

**Strategy Paper For Implementation of Accounting Reforms at Thimphu  
and Phuentsholing Thromde**

**Municipal Finance and Management Component  
Bhutan Second Urban Development Project (BUDP-2)**

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## 1. Acronyms

| <b>Acronym</b> | <b>Description</b>                                |
|----------------|---|
| RGoB           | Royal Government of Bhutan                        |
| IDA            | International Development Association             |
| BUDP II        | Bhutan Urban Development Programme Phase – II     |
| PPD            | Policy and Planning Division                      |
| MOWHS          | Ministry of Works and Human Settlement            |
| PAD            | Project Appraisal Document                        |
| TT             | Thimphu Thromde                                   |
| PT             | Phuentsholing Thromde                             |
| FMM            | Financial Management Manual                       |
| BAS            | Budget and Accounting System                      |
| GAAP           | Generally Accepted Accounting Practices           |
| PFM            | Public Financial Management                       |
| IPSAS          | International Public Sector Accounting Standards  |
| DEAS           | Double Entry Accounting System                    |
| BAS            | Budget and Accounting System                      |
| CoA            | Chart of Accounts                                 |
| AB-DEAS        | Accrual Based Double Entry Accounting System      |
| MoF            | Ministry of Finance                               |
| BTAM           | Bhutan Thromde Accounting Manual                  |
| ADB            | Asian Development Bank                            |
| AASBB          | Accounting and Auditing Standards Board of Bhutan |
| IASB           | International Accounting Standards Board          |
| ICAI           | Institute of Chartered Accountants of India       |
| ASLB           | Accounting Standards for Local Bodies             |
| IFMS           | Integrated Financial Management System            |

## **2. Background**

The Royal Government of Bhutan (RGoB) has secured an IDA credit to (a) strengthen municipal management systems starting in Thimphu and Phuentsholing and (b) improve infrastructure services in northern Thimphu. Accordingly, the Bhutan Urban Development Project II (BUDP II) has the following components:

- a. Component #1: Municipal Finance and Management
- b. Component #2: Thimphu Northern Area Development
- c. Component #3: Capacity Building

This consultancy is being implemented by the Policy and Planning Division (PPD) of the Ministry of Works and Human Settlement (MoWHS) in close consultation with Thimphu and Phuentsholing City Corporations and the Ministry of Finance (MoF).

Component #1: (Municipal Finance & Management) aims at strengthening the institutional systems and processes of the two city corporations of Thimphu and Phuentsholing to enable them to function effectively as efficient, transparent and accountable urban local governments.

As per Project Appraisal Document (PAD) relating to BUDP II, “the project will support the strengthening of the core financial management systems and processes of the two city corporations. Advisory support and technical assistance will be provided for improving the quality and comprehensiveness of the financial and performance reporting of the two cities. Support will be provided for both the cities to prepare an annual Financial Statement and Balance Sheet that will provide comprehensive reporting on the revenues, expenditures, assets and liabilities of the two cities. The project will help both Thimphu Thromde (TT) and Phuentsholing Thromde (PT) to prepare an inventory of their assets and develop a computerized asset register. Technical assistance and advisory support will be provided to strengthen internal controls and the recently constituted internal audit cells of the two city corporations. The staff of the finance departments of the two cities will be trained in the various aspects of municipal financial management so that the city corporations are able to sustain the improvements in the financial management systems and processes.”

As part of plan of “Strengthening the expenditure management systems and financial management systems and processes of TT and PT”, Municipal Finance Consultant is engaged under the Component # 1 to prepare the strategy for implementation of Accounting Reforms at both Thromdes.

## **3. Objective**

The objective of preparation of the strategy for implementation of Accounting Reforms at TT and PT is to lay down step- by- step road plan, in sufficient details, so that all proposed changes are clearly understood and agreed upon by all stakeholders. After the consensus on the strategy for implementation of accounting reforms, implementation of the recommended Road Plan will be initiated.

## **4. Situational Assessment**

The key aspects of the accounting system as per Financial Management Manual (FMM) issued by Ministry of Finance is (a) Double entry book-keeping and (b) Cash basis of accounting, i.e.

recording of accounting transactions as per cash flow. As per the FMM, value of goods or services received and applied in kind shall not be accounted for under the cash based accounting system. Supplementary memorandum records shall however be maintained for financial commitments and debts of the Government.

Thimphu Thromde (TT) and Phuentsholing Thromde (PT) are presently using double entry book keeping with cash basis of accounting using BAS Software. Since the TT and PT are following the DEAS, the employees are aware of the concept of Debit-Credit and have maintained necessary details in respect of Personnel ledger, Advance Details, etc. Under the current system the following report is mainly generated by the Thromdes:-

- a. Cash Book
- b. Bank Book
- c. Journal/Other/Reversal Book
- d. Personnel and Party Register
- e. Disbursement Voucher register
- f. Current and Capital expenditure Register
- g. Receipt and Payment Statement
- h. Monthly Expenditure Statement
- i. Schedule of Other Recoveries and Remittances
- j. Schedule of Personal Advances
- k. Schedule of Misc. Receipts and payments
- l. Bank Reconciliation Statement

Fixed Asset and Revenue Module is being separately maintained by the Thromdes. We have reviewed the existing BAS system and few deficiencies have been noted, which have been discussed in Chapter 6.5.1.

## **5. Justifications for Accounting Reform**

Accounting Reform is an expansion of accounting rules that goes beyond the realm of financial measures for both individual organizations and national economies. It is advocated because the present standards and practices are wholly inadequate for measuring and reporting the activity, success, and failure of organization. It includes change of specific rules of accounting with an intention to globalize and make it at par with internationally accepted practices. Components of accounting reform include:

- a. Accounting framework creation
- b. Rebuilding of Uniform Accounting Nomenclature
- c. Convergence towards internationally accepted accounting principles
- d. Accounting Concepts transformation
- e. Financial Statements transformation

Good Financial Management involves both raising adequate resources for investment in new services and for operation and maintenance of existing services as well as exercising good controls over the resources so that there is no wastage. The latter involves good systems and practices of accounting in Thromdes, which ensure that the resources are not wasted, assets are effectively managed and accountability is ensured.

The benchmark of a good accounting system is the production of timely accurate accounts. Good accounting should appropriately reflect the transactions and balances of the organization, should adequately disclose all items that have a material impact on the financial status of the organization. Good accounting comprises provision of appropriate information with three broad purposes:

- a. Effectively record all transactions and balances of the municipality;
- b. Facilitate budgeting and planning of revenues, expenditures, and debt management; and
- c. Help the government to be accountable to the public.

While Sound and transparent public accounting does not in itself lead to high quality Public Financial Management (PFM), it is a necessary component. Better accounting leads to better reporting, which provides the information necessary for better decision making, which in turn would lead to better use of public resources. The stakeholders need to understand the full, long term economic impact of their decisions on financial performance, financial position and cash flows.

### 5.1. Understanding various Method of Accounting

We have perused through the various methods of accounting being followed in the world by ULB's which are as under:

| Country Name                      | System of Accounting     |
|-----------------------------------|--------------------------|
| United kingdom                    | Accrual                  |
| United States of America / Canada | Accrual/Modified Accrual |
| Europe                            | Accrual/Modified Accrual |
| Brazil                            | Modified Cash            |
| Argentina                         | Modified Accrual         |
| Australia                         | Accrual                  |
| India                             | Accrual/Cash             |
| Russia                            | Modified Accrual         |
| China                             | Modified Cash            |

As noted from the above, the following are the various methods of accounting.

