payers in the case of the Municipality) than are absolutely necessary for the discharge of the functions by law entrusted to such bodies.



This second arises from the need to secure due economy and avoid a heavier pressure of Municipal taxes or revenue upon the citizens at large than may be absolutely necessary. For if the Municipality exacts more taxation and other revenue than is necessary for the discharge of its expenses it will be admitted the citizens' private wealth and enjoyment will to that extent be reduced and restricted and it may give rise to needless waste of extravagance. We do not consider the alternative of such public bodies taking less by way of taxation than is necessary for the discharge of Municipal duties, because either that alternative does not occur, or that the deficit when it does occur is squared by borrowing. In either event the ultimate result would be undesirable. But the much greater importance of this second objective is to be found on the expenditure side of the Balance Sheet of such public bodies. It is here that the competitive and often incompatible aims of economy as well as efficiency have to be kept in view and realized wherever and as much as possible. Writing on the aims and objects of auditing, the Government of India have themselves laid down in their first despatch on the Montford Reforms (para. 77) that :—

“The audit will not only see that there is quoted authority for expenditure, but will also investigate the necessity for it. It will ask if the individual items were in furtherance of the scheme for which the Budget provided, whether the same result could have been otherwise obtained with greater economy, whether the rate and scale of expenditure were justified under the circumstances, in fact, they will ask every question that might be expected from an intelligent tax-payer bent on getting the best value for his money.”

In achieving the objective of economy and efficiency in the collection and disposal of public funds, attention, it is clear, merely to the arithmetical precision of records will not suffice. The task, however, of working out and showing the actual degree of efficiency obtained by the expenditure of public funds must devolve on some officer or authority, other than those directly dealing with the working process of keeping accounts or conducting the administration. We submit that there must be a Municipal Finance Officer. His duties must comprise besides the one already mentioned, the financial co-ordination of the several authorities in the Municipal Corporation. He must also collate and correlate the several financial provisions in resolutions of the Corporation and the various powers of the individual officers acting under the authority of the Corporation. He will have to be conversant with the needs and requirements of the various departments under the Municipality, and at the same time be expert in the general consideration of public

finances, with special reference to a body like the Municipal Corporation of Bombay. He would also be useful in helping the Corporation to make proper budgetting or estimating in advance of the revenues as well as expenditure heads, so as to avoid those variations between estimates and accounts which have been instanced by the report under review in para. 11. He will also, with the aid of the expert accounting staff under him, and with a stricter and more regular enforcement of the forms and preliminaries necessary for the making of each payment out of the public funds belonging to the Corporation, help to avoid any irregularities, illegalities or unauthorized spendings. Finally he will help to give a better and more accurate estimate for the purposes of budgetting in regard both to revenue and expenditure heads of the Corporation, and thereby contribute to the greater economy and efficiency of Municipal administration. We accordingly not only approve of, but strongly support the recommendation contained in para. 23 of the report under review, subject to the modification that, whatever be the designation of the chief controlling Finance Authority in regard to the said finances, whether he be called the City Controller as proposed by the Retrenchment Advisor or Finance Officer to the Corporation, his duties must be not merely to control and regulate the receipts and payments or income and expenditure of the Corporation, but also to take the entire finance system as a whole, and to consider measures for securing greater economy and efficiency in the Municipal administration. The real change would be the change in the view point of such an officer as also in the duties devolving upon this department.

We may add that the appointment of such an officer will as a matter of fact be no addition to the expenses of the accounting staff in the Corporation, because if anything, the savings and economy which such an officer properly recruited and having the necessary qualifications—will be able to effect, will more than repay the cost of entertaining such an officer.

We approve in general of all the proposals contained in para. 13 of the Report under review regarding separate accounts for each main object of expenditure, and that within each of such account expenditure should be grouped according to its objects. But we would suggest that the basis of classification both in the revenue and in the expenditure side be thoroughly overhauled, both as regards revenue as well as expenditure. A logical classification according to natural affinity of the several items of public revenue expenditure not only helps to a better understanding of each, but secures a far greater efficiency in administration than would otherwise be the case.

For one thing Municipal ideal or policy naturally differs in the different heads of expenditure, according as the object is to render service, or to secure a surplus of profit, and these varying aspects of Municipal ideal and policy can only be kept in view properly if classification of revenues and expenditure is natural and logical. From the other claim of securing proper control and supervision of Municipal funds come the requirements of minutely specified items so as to induce the clearest and thoroughest possible grasp of the City's finances. Accordingly we would recommend that the division of the Bombay Municipal Budget into about 15 classes on the Revenue side and about 18 classes on the Expenditure side is not enough, and that, therefore, greater more detailed itemisation would be preferable. In securing this itemisation, we would further add, regard must be had to improving the classification on the lines, *for example*, suggested in a recent work on the *Constitution, Functions and Finances of Indian Municipalities*.

II. *Basis of Accounts, paras. 5 to 14.*—In this section the points of outstanding importance relate to the change of the accounting system of the Municipality from the "Cash Receipts any Payments Basis" to the Income and Expenditure Basis, and secondly, the form and nature of the Budget and accounts presentment.

As regards the first, the report under review inclines to accept the Income and Expenditure basis which undoubtedly is preferable to the present system of Cash Receipts and Payment or rather a mixture of the two systems. Its reform is therefore as urgent as it is overdue. But in recommending the change we do not for a moment propose that the lapses of all unspent grants at the close of the financial period should not be brought to the notice of the Corporation.

The demand for the renewal of all such grants will be made on opportunity for a wholesale critical review of the activities of the departments concerned and it is from such a review that the greatest economy is possible to secure. It will be admitted that the system of cash record alone may not secure a correct view of the financial position of the Corporation inasmuch as accrued liabilities, not translated in terms of payments, or accrued income not translated in terms of receipts, will not be recorded and so will not be brought into view. But this must also be remembered that, even in the basis of accounting for income and expenditure it is very rarely that an exact account can be kept and shown of all accrued liabilities as they are accruing not fully translated in terms of receipts or payments, etc. Interest for example may be

calculated upto date, and so can insurance, even though not actually paid, but there are other liabilities of a contingent nature which cannot be regularly calculated and presented, which though decided to be incurred as a matter of settled policy are nevertheless unavoidably uncertain owing to a variety of outside factors coming into play.

The accounts of a public corporation like the Municipality of Bombay are mainly a record of the cash incomings and outgoings in each given period. But for a better, truer and more accurate understanding and appreciation of the financial position it would be necessary (1) to separate the purely revenue from the capital transactions, and (2) to enforce maintenance in all spending departments of tabular pictures showing progressively the using up of the sanctioned budget grants under such head, as suggested somewhat on the lines in para. 32 of the Report under review. Under the first of these modifications the greatest difficulty will occur in drawing the precise line of demarcation between revenue and capital transactions, as for instance, in the case of expenditure on Repairs and Renewals or Depreciation regarding Capital Works. But if such analogies as those provided by the recently adopted regulations governing the Indian State Railways accounts are accepted, with the appropriate modifications, the difficulty will not prove wholly unsurmountable. As regards the second we think it of the utmost importance that for the guidance of the financial authorities in the Municipality, some means must be found for showing what may be styled the accrued but yet undischarged liabilities, or unrealized assets. Hence the need of the tabular statements which collected and collated properly, will make a suitable and adequate presentment of the correct up-to-date financial position of the Corporation.

On paras. 9 to 12 we have no remarks to offer beyond what may be applicable to them in the observations immediate preceding.

*Re* para. 13, it is not quite accurate to say that the Bombay Municipal Accounts follow the principle of accounting separately for each main object of expenditure, or even of revenue. In the volume called "The Budget Estimates of the Income and Expenditure of the Bombay Municipality for 1926-27 adopted by the Municipal Corporation of the City of Bombay" the revenue side gives 14 main and 80 sub-heads of the Municipal Income, while the Expenditure side contains 19 main and about 53 sub-heads including the repeated heading of New Works in almost every instance. Such a practice necessarily involves large lump grants and implies a margin of discretion or initiative on the part of the

pending departments which can justly be described as inconsistent with the strictest demands of public economy. To appropriate or allocate each sum to each single item of expenditure betrays no want of confidence in the spending authorities. It is only the most effective, if not the only, insurance such public bodies can have against waste, extravagance, inaccuracy or even embezzlement. The right type of the departmental heads, it will be admitted, will have nothing to fear by this change.

