

# FINANCIAL DISCIPLINE IN LOCAL COUNCILS

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The establishment of a sound system of Financial Administration is a *sin-qua-non* for the efficiency and effectiveness of the Local Government institutions. This paper is an attempt to identify some of the defects in the process of financial discipline of the Local Councils in Pakistan and to suggest a framework for improvements in the system of budgeting and financial administration of these institutions.

Budgeting and financing of the institutions primarily involve, planning, coordination and controlling of the finances. With the induction of the idea of the greater role to be played by the Local Government institutions in the process of development and modernization of Pakistan, the question of financing and budgeting has gained special significance.

Unfortunately very little attention has been paid to establish and institutionalize an effective system of budgeting and financing the Local Government institutions in Pakistan. No doubt the existing laws and procedures for the administration of the Local Finances are quite comprehensive and detailed but they do not fulfil the requirements of a modern and development oriented system of Financial administration!

In order to improve the system of budgeting and financial administration of the Local Government institutions in Pakistan, one has to take into consideration some of the modern approaches and techniques of budgeting and financial administration.

## The Present Set-Up

The present set-up for the administration of finances of the local councils is comprehensive in many respects. There are detailed procedures and principles being laid down in the Local Government ordinance of 1979 and the Model by-laws. For the purpose of financial administration the activities of the Local councils are organized into a number of departments including Education, Social Welfare, General Administration, Public Health, Medical Animal Husbandary,

Water Supply and Drainage, Building and Works and the Finance Department.

The Finance section of the Local councils is responsible for the administration of finances and budgeting. Preparation and enforcement of the budget is the responsibility of this section. The finance section also coordinates and control the process of implementation of the budget. Under the statutes and regulations there are provisions for creating finance sub-committees. The role of these sub-committees is of advisory nature. They are supposed to give advice on various matters relating to generation of revenue, budgeting and financing.

The finances of Local Councils are derived from taxes, remunerative projects, grants and subsidies from Federal and Provincial governments and loans from various finance and credit institutions. The local councils both in urban and rural areas have the right to levy certain taxes. The Taxation section of the Local Councils are responsible for the collection and administration of all taxes, fees, rents, charges, receipts and other revenues of the councils.

Under the existing rules a schedule has been set up for the various phases and steps involved in the process of preparation of the budget. Budget proposals are submitted on the prescribed forms and in a prescribed manner. These proposals are scrutinized and consolidated by the Finance Department. This is intended to facilitate the task of analysis and evaluation on more scientific and systematic lines. After the authentication of budget the finance department is responsible to supervise the process of implementation of budget. The department has to make that the established principles, rules, regulation and procedure are being observed, and no expenditure are incurred with out necessary appropriations or in excess of the sanctioned amount. It is the responsibility of the department to see to it that the various provisions of the budget are being carried out by the different agencies under the jurisdiction of the Local Councils. The departmental authorities have to supervise the procedures and methods of accounting and book-keeping, and have to make sure that the records are maintained up-to-date and in an orderly manner.

In order to maintain proper accounts and for the protection of local funds against frauds, embezzlement, wastage and misappropriation both the pre-audit and post audit procedures are laid down and they are strictly adhered to. Besides routine and day to day audit of the funds, there is auditing of the accounts every month and on annual basis. The audit reports, particularly the annual audit reports

form the basis for taking a number of decisions pertaining to various plans, programs, projects and schemes perused by the local authorities and for their finance and budget policies <sup>2</sup>.

As mentioned above the system of budgeting and financial administration is quite comprehensive. There are detailed principles and procedures laid down for the purpose of budgeting and financing the local bodies. The problem is that the system is highly centralized and very little authority is delegated to the Town committees and union councils. There are certain powers delegated to the various levels of local councils in the area of financial administration but they can rarely exercise their jurisdiction with out the prior consent of the government.

In fact for all practical purposes major decisions pertaining to budgeting and financing are taken by the government itself. This is because the financial resources of these institutions are meagre and most of the funds are provided either by the provincial or the Federal governments. This state of affairs is against the spirit of local government and the principle of autonomy in the administration of local councils. Particularly the Union councils in the rural areas the situation is worst in this regard. Obviously this is because the rural people lack the capacity to bear the burden of taxes and can not contribute much to the local funds. Moreover due to low level of literacy and lack of political consciousness among the people and their representatives, the performance of the rural local councils in general and specially in the areas of financial administration is very poor and depressing.