Various form of Accounting method is followed in the in the world are:

- a. Cash System of Accounting
- b. Modified Cash Based Accounting
- c. Accrual System of Accounting
- d. Modified Accrual Based Accounting

The above methods have been discussed in detail hereunder:

#### 5.1.1. Cash System of Accounting

Under this system, receipts and expenses are recorded after they are actually received or paid in cash. Only the receipt and payments account are prepared. All receipts and expenses are classified into various heads of account and the closing balance at the period-end is computed.

### **5.1.2. Modified Cash Based Accounting**

Modified Cash Method of accounting is a combination of two major accounting methods, the cash method and the accrual method. Under Modified Cash Basis of Accounting, all cash receipts and cash payments are accounted in the budget year until a specified period after the close of the financial year end. Books are kept open up till a certain period after the financial period ends so as to adjust the books of accounts with the cash receipts and cash payments made during that period which pertains to the previous financial year.

### **5.1.3. Modified Accrual Based Accounting**

Modified accrual based accounting combine's accrual-basis accounting with cash-basis accounting. It recognizes revenues when they become available and measurable and, with a few exceptions, recognizes expenditures when liabilities are incurred.

The modified accrual method combines some elements of cash method accounting with the full accrual method. In this case, income earned is primarily recorded in the same manner as full accrual method, but expenses are recorded only when they are actually paid.

This means expense pertaining to purchase of asset will be accounted in the period in which the cheque is actually cashed, however, in accrual method of accounting, cost is recognized and depreciated over the useful life of the assets.

Similarly, Compensated absences are recognized as liability as and when payment is due in each fiscal year on the occurrence of cessation of employment either due to retirement, resignation, or death. However, in the full accrual method the entity has to recognize the liability in each fiscal year irrespective of actual cessation of employment.

### **5.1.4. Accrual System of Accounting**

Accrual System of Accounting captures the financial aspects of each economic event in the accounting period in which it occurs, regardless of when the cash changes hands. It adheres to the revenue recognition, matching, cost and going concern principles discussed below.

- a. Revenue Recognition Principle - Revenue is earned and recognized upon product delivery or service completion, without regard to the timing of cash flow.
- b. Matching Principle - The cost of services are recorded in the same period as the revenue they help to generate. Examples of such costs include the cost of various municipal services like water supply including salaries earned, insurance premiums, supplies used, and O&M etc.
- c. Cost principle - Assets are recorded at cost, which equals the value exchanged at the time of their acquisition. The general concept is that you should initially record an asset, liability, or equity investment at its original acquisition cost.
- d. Going Concern Principle - Unless otherwise noted, financial statements are prepared under the assumption that the organization will remain in business indefinitely. Therefore, assets need not to be disclosed at its sale values, and debt not to be considered to be paid off before maturity. This principle results in classification of assets and liabilities as short-term (current) and long-term. Long-

term assets are expected to be held for more than one year. Long-term liabilities are not due for more than one year.

## **5.2. Selection of Appropriate Accounting Method for the Thromdes**

We have evaluated the various methods of accounting viz. Cash System, Modified Cash Basis, Accrual System and Modified Accrual for the purpose of selection of an appropriate accounting method for the Thromdes.

### **5.2.1. Method of Accounting followed by various countries**

As mentioned earlier, various methods of accounting is being followed around the world by the ULB. However, all the countries are moving towards Accrual Based Double Entry Accounting System (ABDEAS).

### **5.2.2. Benefits of Accrual Based Double Entry Accounting System**

Major benefits of adoption of Accrual-Based Accounting System are summarized as under:

- a. Revenue is recognized as it is earned and thus “Income” constitutes both revenue received and receivable. The accrual basis not only records the actual income but also highlights the level and efficacy of revenue collection, thereby assisting decision makers in taking financial decisions;
- b. Expenditure is recognized as and when the liability for payment arises and thus it constitutes both amounts paid and payable;
- c. Expenses are matched with the income earned in that year. Thus, it provides a very effective basis to understand the true performance of the organization for the operations that is conducted in that year;
- d. A distinct difference is maintained between items of revenue nature and capital nature. This helps in correct presentation of financial statements, viz., the Income and Expenditure Statement and the Balance Sheet;
- e. The surplus or deficit as shown at the year-end represents the correct financial position of the organization arising out of the various transactions during that year;
- f. It facilitates proper financial analysis and reporting;
- g. It captures “full” cost of servicing and helps in identifying financial viability of rendering services;
- h. It helps in providing timely, right quality and nature of information for planning, decision-making and control at each level of management;
- i. It assists in effective follow-up of receivables by the municipal body and proper ascertainment of payables by the municipal body;
- j. One of the distinct advantages of adopting accrual accounting system is ease in financial appraisals by the financial institutions. It also facilitates credit rating through approved Credit Rating Agencies, which is a pre-requisite for mobilizing funds in the financial markets through debt instruments. Hence, the financial statements can be used by the external agencies;
- k. Harmonization of Financial Reporting within the Government entities;
- l. Information on assets and liabilities are readily available.

### **5.2.3. Deficiencies in the Modified Accrual Based Method of Accounting**



The modified Accrual is similar to Accrual Basis of Accounting; however, there are deficiencies in the method which are explained below:

- a. The Method does not allow capitalisation of assets, thus the useful life of the assets in providing services (depletion/depreciation of assets) is not recognized;
- b. The modified accrual does not recognise long term liabilities like Gratuity, retirement benefits plans, etc.;
- c. Hence, this system is not able to present a Balance Sheet with correct picture showing details of all assets owned by the Thromde including Infrastructure assets, Advances, investments, Receivables, Fixed Deposits etc. and all liabilities including employee retirement benefits, other long term debts, etc.

#### **5.2.4. Deficiencies in the Cash Based Method of Accounting**

The deficiencies of Cash Based Accounting System are explained hereunder:

- a. All receipts and payments made during an accounting period whether or not related to the relevant accounting period are recorded with opening and tallied closing cash balances in the Cash basis of Accounting thus not recording Payables and Receivable;
- b. The cash basis does not provide a system for managing unpaid bills or for tracking customer/clients receivables;
- c. This system is not able to present a Balance Sheet, showing details of all assets owned by the Thromde including Infrastructure assets, Advances, investments, Receivables, Fixed Deposits etc. and all liabilities including Creditors/Payables for Goods, Services like electricity dues etc.;
- d. The Cash Accounting system fails to explain the performance through Surplus or Deficit as Per Income and Expenditure Account.
- e. Useful life of the assets in providing services (depletion/depreciation of assets) is not recognized in Cash System of Accounting;
- f. The Work-in-Progress (WIP) in respect of assets created are not recorded at all in the Cash based Accounting system;
- g. Cash System of Accounting do not show any non-cash expenditure and liabilities like gratuity, pensions Accrued interest & finance charges and provisions like provision for bad and doubtful debts, deprecation towards its various infrastructural and other assets;
- h. Cash basis is not acceptable as a method of accounting and is considered incomplete and imperfect for various reasons to raise finance for Infrastructure Assets through borrowing from Financial Institutions or Issuance of Municipal Bonds.

#### **5.2.5. Deficiencies in the Modified Cash Based Method of Accounting**

The deficiencies of Modified Cash Based Method of Accounting System are explained hereunder:

- a. Receivables and payables against amount not received / not paid within pre-specified time period after the end of the financial year is not recorded in the books of accounts;

- b. Information on assets and liabilities are not available under this method of accounting as the same is being charged off to income and expenditure account in the same financial year.
- c. One of the distinct disadvantages is non acceptance of such method of accounting in financial appraisals by the financial institutions which restricts the local bodies in credit rating through approved Credit Rating Agencies, which is a pre-requisite for mobilizing funds in the financial markets through debt instruments.