In this connection we may add in passing that the report under review makes no reference to the power of reappropriations from one sanctioned to another item in the same group of class, or as between groups. We think it a very useful, but also very dangerous power. We would not advise that it should be altogether dispensed with, but if adopted, we think it would do more harm than good if it is not suitably hedged round by precautions. As a rule such a power should not be vested in any but the highest authority within the Corporation, such as the Standing Committee or for the matter of that the entire Corporation itself.

As regards "units of cost" (para. 13 (2)) we have already recognized the utility of this device and shall reserve further observations to Section V of the Report under review (56-66).

Para. 14 does not call for any remarks.

*Paras. 15-26. Financial Control.*

Agreeing with the observations in para. 15 we think it absolutely necessary to define clearly in advance the object and purpose of such control, as well as powers and authorities by which it is to be exercised. We consider the aim of financial control in public bodies to be twofold. In the first and somewhat narrower sense, it is to provide and employ a system of effective check on account keeping, so as to prevent or detect any misuse or abuse of public funds. The statutory provisions and Corporation resolutions in that behalf passed by the Bombay Municipality aims at achieving this objective. There is still room for improvement and Mr. Bird's suggestions and recommendations in the report under review generously provided for that improvement. The fault, however (such as there is) is the fault of functioning rather than one of the very design of the machinery for checks. There is for example statutory provision for audit and inspection of accounts by the government, and yet we are not aware that this provision is regularly ever given effect to in Bombay! Of course this may argue a degree of excellence in the Bombay Account keeping which renders unnecessary the employment of such extraordinary precautions or provisions or it may on the other hand mean an amount of laxity or indifference.

But it is in the attempt to achieve the second of the abovenamed aims that the greatest difficulty must be looked for and remedied. The true conception of public economy must balance, as exactly as may be, between the money spent and the value received or service rendered, between the moneys raised and the burdens imposed or sacrifices involved. This cannot certainly be accomplished by officers or departments concerned, merely with accurate account keeping. They can provide the basis, the data on which another and better qualified authority may be able to judge of the degree of economy achievable, but they themselves cannot do more. Hence we reiterate and support the suggestion in the report for setting up of some distinct, independent authority under the Corporation whose business it should be to act as the city's Chancellor of the Exchequer and consider the Municipal finances as a whole.

In view however of the existing circumstances without pronouncing upon the advisability of outside control we accept the reasonings and findings of para. 17 and would add that for the present at least there is an arguable case for the provincial government retaining a reserve of controlling powers—which, of course, must never be allowed to degenerate into undue interference—we can never lose sight of the ultimate controlling authority. That must be and can be no other than the city council as a whole and we think Mr. Bird's observations do not emphasize this point as fully as it deserves to be.

The Corporation as a whole cannot in the nature of things exercise the detailed control which is in the nature of effective checks on abuse, misuse, or embezzlements. Its control necessarily take the form of a general supervision which aims at securing economy and efficiency in the entire financial administration of the city. The control in the form of detailed security and effective checks must necessarily be entrusted to subordinate authorities. At present there are two such authorities, the Standing Committee, and the Commissioner acting by himself as well as through the other heads of departments functioning under his chief executive authority. We would, for reasons given above, suggest the replacement or reconstitution of these by (1) a Financial Committee sided and guided by a specially appointed Financial Officer with suitable designation and well defined duties—whose duties would embrace all those mentioned in para. 20, in addition to the duty of considering and advising the Corporation on all possible means of securing greater and greater economy, without in the least losing sight of the requirements of efficiency. It can be achieved from a close scrutiny and detailed consideration of the accounts and

information obtainable from the accounts. Last must be furnished by (2) a properly organized and efficiently equipped accounting staff acting in close co-operation with the chiefs of the main revenue collecting and spending departments. If we conceive the financial organization in the Municipality herein contemplated to be represented by a circle, the whole circle will be the Corporation in its entirety, while the Finance Committee and the Financial Adviser would be the centre, the spending officers, the circumference, and the accounting staff to be so many radii or connecting links. In that conception we fully concur with the logic and suggestions contained in para. 25 of the Report, further supported in para. 29 and emphasized in by concrete recommendations in 32. In fact for our part, we would lay every emphasis we can command on the need to inculcate a sense of proper public economy in the chief spending as also the collection officers of the Municipality. They have not, perhaps, sufficient experience of their own Municipality, much less of others, to help them in a proper understanding of the canons of Municipal finance, in a fuller appreciation of the task entrusted to them. They have not, it may be urged, adequate assistance in the shape of clearly defined and elaborated principles and objectives which they are to keep in view in the conduct of administration of the departments entrusted to them. But for these very reasons, it will be the task of the new officers herein suggested to compile the necessary data, furnish the required standards, to formulate the accepted objectives or principles of Municipal financing. Once these are provided it will be right and proper to judge of the service of these spending officers according as they conform to the ideals thus defined, and fulfil the test thus laid down. And when that is achieved, all the requirements of adequate effective financial control and check would be fulfilled.

In this control, the value of the itemised Budget with exhaustive details will be reinforced by the facility it will afford for effective control. A further suggestion which may with advantage be made at this stage, concerns the provision of an informative as well as critical review of the past year's financial administration by the Chief Finance Officer. This will naturally and necessarily relate to the doings of a year already past, but its value lies in the help it can give in controlling the finances of the future as also in bringing to light the channels and directions in which satisfactory control is inoperative of true economy unavailable. To be really serviceable, such a review must give not only a critical survey of the financial administration, it must also give comparisons and contrast with similar activities in other corresponding Municipalities and if possible

in circumstances alike outside India. We may add here by way of conclusion, that the Municipal finances will lose nothing from the point of view of economy, if occasionally a general audit is made by wholly independent and qualified professional auditors. Such a course is not only advisable but prudent.

Regarding paras. 21-24, of the report under review, we endorse the suggestions and recommendations of Mr. Bird regarding a complete, scientific, upto date accounts code. We cannot say with any certainty that the existing material of this *genre* is either satisfactory or scientific. The Stores Manual needs a radical revision, not only in comparison with the Stores Purchase Rules of the Government, but also and in particular with reference to the growing strength and volume of the national economic consciousness in the country. The contribution, which the purchase of stores, required for the use of Public bodies and departments makes towards the economic or industrial development of a country, cannot possibly be exaggerated. We have not sufficient authoritative or official information on the points but judging from what has leaked out from time to time in the Corporation debates, one would infer that the Stores Purchase Rules of the Bombay Municipality have got to be brought into line with those of the Government, Bombay City itself is a great, perhaps the greatest, industrial unit in the country. It naturally has a strongly marked consciousness of its own industrial possibilities. No wonder, then, if the city should expect its own local Government to contribute its quota in promoting the realization of those ambitions by means of a judicious, discriminating purchase of the Municipal stores. In making this recommendations, we are, of course, not unmindful of the supreme duty imposed on all guardians and trustees of the public funds to always insist rigorously on getting the fullest value for their money. But we do not concur with the view that this latter objective would be necessarily incompatible that a happy mean could be struck which could fully reconcile and perfectly harmonise the needs of national economy with the dictates of husbanding the City's funds.

The same remarks apply in general to the Assessment Manual, *mutatis mutandis*. It is the basis of the greatest single item of Municipal revenue. And yet we have no positive information that it is a most scientific and up-to-date compilation. In the opinion of some experts who have given any thought to the subject, the city's income from this source suffers from avoidable evasion, or alternatively the citizens perhaps thereby carry a greater nominal load of taxation than they need. The mode of valuation relating to real property within Municipal limits



may with advantage be revised and reconsidered. We think this is a fit task to be assigned to the proposed Committee which is to consider in details the forms, books, etc.

As for the suggested accounts code in the report under review, while endorsing the recommendation we must point out that the items mentioned in para. 22 as proper to be treated of in such a manual are by no means homogeneous (a) and (c) are certainly not matters of accountancy nearly, and even (b) is a matter much rather pertaining to the Stores Code or Manual. The two former must be made the special duty of the Finance Officer recommended above. For the rest, a suitable set of rules for all these matters is badly needed. Only, the drafting or compiling of these rules ought not to be left entirely to the accounting officers under the Municipality, and they are prone to take needlessly restricted review of the nature and purpose and scope of such rules and so these also may be referred to the Committee.

We need offer no more remarks on para. 23 as we have already and repeatedly supported the main recommendation contained therein, with, of course, the modifications we have thought advisable.

The recommendation implied in para. 25 recurs with greater clearness in the next section of the Report and so we need not labour it here.