There is lack of proper coordination and integration of planning and financial activities. In the local bodies even at the top like Municipal corporations, Municipal Committees, and District Councils, the machinery for planning and programing is inadequate and ineffective. Many of the functions of planning and programing are performed by amateurs or by the authorities whose work has a very little relevance to planning and programing.

Inspite of all the rules, regulations, principles and procedure laid down for budgeting the process of formulation of budget and its execution suffer from many defects and shortcoming. The system of information and communication is ineffective which makes it difficult to carry out the necessary evaluation and feasibility studies of the proposed projects and schemes and to determine the degree which a project is socially desirable. Due to lack of expertise and the scarcity of technical staff, most of the principles and procedures

laid down in the rules, regulations and statutes can not be properly adhered to. Very few of the staff working in budgeting and financial agencies of the local institutions understand the practical aspects and the proper use of the modern approaches and techniques of budgeting and financial administration<sup>3</sup>.

### **A Framework For Reforming the System**

Keeping in view the significance of budgeting and financial administration and the drawbacks in our system of budgeting and financial administration of the Local Government institutions, a number of changes will have to be brought about. An entirely different approach has to be adopted for establishing the system on modern lines and sound foundations. The system of financial planning and controlling has to be changed substantially besides bringing about changes in the procedures of accounting, auditing and information and reporting.

### **Performance and Program Budgeting**

Modern Management approaches and techniques put a lot of emphasis on adopting performance and programme budgeting procedures and techniques. This is because of the conventional approaches and procedure are ill-suited to the requirements of a welfare and development-oriented system of budgeting. According to the concepts of performance and programme budgeting the annual budget is just like a work-plan specifying the concrete objective and targets to be achieved during a fiscal year. It is essentially a technique of presenting operations in terms of functions, programs and activities. Unlike in traditional budget procedures expenditures on such items as salaries, supplies, materials are linked with a specific segment of work of services. Through this system a close link is maintained between the expenditure and the physical work being accomplished. This is necessary since the coordination between estimates of expenditure and actual accomplishments is an essential feature of performance budgeting.

By adopting management approach to budgeting and financial administration in the Local Government institutions and through the application of performance and program budgeting techniques the new system will assist the administration at every level and in

many ways. These techniques may be used for revealing administrative bottlenecks and organizational adjustment. Strategic policy decisions and emphasis can be made on more realistic basis. Since we can develop yardsticks for measuring the work and performance of various agencies and the personnel involved on more systematic and scientific basis, it can be used as advice for supervision and control purposes.

### **Financial Planning**

Financial planning is another essential feature of a sound system of budgeting and financial administration. The Local Government institutions must have adequate arrangements for financial planning and programming. This will necessitate proper integration of long-range and short-range activities and programs of the local councils and the task of coordination between planning and budgeting.

The first thing for the financial planning is that an administrator is required to establish clearly and specify the objectives and target of various programs and activities to be pursued. Once the goals and targets are clear, the financial planners are needed to indicate the financial resources required for the programs, projects and schemes to be pursued during a given period. After indicating the resources the next step is to determine the ways and means for arranging the financial resources for the programs and activities. Estimates are prepared about the internal and external resources of finance. These estimates are to be prepared on the basis of forecasting. For the working out these estimates the adoption and proper application of quantitative techniques is very necessary.

In order to govern the allocation and the use of funds on scientific basis a system of financial control is also to be adopted by the budget and finance authorities. They have to determine criteria and techniques for carrying out analysis and evaluations and many other exercises which may be necessary for taking financial decisions pertaining to allocation of funds and investments in various activities. To feed the system of financial planning and controlling there is a need of designing and maintaining an effective system of reporting and information. Streamlined procedures of reporting and information will make possible the process of carrying out the evaluations and analysis on more scientific and objective basis and the determining of financial plans and programs on sound foundations.

For the evaluation and assessment of the investment projects the techniques of capital budgeting are also very useful. Through adopting the principles and procedures of capital budgeting the financial planners will be in a position to select the projects and schemes which are highly desirable from social point of view and necessary for the development and welfare of the community. The task of evaluation of projects and carrying out the feasibility study will become highly systematic and the agreement over the amount to be invested in various phases of the plans and the decisions regarding the sources of finance become easier. The economic and financial auditing of past investment decisions made on the basis of these techniques can be used for the purpose of investments in the future decisions. These techniques allow for adopting a number of qualitative and quantitative criteria for making analysis and evaluations in the process of planning, programming and budgeting.<sup>4</sup>

### System of Accounting

The system of accounting consists of the policies, procedures, records and reports of financial matters. It has got a store of information derived from the application of accounting methods to the analysis of financial data from past transaction. The system of accounting should be designed in such a way so that the administration of local councils may be assisted in planning and controlling the finances. The stereo-type method of accounting must be replaced by a modern system which fulfils the requirements of a developmental administration.