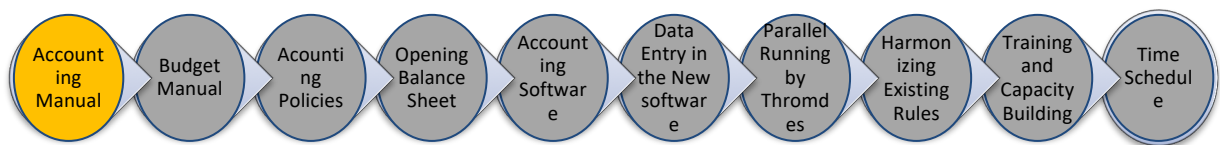
### 5.2.6. Way Forward

After considering all the advantages and disadvantages of the various methods of accounting, it is suggested that Full Accrual Method is the most suitable Method of Accounting in the present scenario. Further, as part of the municipal reforms programme, Accounting Manual also needs to be designed which would include the model accounting policies to be followed by the Thromdes. The accounting policies to be formulated would duly take into consideration the practical and existing scenario prevalent in the Thromdes.

Weak Financial reporting practices may present the illusion of positive financial results in the short term, but at the expense of the longer term fiscal stability. By introducing accrual accounting, government will demonstrate their desire to achieve greater transparency, accountability and produce better information leading to better decision making. The full benefit of implementing accrual accounting can be captured as part of a wider finance reform, serving as a catalyst to provide high-quality financial information, and even more importantly, improving operational and service performance and contributing to the long-term sustainability of public finances.

## 6. Road Plan for implementation of Accounting Reform

The Road map for the migration of present accounting system to Accrual System of Accounting, initially at TT and PT, is charted out for consideration and acceptance by all concerned i.e. both TT and PT, Department of Public Accounts, Department of National Budgets, MoF, RGoB; Accounting and Auditing Board of Bhutan, Royal Monetary Authority (Government Depository for the purpose of budgetary operations of the Government) and Royal Audit Authority.



### 6.1. Preparation of Bhutan Thromdes Accounting Manual (BTAM)

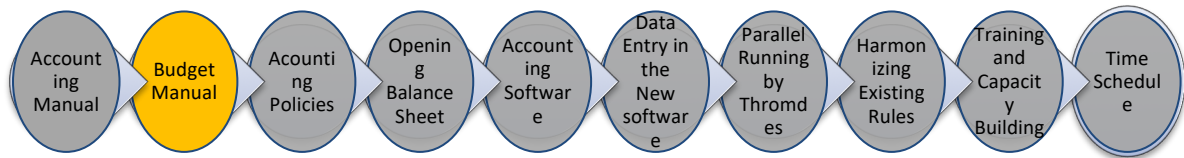
It is imperative that a Manual is prepared for use exclusively by Thromdes in lieu of existing Finance and Accounting Manual (Version July 2001) prepared by MoF, RGoB. The proposed Manual shall focus on principles of accounting, and other important elements of accounting and the MIS reports. The proposed BTAM shall be broadly based on the existing Finance and Accounting Manual, though customizing it taking into account the unique nature of operations of Thromdes and change of their accounting system from cash to accrual based double entry accounting.

The BTAM shall refer to the accounting policies detailed in section 6.3.

The BTAM shall have the following sections:

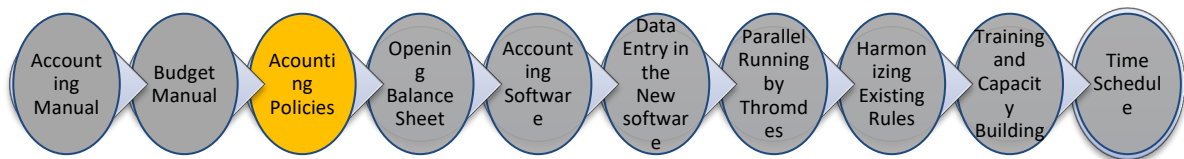
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| General Accounting Procedures   |
| Property & Other Taxes  |
| Water Supply  |
| Rental, Fees & Other Income   |
| Assigned Revenues & Shared Taxes  |
| Capital & Revenue Grant, Contribution & Subsidy   |
| Public Works  |
| Stores  |
| Establishment Expenditure   |
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| Other Revenue Expenditure   |
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| Fixed Assets include. Depreciation Methods and Rates Schedule   |
| Investments   |
| Treatment of Capital and Revenue Expenditure include. Capital Work-in-Progress  |
| Loans & Advances ( preferably a separate chapter for Current Assets)  |
| Special Funds   |
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| Lease & Hire Purchase   |
| Special Transactions  |
| Inter Unit Transaction  |
| Period-end Procedures   |
| Reconciliation Procedures   |
| Provision for Bad and Doubtful Debts ( based on Aged analysis of Receivables)   |
| Provision for Pensions and other liabilities  |
| Financial Statements with sample Notes to financial statements include. Trial Balance, Income and Expenditure account showing Surplus and Deficiency, Balance Sheet, Source and Application of Funds, Subsidy Reports (for Water Supply, Sewerage etc.) etc. with Sample statements |
| Audit Requirements with sample audit report   |
| Guidelines for preparation of Opening Balance Sheet   |
| Budgeting & MIS Thromdes Management Information System ( Detailing Various reports)   |
| Forms and Formats   |

## **6.2. Preparation of Bhutan Thromdes Budget Manual**



The Bhutan Thromdes Budget Manual needs to be prepared based upon existing Budget Manual and using new chart of account. Since chart of account used for Accounting and for budget preparation and execution have to be same, the Three Year Rolling Budget Templates produced under the recent ADB Project shall be modified using the revised chart of account for Thromdes.

### 6.3. Accounting Policies to be used by Thromdes



It is important that the Accounting Policies to be used by Thromdes is decided before hand to guide in preparation of its financial accounts and reports. An accounting Policy is a guideline for financial accounting, such as how an entity prepares and presents its business income and expense, assets and liabilities. The Generally Accepted Accounting Principles (GAAP) comprise of a large group of individual accounting standards worldwide. The following has been considered for determining the way forward:

#### 6.3.1. Accounting Standards in Bhutan

Accounting and Auditing Standards Board of Bhutan (AASBB) has been set up in May 2010 to oversee and develop accounting and auditing practices. The Board has deliberated extensively on various options of developing accounting standards and found that adopting International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) is the most appropriate and prudent option. This decision is in consonance with the expectation of the RGoB to come up with accounting standards comparable to the international best practices.

Accordingly, AASBB has issued accounting standards for companies of Bhutan to be implemented in a phased manner up to 2019. There are no other separate set of accounting standards for the Urban Local Bodies / Government Sector.

#### 6.3.2. Accounting Policies for ULB's Across the World

A. Internationally, International Public Sector Accounting Standards (IPSAS) is being followed by several government bodies which are a set of accounting standards issued by the IPSAS Board of the International Federation of Accountants (IFAC) for use by public sector entities around the world in the preparation of financial statements. These standards are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The following standards have been issued by IASB:

- a. IPSAS 1, Presentation of Financial Statements

- b. IPSAS 2, Cash Flow Statements
  - c. IPSAS 3, Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies
  - d. IPSAS 4, The Effects of Changes in Foreign Exchange Rates
  - e. IPSAS 5, Borrowing Costs
  - f. IPSAS 6, Consolidated Financial Statements and Accounting for Controlled Entities
  - g. IPSAS 7, Accounting for Investments in Associates
  - h. IPSAS 8, Financial Reporting of Interests in Joint Ventures
  - i. IPSAS 9, Revenue from Exchange Transactions
  - j. IPSAS 10, Financial Reporting in Hyperinflationary Economies
  - k. IPSAS 11, Construction Contracts
  - l. IPSAS 12, Inventories
  - m. IPSAS 13, Leases
  - n. IPSAS 14, Events after the Reporting Date
  - o. IPSAS 15, Financial Instruments: Disclosure and Presentation
  - p. IPSAS 16, Investment Property
  - q. IPSAS 17, Property, Plant and Equipment
  - r. IPSAS 18, Segment Reporting
  - s. IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets
  - t. IPSAS 20, Related Party Disclosures
  - u. IPSAS 21, Impairment of Non-Cash-Generating Assets
  - v. IPSAS 22, Disclosure of Financial Information about the General Government Sector
  - w. IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)
  - x. IPSAS 24, Presentation of Budget Information in Financial Statements
  - y. IPSAS 25 Employee Benefits
  - z. IPSAS 26 Impairment of Cash-Generating Assets
  - aa. IPSAS 27 Agriculture
  - bb. IPSAS 28 Financial Instruments: Presentation
  - cc. IPSAS 29 Financial Instruments: Recognition and Measurement
  - dd. IPSAS 30 Financial Instruments: Disclosures
  - ee. IPSAS 31 Intangible Assets
  - ff. IPSAS 32 Service Concession Arrangements: Grantor
- B. In India, the Council of Institute of Chartered Accountants of India (ICAI) has issued a separate set of accounting standards for local bodies (Termed as ASLB) which sets out rules for accounting of local government bodies. Currently the following standards have been issued:
- a. ASLB 1, 'Presentation of Financial Statements'
  - b. ASLB 3, 'Revenue from exchange Transactions'
  - c. ASLB 4, 'Borrowing Costs'
  - d. ASLB 5, 'Property, Plant & Equipment'
  - e. ASLB 6, 'Events after the Reporting Date'
  - f. ASLB 11, "Construction Contracts"
  - g. ASLB 12, 'Inventories'
- C. The Ministry of Urban Development, Government of India supported by the Comptroller & Auditor General of India and National Institute of Urban Affairs has issued National

Municipal Accounting Manual, which provides guidance to the local governing bodies on preparation of their accounts on accrual basis. The manual also provides accounting policies to be followed by the urban local bodies across India. Most of the urban local bodies in India are currently following the single entry system and are implementing double entry system in a phased manner.

### 6.3.3. Way Forward

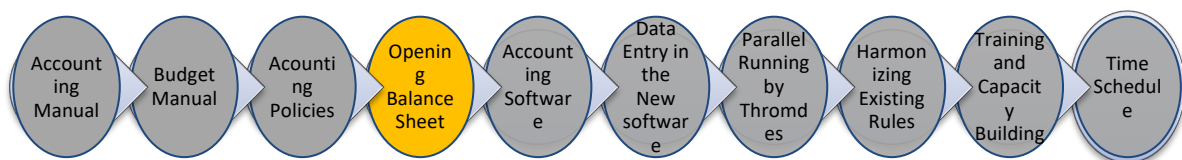
After considering the above it is suggested that the Thromde Accounting Manual cannot be guided by such accounting Standards adopted by AASBB which are made exclusively for commercial entities and are not applicable to urban local bodies. Further, accounting standards issued by AASBB, since drawn from IFRS cannot be used due to their complexity and limited capacity of the local bodies.

Due to inconsistency in the nature of operations, assumptions, principles and constraints from those of standard commercial entities, AASBB should also ideally come out with accounting standards specifically for local bodies in line with global standards.

A need is felt for formulation of a single set of high quality financial reporting standards for Thromdes which will set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements of Thromdes.

Therefore, until AASBB comes out with such specific Accounting standards, it is prudent to incorporate in the accounting manual for Thromdes in Bhutan Accounting policies for the Thromdes would be developed based on all of the above viz. Accounting Standards for local bodies issued by ICAI, National Municipal Accounts Manual, and International Public Sector Accounting Standards.

### 6.4. Preparation of Opening Balance Sheet including valuation of Assets



An essential process when Thromdes decide to migrate to accrual based DEAS from Cash based DEAS is preparation of Opening Balance Sheet which includes identifying, listing and valuing assets and liabilities. It is suggested that the opening balance sheet is prepared as on 1 July 2013.

#### 6.4.1. Fixed Assets – Verification and Valuation

The Urban Local body usually have the following assets:

- a. Land,
- b. Building,
- c. Statues and Heritage Assets,
- d. Roads, Streets, Lanes and Footpaths,
- e. Bridges, Culverts, Flyovers and Subways,
- f. Drains including underground drains,

- g. Water works distribution,
- h. Public Lightning systems,
- i. Parks and Play grounds,
- j. Lakes and Ponds,
- k. Plant & machinery,
- l. Vehicles,
- m. Furniture and Fixture,
- n. Office Equipment,
- o. Other equipment,
- p. Livestock,
- q. Computers and
- r. Intangible Assets like Software

The above assets are needed to be identified and listed through exhaustive survey and physical verification by the Thromdes. After the listing has been carried out, valuation of the assets also needs to be undertaken. For the purpose of valuation, documents for the assets acquired during the last 5 years needs to be verified and for the assets procured more than 5 years ago, the assets may be valued at a nominal value of Re. 1 or may be based on estimation by the Thromdes. Guidelines in respect of the valuation need to be developed by the Thromdes.

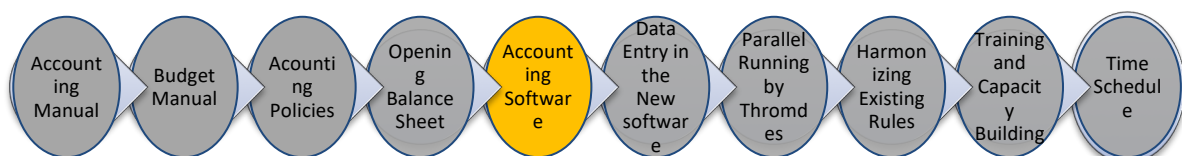
#### 6.4.2. Other Assets and Liabilities – Verification and Valuation

The ULB usually has the following other assets and liabilities:

- a. long term investments,
- b. cash & bank balances,
- c. inventory,
- d. stores and spares,
- e. prepaid expenses,
- f. amount receivable,
- g. deposits,
- h. grant receivable,
- i. other assets,
- j. amount payable,
- k. other liabilities payable

The above assets and liabilities are also needed to be identified and valued appropriately based on the documents available.

#### 6.5. Accounting Software



TT and PT are presently using the software “Budget and Accounting System” (BAS). BAS is being used as a temporary solution, since there is no other better alternative available to meet the unique requirement of Thromdes.

Various alternatives, as described hereunder, were assessed for use for implementation of the recommended Double Entry Accrual Based Accounting System:-

#### **6.5.1. Continue to use BAS with or without modifications:**

BAS consists of 4 integrated Modules, viz., Budget, Accounts, Payroll and System Administration. BAS software was designed and developed to meet the requirements of Double Entry Cash Based Accounting System of various Government departments and Ministries and, as such, needs radical changes to meet the requirements of Double Entry accrual based accounting system required by Thromdes. These changes include accommodating very different codification structure, Chart of Account (unique to Thromdes), processes and procedures, new format of mandatory reports like Income and Expenditure account, Sources and Application of Funds, Balance Sheet and several MIS reports including Subsidy Reports (indicating cost of each service less recoveries) etc. required by Thromdes for assessing operational and financial performance.

It is assessed that the existing system cannot meet the DEAS requirements without significant reprogramming of BAS software. It is assumed that such paradigm change shall involve significant time and additional costs. Instead, it may be more appropriate to pursue entirely new software catering to the revised Accounting needs of the Thromdes. However, in the interest of time and also in view of the G2C project, this option is not practical. Deficiencies of the BAS noted by us are as under:

- a. Services provided or purchases made on credit are not reflected in BAS
- b. System of tracking partial payments and receipts are not available
- c. Operational performance of the thromdes and status of financial health cannot be known at a given point of time since the balance sheet and income and expenditure account is not prepared by the thromdes.
- d. Details of fixed assets cannot be known.
- e. The status of the work in progress cannot be known
- f. Segregation of cost among various services cannot be undertaken
- g. The Chart of account is not suited for the operation of the thromdes.
- h. Information in respect of the amount receivable cannot be known from the BAS software.