IV. *Accounting Procedure, paras. 27-55.* The main problem dealt with in this long section is the dispute between centralization vs. departmentalization of accounts. The accusation against the Bombay Municipal Account keeping "that it is too highly centralized" misses altogether the understanding of the very basis of the organization of our Municipal administration. We do not approve of excessive in the sense of absolute centralization of accounts any more than we can recommend a complete decentralization by means of wholesale departmentalization of accounts. The latter would mean a negation of diminution of the central control of the entire Corporation over each department, whether spending or earning—which we cannot but hold to be fatal to Municipal economy, administrative efficiency or service sufficiency. We think Mr. Bird's review—learned and documented as it evidently is,—fails somewhat to appreciate the undeniable advantage of the centralized accountancy, in that it facilitates control and scrutiny by the supreme authority within the Municipality. While this desideratum holds the field we think centralization of some sort cannot be abandoned and must not be condemned. The report under review is perfectly justified in emphasizing the distinction almost at the very outset (28) between the Bombay and

the English or European Municipalities. In those countries the ideal of municipalizing all the essential local services,—the so called public utility departments,—is too fully accepted to leave any impatient Municipality without one or more trading undertakings of its own, whereas we in India may be said not to have even begun to appreciate the utility of Municipal enterprise of this kind. There is an arguable case for decentralization of accounts in Municipalities which have such trading ventures of their own, though even there the supreme unquestioned need of control and supervision by the central authority, the overriding demands of co-ordination of interdepartmental work and services make a final consolidation of all accounts indisputable. The guiding financial policy affecting equally all the earning as well as the spending departments emerges from a consideration of those consolidated accounts, and if only for the sake of securing the requisite degree of clearness in this main or guiding principles of financial policy, Municipal accounts have to insist on a degree of centralization, which the departmental heads may perhaps not like, but which is indispensable and even essential in the public interest of the city.

In Bombay, as already noted, there is as yet, hardly any beginning even of Municipal trading so common in Europe. We demur to the suggestion of the report that the water supply of the Bombay Municipality is of the nature of a trading enterprise, (28) since we know it to be a service supported by addition to the general tax from which there is no escape, to which there is no alternative. In saying this we would not be understood to say that there is no field for extending municipal enterprise in this the largest and the most advanced city in India, nor do we mean that in the case of the water supply there is no justification whatsoever for mistaking it to be a trading enterprise.

All we wish to point out is that essentially as well as statutorily the water works department is mainly, if not wholly, dependent on the rates and we see no reason to exclude or reduce the central control over this as over all other services. The fact that this is a function of the Municipality performed away from the centre and headquarters of the city corporation does necessitate, we recognize, some degree of decentralization and departmentalization in this as in other analogous services and departments, like the Municipal Schools, markets, workshops and the recently started college of medicine with a large hospital attached, but that recognition need not commit us to any remission or relaxation of control which we consider will be impeded, if not impossible by undue decentralisation of accounts.

On this basis, with the reservations, expressed or implied in the preceding general observations, we accept the main problem to be as formulated in para. 29 of the Report under review, as also the solution set out in the quotation from Mr. Cox's *Municipal Organization*. It is perfectly appropriate to urge that "heads of executives or spending departments must or should know how they stand financially from time to time and instantly. They must be directly responsible for keeping within the estimates. Completely centralized finance cannot secure this." Friction between the spending and the accounts of the finance departments of the Municipality resulting in a lack of co-ordination or co-operation between these integral parts of a common whole is a greatly deplorable feature as mentioned by Mr. Bird. But a far more deplorable feature even than the above would be the ignorance which spending department chiefs are alleged (para. 30) to suffer from as regards the day to day or month to month financial position of the departments under their charge. We agree it will most effectively conduce to the highest requirements of Municipal economy and efficiency, if we could, as we should, inculcate this sense of watching the progress of the departments' expenditure in the Chief's thereof. But there is something in the very nature of the spending departments, by which departmental Chiefs are made irresistibly to feel that their service will be appreciated not so much in proportion as they effect savings or at least husband the budgetted grant for their department but rather in proportion as they increase or expedite the exhaustion of their grants. This is inevitable even if inexcusable. Recognizing this peculiarity more fully we are nevertheless in hearty agreement with the suggestions for reform mentioned in para. 31 further concretised and elaborated in para. 32. Only we cannot be expected and would not be understood to approve of the exact form in which this "financial position at a glance" is to be shown for the information and guidance of the departmental head. We likewise approve of the division of accounting work suggested in paras. 33 and 34 as also of the procedure for giving effect to this watchfulness and control of expenditure by the departmental head chalked out in paras. 35-36. We are indeed not quite convinced that any adequate or satisfactory system of public bodies accounts which necessarily have a growing volume or interdepartmental exchanges of services or benefits, which either fail wholly to be recorded and accounted for or are expressed merely by book entries that rarely correspond to the actual circumstances will avoid a certain amount of duplication of accounting work as claimed in para. 33 for the procedure mapped out in paras. 35-36. But for our part we do not consider this unavoidable duplication to be an unmixed evil,

The point however which we would like the heads of spending departments to be thoroughly impressed with,—and which, we are convinced, is the only way to secure real economy and efficiency in Municipal administration—is the one not found in all the elaborate mechanism for information and guidance suggested in the report. The departmental head must know that he gets not only the full but also the best value for the money he spends. How he stands financially at any given moment, is, we submit though important, of comparatively lower significance than the knowledge of the real value received for his spending. On the former, if he is ill-informed or out of date, the central finances departments can easily post him up, always assuming, of course, that the record of transactions is complete and up-to-date. But what the central Finance Department cannot do, what no one else but the spending chiefs themselves have to and must do is the specification of their exact requirements, verification of the supplies, when received, by comparison with their requirements and certification after checking of the invoices, etc., constituting the financial liability of the Corporation. We agree that the certification, etc., must be by officers who have personal knowledge of what they certify (para. 47) and can therefore never disclaim the responsibility arising out of this certification, etc. But we would add that this unavoidable peculiarity of organization must be utilized to obtain from the spending officers wherever possible some comparative idea of the value they have received, some guide or standard to enable the supreme authority to realize the degree of economy available or possible in their administration.

We have had some opportunity to make some study of the Municipal Administration Reports with its several annexures but we regret to have to observe that rarely have we found in them the main report or any of its departmental annexures that conception of Municipal economy, that attempt at any comparative estimation of the service rendered, which is the *sine quo non* of sound administration of the Municipal affairs. Accordingly we suggest that in the returns or papers submitted by departmental chiefs something must be added by them to indicate the comparative value received.

Regarding the exact form of contract or indent (para. 37) we can offer no opinion until we see such a form. But we endorse the recommendation of Mr. Bird that the practice of ordering goods and services through the medium of letters and memoranda should cease, and every order should be on an officially printed form." (para. 38.)

Paras. 39 and 40 approved, as also para. 41, subject to the reservation that the actual form of the subsidiary ledger for departmental accounts herein envisaged remains to be devised. Paras. 41-51 approved.

In the three remaining paragraphs dealing with the accountancy of the earning side, we are obliged to note, once again, the absence of any attention to the requirements of real municipal economy considered as a whole. Emphasis is rather laid—and not unjustly—on the detailed exactness of the merely formal side of accountancy. As in the case of municipal expenditure, the points to be stressed, in our view, was adequacy of control and supervision so as to secure full value—the best value—for money spent, so on this side we would similarly urge the necessity of observing,—by some definite authority,—in the municipality, the real burden of municipal administration imposed upon the civic public, and the reduction and alleviation of the same whether by remitting or reducing taxation, or even by improving the services and increasing the specific benefits of municipal administration. We consider this most cardinal point in municipal economy is sadly neglected, and no better, stronger or more convincing evidence of this neglect can be, need be, found than the absence of even its bare mention in the elaborate and comprehensive report of Mr. Bird. Perhaps Mr. Bird considers this to be outside the province of accountancy and audit with which he is primarily concerned. If so, he would not mind our pointing out that the control and scrutiny of the Income Side Accounts is as much important as any other side, and that from such control and supervision, facilitated by the reforms in accounting as suggested by the report, must arise that idea of lightning, or at least more evenly and equitably disturbing the burdens, or apportioning them more exactly to the benefits received, which we consider to be the key-stone of real Municipal economy. The overwhelming bulk of our Municipal activities is still financed from general taxation, which makes the above named duty all the more imperative.