The system should process the financial information to the decisions making center and satisfy their needs for taking various decisions and exercising a meaningful control over the various agencies of Local Government. The techniques and procedures adopted for accounting and book-keeping should be designed to watch tabulation, analyse and present the financial data for the purposes of making decisions of strategic nature and exercising controls over the operation of various branches and units of the local institutions. These procedures must be systematic and uniform and should have relevance to the aims and objectives of the local institutions. The data and information which we get as a result of applying accounting procedures and principles must lend itself to carry out analysis and evaluation of various proposals and for the assessment and com-

parison of the results and achievements of the various tiers of local councils.

### **System of Auditing**

The purpose of auditing is to assist the administration in the maintenance of proper accounts and the protection of funds against wastage frauds, embezzlements and irregularities of different nature. An effective system of auditing must ensure the propriety, legality and integrity of the management of local finances.

The policy and procedure should be designed to check and examine the books, accounts, and vouchers and to verify whether they present a true and fair view of the state of affairs or not. It should find out whether the records of the accounts are properly maintained and verify that the money is being received and spent according to the decisions of the concerned authorities.

The audit system must ensure objective verification of books and financial statements as well as the procedure and methods being used for maintaining records and preparing various financial statements. Owing to the size of the work it is highly desirable to carry out intelligent test checks of the system of accounting and administration of the financial policy and procedure and original documents rather than to carry out exhaustive checking and verification.

The system should not be only concerned with honesty and integrity of the employees, the elected councillors, accuracy of financial records and accounting procedure but also with the managerial efficiency. It is therefore necessary to design and institutionalize appropriate method of investigation and measurement of the performance standards of the local administration. The audit reports must be used for the purpose of improving the efficiency and performance of local bodies in the administration of local affairs.<sup>5</sup>

### **System of Reporting and Information**

A sound system of reporting and information must be established for ensuring the efficiency and effectiveness of the system of budgeting and financial administration. In order to have a more pragmatic and realistic view of and approach to the administration of local finances, planning and programming activities and an effective system of reporting and information is a necessary condition.

The system should be designed to supply timely, regular, adequate dependable and valid information about the prevailing conditions in the locality. The system should particularly report the constraints and limitations of the local administration pertaining to the programs and projects being pursued. It should immediately report deviation from policy, violations of rules and regulations and irregularities on the part of local administration.

To enhance the usefulness of the system of reporting and information for planning, programming and budgeting purposes it should have a standardised format. It should also facilitate the task of finance and performance auditing. The information should be used for many purposes. However it should be exception oriented and focus attention on the critical areas rather than reporting on diversified areas of administration. The system of reporting and financial information must fit into the overall information system and particularly to that of planning and programming.<sup>6</sup>

## Conclusion

The system of budgeting and financial administration of the Local Councils must be redesigned to meet the requirements of a developmental administration. It will require special emphasis on carrying out studies on some of the practical problems of the local councils in the area of budgeting and financial administration.

In order to change the system on sound lines, modern management approaches and techniques of budgeting and financial administration must be taken into consideration.

To improve the administration of local councils finances the techniques and principles of performance and program budgeting may be adopted. Proper integration should be established between planning and budgeting activities. Mechanism should be established to carry out detailed planning of the financial activities. For this purpose some of the techniques of capital budgeting are worth consideration. As much as possible the system of budgeting and financial administration should be decentralised.

There is a need of an entirely different approach to auditing and accounting processes. These systems of auditing and accounting should be redesigned so that they can assist the administration of local councils in improving their performance. In order to have a realistic view of the administration of local finances, an effective system of reporting and information must be established.

The agencies responsible for budgeting and financial administration in the local government institutions should be manned by qualified staff. The staff must possess the necessary technical expertise and understanding of the procedures and principles for managing the finances of the local councils on scientific lines. They should understand modern approaches and techniques of budgeting and financial administration. For the purpose of improving the financial performance of local councils and extension services may be constituted to train the local government officials in particular and public in general.

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