#### **6.5.2. Integrated Financial Management System (IFMS) / Customized ERP**

Few of the ULBs in India uses customised ERP Solutions wherein a new customised ERP is developed integrating the existing application / software (if any).

The benefits of having IFMS / Customized ERP are numerous being:

- a. **Flexibility:** Being a highly customized system the system is highly flexible and many existing software / systems can be integrated.
- b. **User Interface:** Being a customized option, the users get a user friendly interface which results in ease of use and shorter implementation and training cost.
- c. **Integration of various Departments and Ministries:** Multiple application systems can be integrated and interlinked, leading to ease of use and information is easily accessible across different locations and departments.



However, there are various drawbacks in SAP considering the nature of operations of Thromdes:

- a. **High Cost:** One of the major disadvantages of IFMS / Customized ERP Solutions is high cost of building and implementation. Costs include manpower costs of internal information technology (IT) employees or external consultants overseeing the process. Once the organization implements the system, employees need to be trained. This involves training each employee in the functions they have access to.
- b. **Gestation period for Streamlining:** Post implementation of the ERP System, Thromdes would require at least 2-3 years to streamline their operations and effectively use the system.
- c. **No other G2C Project:** It is understood that there is a policy decision that G2C project shall be implemented in all Thromdes and as such no other major e-governance initiative is to be undertaken at Thromdes.
- d. **Significant time for development of software:** The software would require significant time for its development as the consultant needs to undertake the requirement study and then develop the software based on the requirement.

Further, even if an appropriate integrated software solution is sought, selected or designed and implemented, the revised solution to achieve the desired software meeting all requirements seems unlikely, besides the high cost of such solution, which may not be affordable. As such, this alternative is also not considered practical and hence not recommendable.

### **6.5.3. Buying and implementing off the shelf Accounting Packages:**

#### **6.5.3.1. SAP ERP**

SAP ERP systems – Business Suite / R/3 is fully integrated business on real-time systems. They enable transactions to be processed end-to-end and eliminate data inconsistencies between sub-systems.

The benefits of using SAP for your business are numerous. SAP delivers systems that are modern and highly efficient. Their support infrastructure is unparalleled in the software industry.

The main business benefit of using SAP is that you get a comprehensive set of integrated, cross-functional business processes. Some other benefits of using SAP are:

- a. **Align Strategies and Operations:** The short, medium and long-term strategies of the organization are identified, clarified and prioritized. All internal workflows are aligned with SAP System which eventually enables effectiveness in the operations of the organizations.
- b. **Enhance Productivity and Insight:** The productivity enhancements arising from SAP implementation can be tremendous. Data is only entered once. There are no sub-systems to consolidate and verify. Data can be forwarded to others within the organization by efficient workflows – using internal messages, emails, SMS alerts or other means. Operations can be authorized and passed along for the next person to process. Employees can process many transactions from various access terminals which are supported by SAP systems. This can include leave applications and submission of expense claims. The overall reporting and analytics environment is enhanced to a level that facilitates operation management.

- c. **Minimize Costs by Increasing Flexibility:** In order to improve process standardization, efficiency and adaptability, SAP relies on enterprise services architecture. SAP extends its business eco-system by extrapolating transactions, information, and collaborative functions.
- d. **Improve Financial Management and Corporate Governance:** Financial and management accounting functionalities combined with business analytics offers the SAP user deep visibility into their organizations. Furthermore SAP increases profitability, improves financial control, and manages risk.
- e. **Optimize IT Spending:** SAP integrates and optimizes business processes as well as eliminates high integration costs and the need to purchase third-party software. Use of SAP incrementally improves cash flow and reduces costly borrowing.

However, there are various drawbacks in SAP considering the nature of operations of Thromdes:

- a. **High Cost:** One of the major disadvantages of SAP system is the high cost of software license and implementation. The organization is required to purchase latest version of software and hardware necessary to run the programs. Costs also include labour costs of internal information technology (IT) employees or external consultants overseeing the process. Once the organization implements the software, employees need to be trained. This involves training each employee in the functions they have access to. Ongoing costs include software maintenance and periodic upgrades. These cost cumulate to a considerable amount which is not advisable at this stage of the municipal reform programme.
- b. **Ease of Implementation:** Another disadvantage of SAP is the complexity built into the software. Most organizations implement one feature or function of the software at a time, allowing employees to gain familiarity with the software before moving forward. The complete implementation process may take several years. The SAP ERP is generally implemented in Large Scale business with multiple Geographical Locations across the globe. Considering the nature of operations and existing capacity of the Thromdes, it is not advisable to implement as first-hand experience such complex software.
- c. **Gestation period for Streamlining:** Post implementation of the ERP System, Thromdes would require at least 2-3 years to streamline their operations and effectively use the system.
- d. However, no ULB's around the world has implemented SAP ERP.

#### 6.5.3.2. FACT ERP.NG:

FACT ERP is an Industry Ready ERP Software which can be customized as per the needs of the user. The main features of FACT ERP are:

- a. **Scalability:** Its support additions of new functionality to the system as the business need changes. This could mean easy management of new processes, departments, and more.
- b. **Improved reporting:** Much of the inefficiency in operational work stems from improper reporting. With FACT, this possibility is eliminated as reporting follows an automated template system, allowing various departments to access information seamlessly.

- c. **Data quality:** As compared with manual record-keeping or other traditional approaches, it improves data quality by improving the underlying processes. As a result, better business decisions can be reached.
- d. **Lower cost of operations:** It introduces fundamental innovations in managing resources, which eliminates delays and thus reduces cost of operations. For instance, use of mobility allows real-time collection of data, which is indispensable to lowering costs.
- e. **Better CRM:** A direct benefit of using FACT is improved customer relations as a result of better business processes.
- f. **Business analytics:** Having high-quality data allows businesses to use the power of intelligent analytics tools to arrive at better business decisions. In fact, there are multiple built-in functionality to allow easier and better data analysis.
- g. **Improved data access:** Controlling data access properly is always a challenge in organizations. With FACT, this challenge is overcome with the use of advanced user management and access control.
- h. **Reduced complexity:** Perhaps the most elegant about FACT is that they reduce the complexity of a business and introduce a neatly designed system of workflows. This makes the entire human resource chain more efficient.
- i. **Integrated modules:** The FACT ERP has integrated module ranging from Financial Accounting, Department – wise budgetary Control, Inventory Control, Payroll and personnel Management, Job Costing, Fixed Asset management, Estimation Module, Purchase Module, Customer relationship Module.

However, being an integrated ERP Solution, there are various shortcomings with respect to selection of FACT as an Accounting Package:

- a. **Cost:** Being an ERP Solution, it has multiple integrated modules, which needs to be customised as per the needs of the Thromdes which would require considerable time and money.
- b. **Ease of Implementation:** The ERP system needs extensive training and handholding by experienced implementing consultants which would not be possible after due considering the existing capacity of the Thromdes.
- c. **Gestation period for Streamlining:** Post implementation of FACT, Thromdes would require at least 1-2 years to streamline their operations and effectively use the system.
- d. **Operation in Bhutan:** FACT is selling its application systems directly to the end customer worldwide and they do not have any office in Bhutan. Their services would be provided by India which may have some time lag in resolving the issues.
- e. As per our understanding, no ULB's around the world has implemented FACT.