We have already remarked upon the need to revise and make more scientific the assessment manual of the Municipality. Here we might mention another desideratum of Municipal finance and economy the need to reconsider basically the entire revenue side of the Municipal finances. We recognise this is not strictly an accounting matter, but if we may regard proper accountancy to be nothing else than a great,—an indispensable—help in securing economy with efficiency in Municipal administration, it would be no undue strength of the scope of this report

if we include in it the abovenamed consideration for reform. The specific reforms or improvements mentioned by Mr. Bird are necessary and advisable, but at best they are but points of detail. We find, for example, in a careful study of the chief accountant's reports for some years past that there always remains a disproportionately heavy amount of arrears in revenue collections and we think no recommendation can be too stringent which is aimed at and calculated to remedy this weakness. The accountant's report is not clear about the proportion of bad debts or revenue demand which has to be written off as so much bad debt. We think it would add to the economy of Municipal financing if attention of the proper authorities were regularly and specifically drawn to this item and measures were adopted in consequence to remedy the same.

Mr. Bird's chief complaint is :—"That all the miscellaneous revenues which the Corporation is entitled to receive have been collected, *is what the present records do not establish*" (para. 52). This, if true, is a grave charge against Municipal accounting, Mr. Bird himself detracts from the sounding gravity of the charge by admitting in the very same paragraph that most of the necessary information is available, "all that is now required being to properly collect and collate it." His object, however, in insisting on the several suggestions for reform he has put forward is not, as we read them, so much to reorganise, the revenue side so as to make it more adopted for the broader purpose of revenue accounting as mentioned above, but rather that "the income registers should record every rupee due." We have no quarrel with this ideal of perfect accountancy held up by Mr. Bird. It is, we realise, of a piece with his insistence on a full record of all the accrued liabilities on the expenditure side even though such liabilities may not be yet translated into payments. But we feel it necessary to reiterate our view that however complete the merely mechanical record of assets and liabilities may be—and we have no doubt Mr. Bird's suggestions, if adopted, will induce a far higher degree of accuracy and completeness in our Municipal accounts—it will not and cannot by itself secure that wider purpose of general economy, that sound basis of financial administration of which correct accounting is after all a means as well as an expression.

We endorse the recommendation for "a complete record of all Municipal lands and buildings showing to what use the property is put for ascertaining the income which ought to be received from them." Such records are necessary for proper audit and even for securing the greater economy we have again and again insisted. For example, the Municipality of Bombay.

spends nearly 5 lacs by way of rent to private landlord of the Municipal school buildings out of a total educational expenditure of over 25 lacs. These buildings are used, we understand, only for 8 hours a day or 6 days per week at most and for 10 months in the year. The rent charged, however, goes on whether the buildings are fully or partially used. With very little modification in equipment these buildings can perhaps easily be utilised in the hours they are not wanted for school purposes for some of the other Municipal activities, which want a local habitation such as night classes, vaccination centres, libraries or ward committees' rooms. This is one example, but several more of a like nature could be addressed to show that in the absence of a complete schedule of Municipal properties of this kind, as also of the uses to which they are put we cannot secure full economy.

Paras. 53-55 approved.

Section V—paras. 56-66.

Having already insisted on the necessity and utility of comparative unit cost figures and statistics as a guide, a test, or standard, we cannot but repeat our endorsement of the main reasoning in this section. Cost Accounts, to which this section largely relates, are mainly useful in Municipalities with a varied and considerable trading enterprise on its hand. Bombay has, as already remarked, very few activities which could strictly be described as commercial ventures. Nevertheless as pointed out, quite correctly by the report under review, the utility of such aids cannot be exaggerated. The illustration of the roads department given in the report is as apt as it is instructive. Mr. Bird is perfectly justified in pointing out that "No estimate of the cost is given or (of) the period the work is likely to last," or again that "There being no estimate or standard test in the existence, no proper check or criticism of the expenditure is possible." Para. 59. But after formulating such complaints, the procedure suggested by way of remedy in the next para. 60 does not, we think, go quite to the root of the evil. The kind and nature of records demanded in para. 60 will not, we fear, obviate the main cause of the mischief, for if the Municipality relies exclusively on the information given by its own records of road repair costs, it will be no wiser as to the real efficiency of its roads and the economy in the expenditure on the same. Perhaps the present records are most defective so that the improvements suggested will amplify the record very considerably. But we are afraid this single experience will not suffice to constitute a test or a standard for the guidance of the road making officers. Besides the details suggested in para. 60, some comparative statement of

corresponding expenditure in the most efficiently administered Municipality in or outside India may prove useful. We are aware that there is no standardisation of such roads in several Municipalities which keep them. While one City computes its unit cost of road construction at the moment that the road making material is ready for laying down, another expresses that cost per lineal or square foot of roads already made. The latter includes, the former does not, the labour cost of road making which makes the greatest difference in comparison. Despite this difficulty which makes a strong argument for imparting a degree of standardisation in Municipal account keeping and records if needs be by means of Imperial Statute, we would still urge the compilation of such statistical material of a comparative character. To give another example, Bombay, we understand, is a city of nearly the same population and area as Boston. Both need to light their streets and while Boston pays about 22 per annum per gas lamp of 4,000 candle power burning for some 5,000 hours, Bombay also pays under contract to the Bombay Gas Company about Rs. 57 per lamp of nearly the same lighting power and for similar period of illumination. But when we remember that the cost of living, particularly the price of labour, is three or four times as much in Boston as in Bombay, the relative cost of our city's lighting arrangements begins to wear quite a different aspect. There are besides provisions in the contract with the Gas Company regarding the equipment and maintenance of the lighting apparatus which would, we fear, involve a heavy and unfair burden on the city's finances the moment it is decided to replace gas by electricity as a public illuminant. Subject to these remarks we approve of the procedure outlined in para. 60. The accounts of the heavy mechanical Transport Fleet need radical overhauling. The fleet does not give all the service it may legitimately be expected to yield, as found by the Retrenchment Adviser and as would be evident from a comparison of the similar costs in other cities outside India.

We have already referred in another connection to the account keeping of stores and must mention it again for considerations advanced in para. 65. Says Mr. Bird "the purchases for these departmental stores are charged directly to the budget grants, and *thus disappear from the main financial accounts*. There is a defect of a serious nature, for the omission of these departmental stocks amounting in the aggregate to several lacs of rupees in value from the accounts means that no audit control exists over the use of the stores, and assets of an important character are omitted from the Balance Sheet." Para. 65. We fully concur in the view that



this is a grave defect, graver perhaps than even Mr. Bird's censure implies. For the problem of accounting for stores in public departments crops up in a variety of forms and on a variety of occasions not all of which have been quite fully realised by the Report.

There is the question of depreciation of existing stores and their revaluation and recording accordingly, a point very strongly emphasised by Lord Inchcape's Committee on Retrenchment, and one which is engaging increasingly the attention of Government Officers and departments. Again there is the consideration of capital locked up in these stores and the consequent loss of interest which usually fails to be accounted for at all, but which is as important as any other similar item in the public budget. Finally there is the question of regular accounting for the use of the stores and their inclusion in the Balance Sheet which is raised in the above quotation from the report under review. We think all these aspects and problems must be considered and solved.

The details of a statistical character which ought to be prepared from the accounts (para. 66) are too numerous for us to mention them here. It is a subject by itself for special consideration. We shall content ourselves merely with the observation that these details are required and will be useful not merely in testing the accuracy or reliability of the account and records, but still more particularly for the guidance of authorities concerned with the financial policy and administration. Let these details be compiled as to serve this double purpose. The list in para. 66 appears to be far from "exhaustive."

#### *Section VI.—The Revenue Budget.*

The detailed consideration of the form of presenting the Revenue Budget, discussed in this section, ought, in our judgment, be left to be settled by the Committee, we understand, is shortly to be appointed to consider these reforms. In saying this we would not be understood to mean that we do not agree with or approve of the suggestions made in the report under review. All that we desire in this part is to point out that, as things stand to-day there is nothing like an intelligent and informed survey of the city's finances comparable to say the survey of the national finances made in the annual financial statement of the Government of India. Naturally the dull, complicated, confusing and uninteresting statement embodied in the several notes and remarks by the several authorities concerned with the city's finances and over-loaded with a huge

mass of unwieldy, undigested and unintelligible figures in serial columns of bewildering magnitude attracts little or no public interest either in or outside the Corporation, though the City of Bombay deals by itself with revenues perhaps greater than that of an Indian State or an Indian Province.

As already noted, the detailed suggestions in para. 68 are capable of further alteration, which may be made by a competent committee. For our part we think that if the suggestion made in the earlier part of this review about the institution of a special Finance Officer in the Municipality is adopted many of the proposals or changes suggested in the report will wear quite a different aspect. It would then be the duty of that special finance officer and department so to present the city's finances as to make that section of the administration most interesting and yet most simple. It is, accordingly, unnecessary to offer any more detailed criticism of Mr. Bird's proposals.