### 6.5.3.3. Tally ERP.9

Tally.ERP 9 is reliable, maintenance free, easy to use, easy to customize, easy to install, with a built-in license and issue management systems. Other Benefits of Tally.ERP9 are:

- a. **Simplicity:** Tally.ERP 9 is simple yet powerful, robust, maintenance free solution with strong functional capabilities in accounting, inventory and payroll with multilingual capabilities. The solution developed on Tally.ERP 9 is maintenance free and also highly scalable.

- b. **Real Time:** Tally.ERP 9 updates all reports (from day book to Balance sheets) as and when the transactions are entered and hence do not need any back end or day/period end process to be done.
- c. **Unlimited Multi-User support:** A Multi-user Version of Tally.ERP 9 can be installed on a network having any number of machines (computers) working even with different operating systems.
- d. **Payroll Management:** The Thromde management can also consider using the Payroll management function of the Tally ERP9 which is integrated to the accounting package which is Simple, and is flexible to incorporate specific requirements.
- e. **Online help:** Tally.ERP 9 provides user-friendly context sensitive online help for the user. Hence a first time Tally.ERP 9 user can start using Tally.ERP 9 without any training.
- f. **Rapid Implementation:** The Package is very competitively priced and the complete implementation and training will not add to a considerable cost.
- g. **Cost:** The Tally ERP Package is very competitively priced and there are multiple vendors available. Also, many agencies are involved in training and implementation of the software translating in to low start-up, implementation and training costs.
- h. **Vast network of Partners:** 25000+ partners spread across India who can sell and support Tally products. 1200+ Academies (Tally Authorized Training Centres) and 8 universities offer training on Tally products ensuring abundant supply of Tally trained manpower. Also, there are tally academies in Bhutan which can help us in training the Thromde Staff.
- i. **User Base:** The Tally package has been implemented as part of the Municipal Reforms across in many municipalities in the Asian Countries, including India.

Furthermore, multiple Criteria's required by the Thromdes as part of the municipal reforms which can be taken care off by Tally.ERP9 is enumerated in Annexure – II below.

However, there are various other drawbacks of Tally.ERP9 which is enumerated below:

- a. **Customization** – The user interface of the accounting package is very user friendly. However, customization possibility of Tally.ERP 9 is very limited, and the same cannot include all the business aspects of the entity. Hence, various customised needs and specific requirements of the entities may not be met by Tally package.
- b. **Integration** – The Tally package does not allow users to integrate and interlink existing / new application systems.
- c. **Controls** –The Tally Accounting Package is built for comparatively smaller and lesser complex business units and thus, considering the same it does not allow multiple control points and functions. Also, since it does not support customization, it would be difficult to introduce or modify better process controls.
- d. **Fixed Asset Register / Revenue Register** – The Tally package does not support maintenance of Fixed Asset Register, Revenue Register and other related subsidiary records which are vital to the organization and needs greater integration to the financial management system. Thus, maintenance of Fixed Asset register and Revenue Register needs to be done in a separate software package or MS office applications including computation of Depreciation, disposal of assets, ageing of debtors and other related details.

- e. **Business analytics:** Tally has very limited reporting functions which are too less in a complex environment of the Thromdes. It does not have multiple built in analytics tool or intelligent analytics tools to support data mining. Thus, it does not empower users with better understanding of the financials and thus does not support in better decision making.

**Conclusion:**

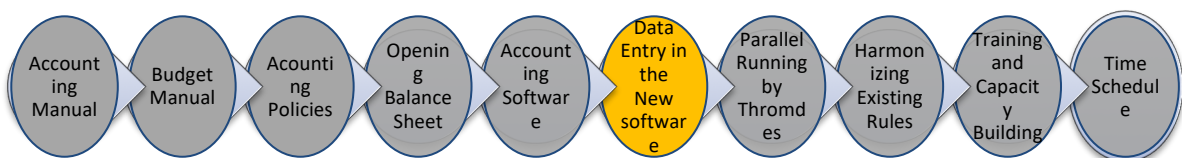
It is advisable that the Thromde staffs use a very simple accrual based accounting software, which has ease of use and understanding. This will motivate the Thromde staff in using the new IT Based Accounting Software and would also maximize the effective utilisation of time. The latest “Tally ERP 9” software is recommended not as a temporary solution but as a phased solution prior to implementation of full –fledged IFMS at Thromdes under G2C Project. Hence, this being an initial phase, Tally.ERP9 is recommended for implementation.

The reasons in favour of this recommendation are listed hereunder:

- a. This is field-tested accounting software as it has been successfully working at several Municipalities in India;
- b. The cost of Tally multi-user software is very affordable;
- c. Minimal time required for installation since this is an off-the shelf software;
- d. No time lag is there in streamlining of the software;
- e. It is understood that some staff both at TT and PT have used Tally software in the past;
- f. Training of this software is easily available.

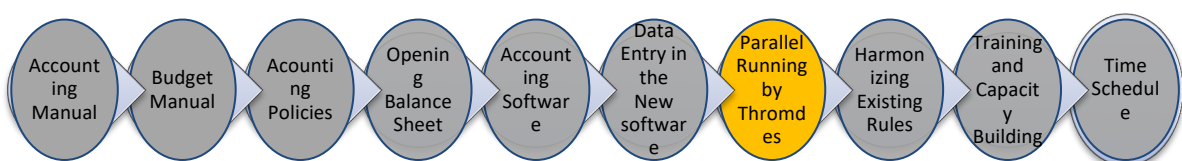
After the Tally is successfully implemented and streamlined, a customized ERP or IFMIS could be implemented in the next phase ensuring integration with all the existing software/systems such as Revenue Management System and Asset Management System. This would ensure success in implementation of AB-DEAS and future sustainability of the Project.

**6.6. Data Entry in the new IT Based Accounting Software**



Data entry into the new ERP system would be done from the date the opening balance sheet is prepared. Currently, 2014-15 is going and Opening Balance Sheet is to be prepared as on 1 July 2013, data entry from 2013-14 onwards should be done. Along with the data entry, training would be provided to the Thromde staffs for capacity building and on the job training in the new ERP.

**6.7. Parallel Running by the Thromdes**

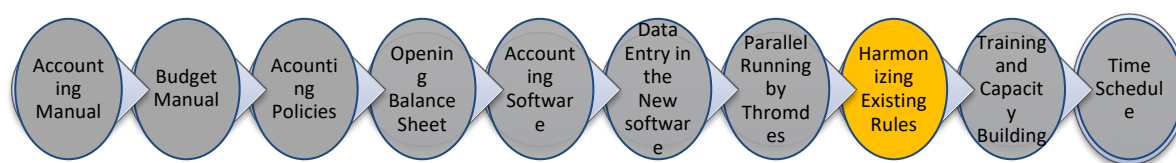


It is planned that both TT and PT shall continue to maintain cash basis DEAS accounts using BAS as well as Accrual based DEAS using Tally ERP 9 effective from 1st July 2015 for one fiscal years i.e. FY 2015-16. It is expected that the essential preparatory work for the Accrual based DEAS like making available Thromde Accounts Manual including MIS, Thromdes Budget Manual, listing and valuation of Assets and preparation of Opening Balance Sheet shall be completed by June 2015.

The Thromde management may consider using the payroll management function of the Tally ERP9. Alternatively, existing Payroll Module ‘DrukPay’ may be continued until a decision is taken to use the alternative.

Effective the period July 1, 2013, the Consulting Firm will guide in transferring the all data from BAS to Tally and maintaining the accounts on regular basis. The preparation of cash basis DEAS accounts using BAS is proposed to be discontinued after completion of accounts for the FY 2015-16. In this entire transitory process, the consulting firm shall hand-hold the Accounts staff at TT and PT, thereby creating capacity to maintain accounts independently without outside support. Thereafter, the management may switch to new ERP.