Paras. 70 and 71 approved.

Para. 72 particularly approved and earnestly recommended.

Para. 73. We think it would conduce to greater economy if all transfers to another account all reappropriations or reductions should be brought up to the Corporation by the Standing Committee as a special supplementary Budget, making that an occasion for an *ad-interim* discussion of the city's financial administration.

Para. 74. It is inevitable that estimates must be prepared by departmental heads and submitted some time before the commencement of the financial year, though perhaps it is not at all impossible that the date be advanced from August to November. As a consequence, the Commissioner's Budget or statement may be presented in January, the date now in vogue for the Standing Committee's Budget presentment. The Corporation may finally pass the budget on or before the 31st March and necessary date changes in the statute, will, of course, have to be made.

Para. 75 approved.

#### *Section VII.—Loan Works Expenditure.*

As para. 77 observes, the sections in the Municipal Act governing the Annual Budget were drafted at a time when the capital expenditure of the Corporation was of negligible proportions compared with the present day expenditure out of loan moneys. While the borrowing powers have been meticulously

restricted, the basis of restriction is utterly wrong and inapplicable under modern conditions. That basis is aimed at seeing that the Corporation is able to repay the loan at the stated time in each case, and to pay duly the interest and sinking fund quota in the meanwhile. There is no consideration whatsoever of the use to which the loan moneys are to be put, no thought at all to the productivity of the works undertaken from the loan. The Sinking Fund and another analogous clauses therefore constitute an unmitigated burden. The security to the creditors is only the taxable limit of Bombay City, and not the objective utility, if any, created out of the loan funds. No attention is accordingly paid to the provisions of adequate depreciation amounts while the sinking funds compulsory make an idle burden. The Corporation of Bombay has a debt over 17 Crores against which there is a Sinking Fund accumulation of nearly 3 Crores besides the additional annual contribution enforced by law. The law ties up the use or investment of this sinking fund in such a way that while the Corporation has to pay for its borrowing every year a rate of interest in conformity with that ruling in the market, its own savings and accumulations, we understand, do not fetch anything like that interest. In the absence, moreover, of proper valuation of the principal assets created out of loan funds—the actual cost of each asset is not necessarily the proper valuation to be shown in a regular Balance Sheet intended to give a true and correct view of the financial position of the city, and in the absence of any depreciation provision against these works, the statement of the assets and liabilities of the city is bound to be inaccurate and misleading. No such statement worth the name is indeed regularly, systematically, prepared, but that only makes one more glaring defect in our accounts organization.

The first reform that we would desire to be introduced in the accounts organization is the preparation of a full, detailed and duly certified statement of assets and liabilities, which would give an idea of the city corporation's wealth. In this statement the assets such as they are should be presented on a proper commercially acceptable valuation without including the vague indefinite item of the taxable limit of the City. The taxable assets for example like the Municipality consisting of all that strip of land from the Tansa Works to the City limits in which the new water pipes are laid, make a property of immense potential value for revenue purposes if suitably developed, *e.g.*, (mangoe or fruit). The taxable limit, now forming the basis for prescribing the borrowing limit of the City Corporation, will of course continue to be utilized for the same, *whenever it is a question of unproductive borrowing, e.g.*, to cover a Budget deficit, in

ordinary revenue, to carry out an essential service like compulsory and gratuitous education, or the better and wider medical and hospital facilities. But whenever it is a question of *borrowing for productive purposes*, this obsolete, inapplicable and misleading basis must be scraped altogether and the alternative basis must be created out of the estimated profit earning capacity of the proposed new asset, *e.g.*, a local transport service for both goods and passengers as a monopoly, or the purchase or institution of a light and power works. The potential strength of the city's credit is far greater than any suggested by the taxable limit, if only a policy of municipalization were actively adopted. Without disintegrating the credit of the Corporation in the least, (we believe the total obligations of the municipality must be secured collectively and not severally) we may yet introduce a distinction between productive and non-productive borrowing by the city. The assets are not and must not be hypothecated separately but the credit strength they would import to the Municipality by such means would be much greater than under the present system especially if the assets are properly valued and a regular depreciation provision maintained.

Paras. 78 and 79 approved. But our suggested amendment of the Municipal Act would go much further and is far more radical.

The presentment of the loan works estimate as we envisage it would be different from the one here outlined. There would be the separation first of works whose burden would inevitably fall on rates and taxes, *e.g.*, school buildings, roads and sewers, hospitals, water supply, milk supply, etc., and those which may justly and reasonably be expected to provide for their own maintenance and acquisition, *e.g.*, a transport service, lighting plant, insurance and banking business. In the former case, the budget estimate must show the amount of the burden calculated to fall on the rates and taxes together with the maintenance and upkeep cost. In the latter the Budget estimate must give information in much greater detail on such points as the total capital cost, the capital cost in a given year, the upkeep and maintenance cost including interest and sinking fund, depreciation and other reserves, the price to be charged the gross and net receipt, the value for inter-departmental service received in kind, the net profit, etc. The detailed basis of estimating the capital cost will have to be given in either of these cases, and unit cost figures will have to be given as well. Comparative figures should also be given regarding the experience of similar projects, works or undertakings in other cities.

With these general observations paras. 80-81 may be approved as also para. 82.

Para. 83. We are not quite clear as to the intention of this paragraph.

Para. 84 approved subject to the general observation that we think greater economy, better control and wider experience will be secured if all works of the capital kind are executed departmentally as suggested by some authority in Europe, *i.e.*, by the Municipality itself.

Para. 85. We think latitude suggested in this is likely to end in a laxity of control which might prove harmful to the interests of the city and its Municipal Corporation. The condition in the concluding sentence is absolutely necessary but we fear not sufficient by itself to guarantee due economy.

Para. 86. We entirely approve of this principle and would emphasise and enforce it in the municipal accounts with all the earnestness we can command. Its neglect is fatal to economy of any kind.

*Section VIII.—Trading Enterprises. Paras. 87-89.*

Accepting Mr. Bird's suggested definition of a Trading Enterprise we cannot agree that the Bombay Water Works are such an enterprise. These works have been financed exclusively from borrowed money, and they are maintained from the Municipal Fund in which the special water tax is paid. The Water Tax is raised or lowered not according to the particular and exclusive needs and considerations applying to the Water Works but rather according to the general needs of the entire Municipal Finances. Subject to this radical difference, the rest of the paragraph 87 may be accepted.

Para. 88 is a summary of the relevant sections, which, properly interpreted, could facilitate the change desired by Mr. Bird and approved of by us. It requires no comment, but, that the change suggested is so necessary and indispensable that we would rather advocate an amendment of the Act if its present provisions would not warrant a change in the right direction, than be content to go on with the *status quo*.

Para. 89 is right in holding Section 121 as giving the necessary powers to carry out the changes suggested by Mr. Bird. Lest our observations in the first paragraph in this section be misunderstood, we would like to add specifically in this place that, even though the Water Works Finance in the Bombay Municipality is not, strictly speaking, one of the trading enterprise kind, still the Water Works Account ought also to be kept separately as though these works did veritably constitute a Trading Department proper. We do not agree with Mr. Bird when he says "These separations are mainly a question of account keeping" for we believe a grave matter of fundamental prin-

ciple in Municipal financing is involved here. We believe the separation of the account will, by inviting attention to the relative burdens and benefits of Municipal Government much more vividly than is the case to-day, help to extend the scope of Municipal enterprise of a trading character, which cannot but add to the amenities, and there-through to the benefits of civic life.

Para. 90. Approved. We would even go further and say separate account should be given of even those services which, like the Lighting charges, are to-day merely a matter of contractual payments to private companies, but which are capable of being taken by the Municipality, which at stated intervals come up for revision, and in which there is room for an indefinite expansion of the civic enterprise.