## 6.8. Review /harmonize existing Acts, Rules and Regulations



Clause 183 of the Thromde Rules and regulation, 2011 provides that an annual report shall be submitted to the Thromde Tshogde who in turn shall submit it to the RGOB with a copy to the ministry.

Clause 187 of the Thromde Rules and regulation, 2011 provides the contents of the Annual Report which shall contain the following:

- a. Statement of local governments’ objectives and policies;
- b. an assessment of the extent to which objectives and policies have been achieved during the year;
- c. The annual financial statements;
- d. latest annual audited statements;
- e. list of commercial investment and returns;
- f. an evaluation of the achievement of performance against planned activities and standards during the year;
- g. list of tenders for works, goods and services awarded along with corresponding budget, recipients and contract value;
- h. a summary of operational results for the year;
- i. an inventory of assets including land and building with duration of lease or hire;
- j. issues and constraints; and
- k. Such other information or reports as may be required to be submitted to the Royal Government.

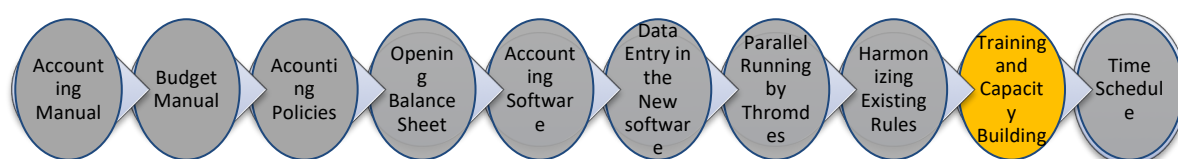
Clause 147 of the Local Government Act, 2007 requires the Thromdes to prepare and submit Annual report which should contain among other the following:

- a. Implementation status of planned activities;
- b. Financial statement of the preceding year;
- c. Statement of all funds received, including revenue, income and
- d. Subsidy and expenditure incurred thereof;
- e. List of tenders for works, goods and services awarded along with
- f. Corresponding budget, recipients and contract value;
- g. Latest annual audited statements;
- h. List of all commercial investments and returns;
- i. List of inventory of all property; and
- j. List of land and building with duration of lease and rental.

Further, the rule does not specify the forms and formats for the preparation of accounts. Hence, the rules need to be modified and the necessary rules and regulations should be incorporated for the methodology of preparation of the accounts.

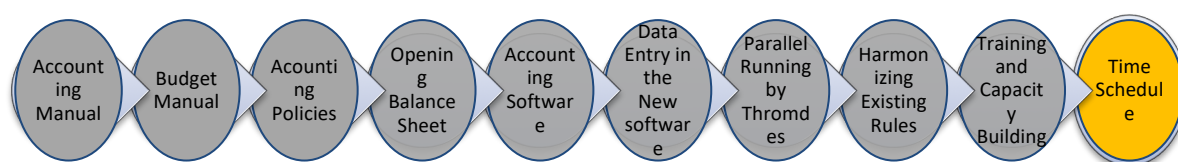
Hence, The Local Government Act, 2007 and Thromde Rules and regulation, 2011 need to include among others changes required due to creation of Municipal Funds (instead of Consolidated Funds), restrictions of use of Municipal Funds, time limits for updated Accrual based DEAS, conducting internal audit and external audit and adoption of Thromde Accounting Manual and Thromde Budget Manual.

### 6.9. Staffing requirement, their training and capacity-building



A minimum of two staff at each Thromde shall be trained in use of accrual based DEAS and Tally software. The staff of the finance departments of the two cities will be trained in the various aspects of municipal financial management so that the city corporations are able to sustain the improvements in the financial management systems and processes. The training would be duly disseminated during our consultancy service as discussed. Handholding would be duly provided during the entire duration of the contract period so as to make them self-sustainable.

### 6.10. Implementation Time Schedule



Time schedules with respect to deliverables can be referred to the Contract terms with the consultant.

| # | Activity                                     | Timeline   | Responsibility  |
|---|--|------------|---|
| 1 | Approval of Approach by Thromde and Ministry | Initiation | NA  |
| 2 | Bhutan Thromdes Accounting Manual            | T + 2      | EY: EY would submit draft manual after detailed discussion / consultations with all |

|   |   |                                |   |
|---|---|--------------------------------|---|
|   |   |                                | the stakeholders and finalization of the Blue print of the Accounting Manual.   |
| 3 | <b>Selection of new ERP</b> – The ERP would be selected after joint consultations with all the stakeholders’ comments including MOWHS, MoF, Thromdes, and the World Bank. | T + 2                          | <b>Thromde Management:</b> Thromdes would initiate the meeting and internally discuss with all the stakeholders for the selection of the New ERP.   |
| 4 | Bhutan Thromdes Budget Manual   | T + 3                          | <b>EY:</b> EY would submit draft manual after detailed discussion / consultations with all the stakeholders and finalization of the Blue print of the Budget Manual.  |
| 5 | Preparation of Opening Balance Sheet<br>- Verification and Valuation of Fixed Assets<br>- Verification and Valuation of Other Assets and Liabilities                      | T + 5                          | <b>Thromde Management:</b> The opening Balance Sheet as on 1 July, 2013 shall be prepared by the Thromdes. The thromdes should also undertake the physical verification and valuation of all the assets and liabilities of the thromdes.  |
| 6 | Data Entry (Back Log) – Data Entry into the new ERP would be for the financial Year July’13 to June’14, and July’14 till date.  | T + 9                          | Thromde Management: Financials for the year 2014-15 needs to be generated from the new ERP. Thus, data entry for the FY13-14 and for the FY14-15 (till date) needs to be done by the Thromde Management as per the revised accounting manual in the new ERP. EY would be providing the necessary training in respect of the same to the staffs of the Thromdes. |
| 7 | <b>Data Entry (Current)</b>   | After completion of the above. | Thromde: Data entry up to June 2015 is to be done by the Management to facilitate in preparation of the financials for FY14-15. EY will assist the thromdes in the preparation of the financial statements for the year 2013-14 and 2014-15.  |



## Annexures

Annexure I: Criteria's of the Thomdes met by Tally.ERP9:

The list of modules for which are required by the Thomdes and Broad coverage are:

| <b>Module</b>                      | <b>Broad Coverage</b>  |
|------------------------------------|--|
| Transaction Module                 | Cash, Bank, Journal, Bank Reconciliation                     |
| Budgeting                          | Capturing of Budget, Re-appropriation and Revision of Budget |
| Payable Accounting                 | Accounting for Vendor invoices, Processing of Payments       |
| Reporting and MIS                  | Generation of Books of Accounts and MIS Reports              |
| Payroll Module<br>(Recommendatory) | Payroll Management   |

The undernoted coverage has been compiled based on the information provided by the Tally Vendor and has been reproduced herewith by us.

| <b>General Criteria / Coverage met by Tally.ERP9</b>   |
|--|
| <b>General</b>   |
| Ability to define 12 periods/ month within fiscal year   |
| Municipal fiscal year closing is allowed. Multiple sets of same books of accounts are permitted.   |
| Allows closing of fiscal period to restrict transaction posting.   |
| Provision to grant user right to specific module(s).   |
| Ability to reopen closed period, subject to valid authorization.   |
| <b>Transactions</b>  |
| Provision to fetch the details of a voucher using the voucher number entered.  |
| Provision for adding any record.   |
| Provision to modify/delete any record before it is posted.   |
| Provision to save, view or print any voucher before it is posted.  |
| Provision to navigate across screens.  |
| <b>General Ledger</b>  |
| Ability to define chart of account   |
| No restriction of the arrangement or the number of accounts  |
| Allows grouping of general ledger account for the purpose of account management  |
| Can block / delete general ledger accounts if posting are to be blocked  |
| Allows creation and posting of journal entries online or in batches  |
| Allows definition of certain GL accounts in a way that individual transactions can be tracked based on its open status. E.g. Security deposits |
| Allows manual clearing of such accounts by matching transaction  |

| <b>General Criteria / Coverage met by Tally.ERP9</b>  |
|---|
| <b>Audit Trail</b>  |
| Generate an audit trail of transactions recorded as a document moves from its source through all document statuses.           |
| System captures all document change events (additions, modifications and cancellations), including the date/time and User ID. |
| <b>Document Management</b>  |
| Availability of various document types for different financial transactions   |
| Availability of option of manual numbering for certain documents  |
| Numbering sequence for all documents is reset per fiscal year.  |
| Hold documents for completion or processing at a later date.  |
| <b>Cash &amp; Bank Transactions</b>   |
| Allows cash accounting with multiple cash points for a single or multiple cash GL accounts                                    |
| <b>Cash Receipt</b>   |
| System generated Cash Receipt Voucher number  |
| Provision for at least one level of authorization for each cash receipt with a facility to create multi authorization levels. |
| Displays available cash balance before the cash entry is made.  |
| Similarly the balance available after the transaction shall also be displayed.  |
| Facility to enter cash receipt for multiple account codes.  |

|   |
|---|
| Provision to close the cash collections for the day, after which collection entry can be made only upon authorization         |
| <b>Cash Payment</b>   |
| System generated Cash Payment Voucher number.   |
| System prevents payment entry if cash balance available is less than that required for payment.                               |
| Facility to enter cash payment for multiple account codes.  |
| Prevents cash payment in case non availability of budget for a particular head.   |
| Provision to close the cash payments for the day, after which payment entry can be made only upon authorization.              |
| Provision for at least one level of authorization for each cash payment with a facility to create multi authorization levels. |
| <b>Bank Receipt</b>   |
| Provision for value date shall be provided. The system date shall be the default value date which can be changed by the user. |
| System generates Bank Receipt Voucher number.   |
| Provision to select the account where the Cheque/DD is deposited.   |
| Provision for at least one level of authorization for each bank receipt with a facility to create multi authorization levels. |
| Facility to enter bank receipt for multiple account codes.  |
| Provision to close the bank collections for the day, after which receipt entry can be made only upon authorization            |
| <b>General Criteria / Coverage met by Tally.ERP9</b>  |
| Allows to view and print cheque deposit statement for a day.  |
| Captures value date for cheque deposited and payment  |
| <b>Bank Payment</b>   |
| System generates Bank Payment Voucher number  |
| Allows accounting for multiple GL Accounts.   |
| Provision for at least one level of authorization for each bank payment with a facility to create multi authorization levels. |
| Provision for the user to create a “limit” for each bank account.   |
| Prevents bank payment in case non availability of budget for a particular head.   |
| Provision to close the bank payments for the day, after which payment entry can be made only upon authorization               |
| <b>Bank Reconciliation Statement</b>  |
| Allows preparation of Bank Reconciliation Statements  |
| Allows upload of bank statements into the system if in a particular format.   |
| Allows the manual entry of bank statements into the system.   |
| Allows defining the criteria for bank reconciliation and carries out bank reconciliation based on pre-determined criteria.    |
| <b>Budget Preparation, Execution and Control</b>  |
| <b>Budget Preparation</b>   |
| Support flexible budget planning via top-down, bottom-up or a combination of both.  |
| Support preparation of budgets for the combination of fund, function, and functionary.  |

|   |
|---|
| Support status tracking for budget preparation and collaboration.   |
| Facility to consolidate budgets of various departments, zones, wards into one budget of the ULB.  |
| Facility to enter a budget code which shall be a combination of account code and budget centre to enable variance analysis.   |
| Budget information generated for multiple budget cycles (e.g. monthly, quarterly, semi-annual, and yearly).   |
|   |
| <b>Budget Execution and Control</b>   |
| Calculate variances at the account code level or Fund/ Function/ Functionary/ Field level or any other budget centre as defined, by comparing the budgeted figures and the actual amounts spent on each of the items. |
| The budget preparation screens should be secured and be accessible by a select group of authorized budget users only such as the Budget Officer, Budget Section personnel in Finance Department etc.                  |
| Online tracking of expenditures vis-à-vis budget at any level.  |
| Online enquiry of budget availability for a department / expense head   |
|   |
| <b>Budget Revision/Re-appropriation</b>   |
| Flexibility to change budget figures during a fiscal year / period (Revision)   |
| Enables selection of the budget which is to be revised/re appropriated.   |
| Facility for direct manual entry of amounts for individual budget items apart from formula builder and percentage revaluations.   |

#### **General Criteria / Coverage met by Tally.ERP9**

##### **Budget Inquiry & Reporting**

|  |
|--|
| Flexibility to report against different versions like budget estimate, revised estimate, etc. for the year   |
| Budget and actual expenditure inquiry or reporting by a department to be restricted to the data pertaining to that department only.                      |
| Budget versus actual expenditure report for all or a selected set of departments and expenditure heads for the current year as well as the previous ones |
|  |

##### **Invoice Entry**

|   |
|---|
| Prevent Invoice entry for a deactivated vendor.   |
| Permit bill entry only if the work order number is entered.   |
| Display the list of pending invoices for authorization on the screen so that the user can select the bills for authorization. Bill details to be displayed when a bill is selected. |
|   |

##### **Invoice Authorisation**

|  |
|--|
| Permit single or multiple authorizations of bills, depending upon the ULB.                           |
| System to generate the JV using the Account codes that are mapped in the system, upon authorisation. |
|  |

##### **Payment Authorisation**

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|--|
| Automatic trigger for payment authorizations pre-set days prior to the payment becoming due after verifying the bill date and maximum credit period. |
| Provision for at least one level of authorization with a facility to create multi authorization levels.  |

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|--|
|  |
| <b>MIS and Reporting</b>   |
| Ability to prepare the following Forms and Formats:                      |
| Cash Book  |
| <input type="checkbox"/> Journal Book                                    |
| Ledger   |
| <input type="checkbox"/> Cash/Bank Receipt Voucher                       |
| <input type="checkbox"/> Cash/Bank Payment Voucher                       |
| Contra Voucher   |
| <input type="checkbox"/> Journal Voucher                                 |
| <input type="checkbox"/> Receipt Register                                |
| <input type="checkbox"/> Statement on Status of Cheques Received         |
| <input type="checkbox"/> Summary of Daily Collection                     |
| <input type="checkbox"/> Cheque Issue Register                           |
| <input type="checkbox"/> Register of Advance                             |
| <input type="checkbox"/> Register of Permanent Advance                   |
| <input type="checkbox"/> Deposit Register                                |
| <input type="checkbox"/> Statement of Outstanding Liability for Expenses |
| <input type="checkbox"/> Function-wise Income Subsidiary Ledger          |
| <input type="checkbox"/> Function-wise Expenditure Subsidiary Ledger     |

|  |
|--|
| <b>General Criteria / Coverage met by Tally.ERP9</b>                 |
| <b>Ability to generate the following reports:</b>                    |
| <input type="checkbox"/> Trial Balance                               |
| <input type="checkbox"/> Income and Expenditure Statement            |
| <input type="checkbox"/> Balance Sheet                               |
| Performance Statement  |
| Daily Collection Report  |
| Daily Bank Position  |
| Daily Cash Position  |
| Investment Report  |
| <input type="checkbox"/> Report on Outstanding Advances to Employees |
| <input type="checkbox"/> Report on Unsettled Advances to Suppliers   |
| Statement of Payables  |
| Revenue Trend Analysis   |
| Cheque Issue Register  |
| Deposit Register   |
| <input type="checkbox"/> Function wise Income Subsidiary Ledger      |
| <input type="checkbox"/> Function wise Expenditure Subsidiary Ledger |