Para. 91. As a rule, we think it is sound local finance to say that any surplus from a given Municipal venture of a trading character should be available for the general needs of the Municipality including the remission of Municipal taxation. Of course the surplus we are speaking of must be such as cannot be cavilled at on grounds of accountancy or commercial practice, as having been arrived at without a proper or adequate provision for depreciation, interest on borrowed moneys, Reserve against the ordinary contingencies, etc., but when once such a clear profit or surplus has been achieved, the demands of the tax-remission become almost unanswerable. In saying this we are not blind to the needs of internal improvement within the service itself, implied in the course suggested by Mr. Bird's remarks in the paragraph under notice. Every such service, its operators as well as consumers have, no doubt, a certain claim for considerate and sympathetic treatment, either for improving the lot of worker or operative engaged in the supply of the said service, by increments in wages, or improvements of an analogous character in the conditions of work, or for a reduction in the rates charged to the consumer of such services. But we assume, and we think we are right in making this assumption, that the Municipality observes and fulfils the ideal of a model employer, as every public body should do, and that there is no room in a thriving public service, like the light or water supply in a city like Bombay for workers' lot improvement. The case of the consumers is a little more difficult to decide. But if we may consider these trading charges as some sort of a relief to the local tax payers, if we may further hold that these charges are really for benefit received, and that initially they have been fixed, e.g., a tramway fare, after due consideration had been given to the value of the service received commercially considered, then the case of the consumers demanding a reduction in the charges every time an enterprise shows a clear surplus becomes weak, especially while the present tax

burdens endure. It would be different in a society when the entire income of the local governing body is derived from the property and enterprise of that body, for then a surplus will be tantamount to the levying of charges greater than required for the maintenance of the service considered so that the demand for a reduction in the charges may be more easily conceded. We may in further support of our reasoning, also cite the case of the railway accounts and railway budget under the Government of India to-day wherein the railways are required FIRST to make contribution to the public Exchequer of a given size, and thereafter only can they proceed to allocate the additional profit, if any, to the improvement of their service, the extension of their enterprise or the reduction of their rates and fares.

*Section IX.—Valuation. Paras. 92-96.*

Para. 92. Thoroughly endorsed. We may also invite attention to our suggestion for a radical revision of the Assessment Book. This is urgent and imperative.

Para. 93. Entirely endorsed. Attention is further invited to our remarks on stores.

Para. 94. Also approved. The suggestion here made regarding "Loose Plant and Tools" may be extended to all Municipal property and assets in special accounts to be called "Renewal and Replacement Account," against which may be special reserves, at least in departments like the Municipal Workshops, and another called Depreciation Account. It is not enough to take the balance of the loose plant and tools, etc., remaining at the end of the year, compare it to what it was at the beginning and consider the difference to represent the use during the year. That would be too crude accounting for a body like our municipality. Para. 95 approved. We have said more specifically elsewhere why a consolidated Balance Sheet, or Statement of Assets and Liabilities, is absolutely needed for proper accounting as well as for the strengthening of the city's credit. Para. 96. This is a matter of detail better suited to the special committee considering the revision, etc., of the municipal accounting.

*Section X.—Paras. 97-112.*

This is a section of detail the principles of which are covered in the sections preceding. In general we agree with Mr. Bird especially regarding a much wider conception of the duty and function of the auditor, Cp. 112. The details will best be arranged by the special committee. We would not reduce the powers of the Corporation and so do not agree to the right of surcharge of the auditors. But we think the outside audit ought to be made far more thoroughly than it seems to-day.

*Section XI.—Paras. 113-116.*

The Annual Accounts and Review of the Finance of the Municipality should be compiled and presented so as to combine

simplicity and the widest possible information in an equal degree. We think this object can be satisfactorily achieved if in the annual statement there were given three main sets of accounts: (1) The Ordinary Revenue and Expenditure Account with the reforms advocated above, (2) The Capital Account containing Receipts and Disbursements on that side, together with statements in appendix of the properties, projects, works, etc., proposed, conducted or maintained from these funds, (3) A consolidated Balance Sheet or a Statement of the Assets and Liabilities of the Municipality of Bombay which must represent in a collective consolidated form the true and proper position of the municipality financially considered. This last is to-day conspicuous by its absence, and we are not quite certain that Mr. Bird's suggestions aim at providing such a statement regularly, systematically, scientifically. For reasons of municipal credit and its strengthening, as well as for the efficiency of municipal administration, we think it of the utmost importance that such a consolidated Balance Sheet be annually placed before the ratepayers and their representatives before the creditors and the superiors of the Municipal Council or Corporation.

Going a little further into details let us consider the report of the Finance Minister, not the Chief Accountant under our proposals, must be a model of clearness and simplicity on its narrative side and must further be a model of erudition on its instructive or informative side. In so far as the Report deals with the past year's events, the reporter will have to give the estimates, original as well as revised, compare them with the Actuals, and give reasons in each case accounting for the variation. One of the advantages we confidently look forward to from the institution of a special Finance Officer under the Municipality is the smallness and insignificance of these variations between the estimates and the actuals, in the aggregate as well as in the individual items, for the simple reason that budgetting would become a fine art not unfamiliar to the financial authorities or officers of the municipality, as seems to be the case nowadays. Having given a succinct narrative for the past year, the Finance Officer will, in the second part of his report, add the review of the Capital Accounts, including a sufficient review of the works and their progress of new projects, if any, with a statement of their objects and reasons in brief with an account of their financing. Finally the Report will give a consolidated Balance Sheet or rather an abstract of such a statement in the report proper, leaving the details as in all cases, to be stated at full length in the appropriate appendices. But the Report will be useless if it stints in explanation on any item which the reporter might have the slightest ground for believing needs some explanation. Masses of statistics, unrelieved by information or explanation do



not constitute any help to those for whom such reports are compiled.

The rest of the Section deals with matters of details, which we think should best be left to the Committee already mentioned.

(d) Letter from the Commissioner, No. RE/27, dated the 5th August 1926 :—

“ With reference to your letter No. 4240 of 23rd July 1926, I have the honour to say that the Auditor-General has permitted Mr. Correa to take up the work of commenting upon the report on the Reorganization and Reform of the Municipal Accounting system, provided it can be done without detriment to his current work. The Accountant-General has now informed me that Mr. Correa is on tour and that there is no prospect of his being able to take up the work till November next.

The Standing Committee is aware of the fact that Mr. Correa acted from August to December 1924 as a special Officer to assist Sir M. Visveswaraya in the Retrenchment Enquiry, and that these views on the Municipal Accounts and Finance are already recorded in the Retrenchment Enquiry files. The Chief Accountant Mr. Tambe and Mr. Bird, the Secretary, Retrenchment Enquiry, are now of opinion that no useful purpose will be served by obtaining further comments from that Officer, and I concur in that opinion.”

**Item No. 21.**—Letter from the Commissioner, No. E. R. 420-C. dated the 6th December 1927 :—

“ I have the honour to refer to Corporation Resolution No. 11194 of 22nd March 1923 according sanction to the contract with the Bombay Gas Co., Ltd. for the public lighting of the City of Bombay being renewed for a period of 7 years commencing from 1st March 1923 and to say that attached to the contract is a Schedule marked B showing the different kinds of lamps to be lighted together with the rates to be paid therefor. The Schedule refers only to Hexagonal lanterns with ‘ C ’ Burners or Inverted Burners and ‘ Bombay Lamps ’ with Inverted Burners of Ordinary Pressure. Subsequently new and improved patterns of gas lamps known as ‘ Littleton,’ ‘ Rochester’ and ‘ Hexagonal’ with multiple burners have been introduced as these lamps give better illumination for the same or even in some cases less maintenance cost. I have therefore agreed to the introduction of these lamps instead of Old Hexagonal and Bombay lamps in the public streets of Bombay wherever it was found necessary and convenient.

I attach herewith a list of such new lamps with their rates of maintenance, &c., and request the sanction of the Standing Committee, under Section 69 (e) of the Municipal Act, to the Schedule B being varied so as to admit of these new lamps being incorporated therein.”

A list of new lamps and rates to be added in Schedule B attached to the Public Lighting Contract with the Bombay Gas Co.

Description of lamps.	Description of burners.	Number of burners.	Candle power. Cft. per hour.	Gas consumed per hour.	Rate per month.	Midnight extinguishing at Bombay Time (12-39 S. T.)
					Rs. a. p.	
Hexagonal	Inverted with super heater.	3	240	6	7 8 0	All night lighting.
Do.	Do.	3	240	6	3 14 5	Put out at midnight.
Do.	Do.	24	1920	48	60 0 0	All night lighting.
Littleton	Do.	2	160	4	6 6 0	Do. on post longer than 12'
Do.	Do.	2	160	4	5 0 0	Do. do. 12' and below.
Do.	Do.	3	240	6	8 8 0	Do. do. longer than 12'
Do.	Do.	3	240	6	7 8 0	Do. do. 12' and below.
Do.	Do.	4	320	8	11 0 0	Do. do. longer than 12'
Do.	Do.	4	320	8	5 11 6	Put out at midnight. Longer than 12'
Do.	Do.	4	320	8	10 0 0	All night lighting on post 12' and below
Do.	Do.	5	400	10	12 0 0	Do. (special rate for Queen's Road lamps).
Rochester	Do.	6	480	12	8 8 0	Only 3 lts. lit all night.
Do.	Do.	12	960	24	12 0 0	Only 4 lts. lit all night.
Do.	Do.	12	960	24	36 0 0	All night lighting.
Do.	Do.	18	1440	36	40 0 0	12 Lights Extinguished at midnight.

**Item No. 22.**—Letter from the Commissioner, No. M.C.-35-B., dated the 9th December 1927 :—

“ I have the honour to refer to Corporation Resolution No. 9109, dated the 5th December 1927, according sanction to the salary of Mr. R. P. Desai, Municipal Secretary, being raised from Rs. 700 to Rs. 1,000 per mensem with effect from the 16th January 1927. This will cause an excess of Rs. 3,600 in the Budget grant for the current year under the head I.—General Supervision, Collection of Revenue, etc., A.—General Superintendence, (a) Corporation and Standing Committee, I.—Salary of the Municipal Secretary. An excess of Rs. 454-13-0 will also be caused in the grant for the preceding year under the same head in respect of the salary for the period from 16th January to 28th February 1927. I therefore request the sanction of the Standing Committee and the Corporation to an additional Budget grant of Rs. 4,054-13-0 being made, under Section 131 of the Municipal Act, from Surplus Cash Balance to meet the aforesaid excess expenditure during the current and preceding years.”

**Item No. 23.**—Letter from the Commissioner, No. H-266-C., dated the 9th December 1927 :—

“ I have the honour to say that the privies at the New Bai Gourabai Dispensary Building at 8th Kamathipura Street which are on the basket system have been found to be insanitary. The cost for converting them into water-closets on the full flushing system is estimated to amount to Rs. 1,216. As it is now too late to include the amount in the Budget for 1928-29 and the work is of a very urgent nature, I request the sanction of the Standing Committee and the Corporation to an additional grant of Rs. 1,216 from the Surplus Cash balance to meet the cost thereof.”

**Item No. 24.**—Letter from the Commissioner, No. A. E. 1064-C., dated the 7th December 1927 :—

“ I have the honour to refer to Standing Committee Resolution No. 7886 of 27th October 1927 requesting me to indicate the source from which the cost of maintaining the library at Maistri Moholla near Pydhoni should be met and to say that the amount involved being small, the Schools Committee may be requested to meet the charges out of the Municipal contribution as the revised estimates of expenditure of the Schools Committee for the current year show considerable savings over the budget estimates. It is not necessary to place additional funds at the disposal of that body on this account.”

**Item No. 25.**—Letter from the Commissioner, No. A. E. 250-C., dated the 15th December 1927 :—

“I have the honour to state that out of the provision of Rs. 3,50,000 made in the current year's Budget (page 26) under 1—General Supervision Collection of Revenue, E.—Miscellaneous Charges, V—Pensions, &c., the expenditure booked during the first 8 months amounts to Rs. 2,42,098, leaving a balance of Rs. 1,07,902 which will not be sufficient to meet payments for pensions, gratuities, &c., till the close of the current official year. Against the aforesaid balance available, the expenditure for the remaining 4 months is estimated at Rs. 1,38,000 as detailed below :—

	Rs.
(1) Pensions for 4 months at Rs. 28,057 per month	1,12,228
(2) Unpaid balance of pensions .. .. .	7,171
(3) Adjustment of two months' pensions remitted to pensioners in England .. .. .	3,468
(4) Provision for 4 months to meet claims of gratuities and compassionate allowances ..	15,133
Total ..	<u>1,38,000</u>
<i>Less—</i>	
Balance available .. .. .	1,07,902
Net excess .. .. .	<u>30,098</u>
Say.. .. .	<u>30,000</u>

The above excess of Rs. 30,000 is due to the fact that after framing the Budget Estimates for 1927-28, 48 persons retired on pension upto date involving thereby an extra expenditure of Rs. 3,680 per month. To meet the above expenditure, I request the sanction of the Standing Committee and the Corporation to an additional grant of Rs. 30,000 from the Surplus Cash Balance under Section 131 (1) of the Municipal Act.”

**Item No. 26.**—Letter from the Commissioner, No. T. A. O./80, dated the 17th December 1927 :—

“I have the honour to state that Mr. T. H. Bird, Test Audit Officer, has applied for an advance of Rs. 2,000 for the purchase of a 7 H. P. (Baby) Austin Car to be used in connection with his official duties. Mr. Bird was granted an advance of Rs. 1,350 under Corporation Resolution No. 5541 of 25th September 1923 for the purchase of a motor cycle, which was duly paid off in December 1925. This motor cycle Mr. Bird now wishes to replace with a small car, and he agrees that the

grant of the advance shall not be a ground for any increase in his conveyance allowance of Rs. 50 per month. Mr. Bird has to traverse the whole of the City and he finds that the riding of a motor-cycle, particularly in the monsoon months, has seriously affected his health. I therefore request the sanction of the Standing Committee and the Corporation to an advance of Rs. 2,000 from Surplus Cash Balance to Mr. Bird for the purchase of a motor car, and to the advance being recovered from him in 36 monthly instalments, together with interest on the outstanding balances at the rate of 5 per cent. per annum."

**Item No. 27.—(a)** Letter from the Municipal Auditors, dated the 7th July 1927:—

"With due deference to the orders passed by the Standing Committee in their Resolution No. 2710, dated the 29th June 1927, we beg most respectfully to point out that the orders passed by the Standing Committee in their Resolution No. 2143, dated the 15th June 1927, related to the examination of the ledgers of the Assessment Department only. These orders have already been complied with by us and a report thereon has already been submitted to the Standing Committee under our letter of the 1st July 1927 (Item No. 19 of the Standing Committee Agenda for 6th July 1927). In our letter of the 31st May 1927, we requested definite instructions of the Standing Committee with regard to the internal audit of all Departments of the Municipality and we are still in doubt whether the Standing Committee orders (Resolution No. 2143 of 15th June 1927) should be considered by us as applying to all Departments. We beg most respectfully to point out that internal audit is at present done by the Test Audit Officer, but if it is now the intention of the Standing Committee to entrust the work to the Municipal Auditors the post of a Test Audit Officer in that case is in our opinion not necessary and can safely be abolished, thus resulting in a saving of Rs. 12,600 per annum. Moreover, we respectfully beg to point out that if the work is to be done both by the Municipal Auditors and the Test Audit Officer, there will always be friction between the two functionaries, as each one will want his own system and method of work with the result that in all such disputed matters the Standing Committee will have to be troubled for definite instructions. The Standing Committee are fully aware of the ever increasing work of this Municipality and with this ever growing work, it will be a physical impossibility for the two Auditors to undertake this additional duty without clerical assistance. Under these circumstances we request the Standing Committee to issue some

definite instructions to avoid further unnecessary correspondence. We are prepared to abide by any decision the Standing Committee may arrive at. As a matter of fact the Auditors have under the Act sufficient powers to approach any Department and examine the work if they think it necessary in the interest of Municipal service."

(b) Letter from the Commissioner, No. T. A. O. 83-A.-1-A., dated the 16th December 1927 :—

"With reference to Standing Committee Resolution No. 3188, dated the 13th July 1927, forwarding for my remarks a copy of the letter from the Municipal Auditors, dated 7th July 1927, regarding the internal audit of the several departments, I have the honour to report as under :—

2. The Municipal Auditors, in their letter under reference express a doubt whether the orders of the Standing Committee passed under Resolution No. 2143 of 15th June 1927 apply not only to the Assessment and Collection Department but to all other departments as well. The report of the Finance and Banking Sub-Committee adopted under Resolution No. 2143 clearly states that the Municipal Auditors should continue as hitherto, to submit with their annual reports a scrutiny of the lists of outstanding bills of Municipal taxes in the hands of the Ward clerks and in the office of the Assessor and Collector on 31st March in each year, and to check such outstanding bills with the ledgers of the respective wards. The Sub-Committee add that the Municipal Auditors who were present at the meeting of the Sub-Committee agree with the recommendation.

The Report makes no reference whatever to any department other than that of the Assessment and Collection Department.

3. Section 136 of the Municipal Act requires that the Municipal Accounts shall also (*i.e.*, in addition to the weekly scrutiny of accounts by the Standing Committee) be examined and audited from week to week by Auditors specially appointed in this behalf for each official year by the Corporation. That section does not lay down and the omission is, in my opinion, well advised—the manner in which the Auditors should conduct the audit but gives them the requisite powers to get all the information and explanations they may require for their examination of the Municipal accounts. Section 137 lays down what the Standing Committee may require the Municipal Auditors to do. It is evident from that Section that the law requires that the Auditors shall report to the Standing Committee any material impropriety or irregularity which they

may at any time observe in the expenditure or in the *recovery of moneys* due to the Corporation or in the Municipal Accounts and shall furnish to the Standing Committee such information as the said Committee shall from time to time require *concerning the progress of their audit*, and shall as soon as may be after the commencement of each official year deliver to the Standing Committee, the report upon the whole of the Municipal accounts for the previous official year.

4. It will therefore be seen that according to these Sections the method of carrying out the audit of Municipal accounts is left entirely to the discretion of the Auditors. It does not lay down what the Auditors should do. They are only required to report any material impropriety or irregularity in expenditure or in the recovery of moneys, and to report, if required, on the progress of audit from time to time. The Municipal accounts follow the system of receipts and payments as distinguished from that of income and expenditure. The accounts show what expenditure has been actually paid for and what moneys have been received, and the Auditors are concerned only with the examination of what is so recorded in the Municipal accounts. They are not so much concerned with the examination of bills outstanding until such bills are actually recovered and brought into account in the following year though they may do this to ascertain that every bill collected has been brought into account. Section 135 lays down what the Standing Committee is to do concerning the examination of the accounts by themselves. Their examination is in addition to and not in substitution of the Municipal audit by Municipal Auditors, and if the Standing Committee desire that the bills outstanding in respect of the Municipal taxes should be examined at the end of each year in addition to their examination by the Revenue Audit staff under the Municipal Commissioner, it is for the Standing Committee to make their own arrangements. I do not think they should ask the Municipal Auditors to do this as part of their audit as prescribed by the Act.

5. In paragraph 3 above I have underlined the words "Recovery of moneys" to emphasize the fact that the law requires the Municipal Auditors not only to examine the accounts relating to expenditure but in regard to the recovery of moneys as well. It is questionable whether the Municipal Auditors do at present pay as much attention to the accounts of income actually recovered as they do in regard to expenditure incurred and paid. It is, however, a matter for the Municipal Auditors themselves to consider the extent to which their audit of the recovery of moneys should be carried out. Legally they are responsible for the correctness of the accounts pertaining to payments as well as receipts and in my opinion it would be preferable to leave entirely to them the method of conducting the audit of the Municipal accounts.

6. With regard to the Auditors' statement in their letter, dated 7th July 1927, that 'internal audit is at present done by the Test Audit Officer, but if it is now the intention of the Standing Committee to entrust the work to the Municipal Auditors the post of a Test Audit Officer in that case is in our opinion not necessary' it may be stated that the sphere of the duties of that Officer is wider than the routine work connected with pre-audit of revenue accounts."

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**Item No. 28.**—Letter from the Commissioner, No. E. G. 96-A., dated the 16th December 1927.

"With reference to Corporation Resolution No. 7471 of 20th October 1927, a copy of which has been forwarded to me for the remarks under Standing Committee Resolution No. 8047 of 2nd November 1927, I have the honour to say that the proposal that the Municipality should undertake the work of sole distributors of electricity to the City is, in my opinion, impracticable and inadvisable, particularly in view of the fact that under clause 24 of the Deed of Concession, dated 7th August 1905, the Corporation have a right to purchase the whole of the combined undertaking and under clause 1C of that Deed of Concession they have given the Bombay Electric Supply and Tramways Company "all such rights as the Corporation have or have power to grant to lay, conduct, fix, maintain and use electric cables, wires, lamps and apparatus along, over, under and upon the public streets of the City of Bombay for supplying electricity for the purposes of lights, heat, motive power and industrial and other proper objects" and have also agreed to protect the Company from competition. In the same connection I forward herewith a copy of a note prepared by the Executive Engineer on the subject and would add that as the Hydro-Electric Group of companies are bound under contract to supply electricity for lighting, power and traction to the Bombay Electric Supply and Tramways Company, it is extremely doubtful if they would quote to any other body for the same purpose."

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*Note prepared by the Executive Engineer above referred to :—*

"In the first place I would draw Municipal Commissioner's attention to Sections 61 and 63 of the Municipal Act; it would appear to me that until the Municipal Act is amended the Corporation cannot exercise the power of sole distributor of electric supply to the City.



Apart from the above consideration, it will be recollected that under the Deed of Concession, dated 7th August 1905, the following arrangement was arrived at between the Corporation and the Bombay Electric Supply and Tramways Company, Limited :—

“ The Bombay Electric Supply and Tramways Company, Limited, shall on the terms and subject to the conditions and restrictions hereinafter contained have and enjoy the following exclusive rights and privileges, that is to say :—

“ (c) all such rights as the Corporation have or shall have power to grant to lay, conduct, fix, maintain and use electric cables, wires, lamps and apparatus along, over, under, and upon the public streets of the City of Bombay for supplying electricity for the purposes of light, heat, motive power and industrial and other proper objects and to open and break up roads and generally to do all works necessary or incidental to the exercise of this right, the Corporation engaging that so long the Bombay Electric Supply and Tramways Company, Limited, fulfils its obligation to the Corporation and provided that it shows to the satisfaction of Government that it, the Bombay Electric Supply and Tramways Company, Limited, is in a position fully and efficiently to discharge the duties and obligations to be imposed on it by any license which it may apply for from Government the Corporation will officially support the Bombay Electric Supply and Tramways Company in such application and will take all proper steps and use their best endeavours to prevent competition in any area to which any such license may extend.”

It was on the assurance of the above undertaking that the Bombay Electric Supply and Tramways Company was formed with an aggregate capital in shares and debentures of £1,800,000 and the same was subsequently increased to £21,30,000.

In the same connection reference is requested to the Bombay Electric Supply and Tramways Company's letter No. 7313 of 10th November 1916, printed at pages 1237 to 1241 of the Corporation Proceedings of the 8th January 1917. Reference is also invited to the representation made by the Corporation to Government as per Corporation Resolution No. 7814 of 12th March 1917. In that representation, it was pertinently pointed out that it was in the best interests of the City and with a view to conserve a very large property which was ultimately to revert to the Corporation that that Deed had been entered into and that having regard also to the fact that the Bombay Electric Supply and Tramways Company relying on the Deed, had raised a large capital from the

public, and incurred a very heavy outlay in the erection of generating plant and the laying of mains for the purposes of electric supply, the Corporation objected very strongly to the grant of any license, which would involve competition with the Bombay Electric Supply and Tramways Company by the new Licensees.

Further under clause 18(c) of the Deed of Concession the Bombay Electric Supply and Tramways Company has bound itself to carry on and complete the work of laying down cables and erecting and fixing the necessary buildings machinery and plant for the supply of electricity with such promptitude and despatch that the supply of electric current shall be started not later than 6 months from the date of the Deed, viz., 7th August 1905. So far as is known there has been no neglect or failure on the part of the Company to complete the works for the supply of lighting and power pursuant to its covenant in that behalf contained in the aforesaid clause (c).

In view of the assurance mentioned in the previous paragraphs and in view of the fact that the whole of the combined undertaking of the Bombay Electric Supply and Tramways Company is to revert to the Corporation not earlier than the year 1947, it would hardly be proper or advisable for the Corporation at the present moment to try to replace the Company in their role as the sole distributors of the electric supply to the city.

With regard to the question of the feasibility of undertaking by the Municipality the work of sole distributors of electricity to the City, it has to be remembered that the Bombay Electric Supply and Tramways Company must have spent considerable sums of money in laying the distributory system throughout the whole City. To find funds for financing such a liability at the present time of monetary stringency would be a very difficult and tough problem to deal with.

The Railways, Mills and Factories, each consuming more than 500,000 units per year, are at present supplied with power in bulk by the Hydro-Electric group of companies. It is not clear whether the Resolution under report contemplates the Corporation to be also the sole distributor in the case of these Railways, Mills, etc.

In view of the facts stated above, it would hardly be opportune for the Municipality to consult the several Hydro-Electric Companies as to the terms on which they would agree to supply the electric energy to the Municipality for the purpose indicated above. Also in the circumstances described before, it is extremely doubtful if

Government will grant a license to the Bombay Municipality superseding the Bombay Electric License, 1905, granted to the Brush Electrical Engineering Co., Ltd., for the supply of electrical energy to the public for all purposes except electric traction.

Apart from the above consideration, it may be observed that such concerns as that of electric distribution, are generally run more economically and efficiently by a private body like the Bombay Electric Supply and Tramways Company, than by a public body like the Municipal Corporation."