Chapter 4

FINANCIAL ACCOUNTING AND REPORTING OF PANCHAYATI RAJ
CHAPTER - FOUR

Financial Accounting and Reporting of Panchayati Raj

Since the PRIs belong to the category of (rural) local government, the accounting practices followed by these institutions are based on the principles and promulgations followed by governmental entities. Governmental accounting deals with the identification, measurement and communication of information about the financial events and phenomena of governmental entities (Bhattacharyya, 2005, p.33). Governmental accounting differs in some significant respects from business accounting. Meigs et al. (1979, p.614) has pointed out that “...in accounting for business enterprises, economic substance of financial transactions is emphasized over their legal form. In contrast, accounting for governmental units emphasise legal form over economic substance.” In business accounting, the main thrust is on the determination of periodic profits and as such, the whole of the process of business accounting is geared to periodic matching of revenues and costs. Since the basic tenet of governmental entities is not to earn profits, the principles of profit accounting are, therefore, not fully applicable to government accounting.

The accounting system of governmental entities give stress on receiving, managing and expending public monies in accordance with the authority within the constitution, acts, financial regulations, and budgets. It also includes the system for managing cash releases, maintaining records of receipts and payments, and providing reports for monitoring and control. Jones (2007, p.7-8), while discussing on the problems of accounting for local governments, has pointed out that “the role of accounting in government is limited to matters of financial probity: the proper recording of transactions, the control of spending against the budget, and the minimization of spending. Matters relating to the quantity and quality of services provided were left to service professionals and politicians.”

The present chapter is devoted to discuss the basic and fundamental issues relating to the government accounting and reporting with special reference to the system followed by Panchayats.

FUNDAMENTALS OF GOVERNMENT ACCOUNTING

Government accounting deals with the identification, measurement and communication of information about the financial events and phenomena of governmental entities. There are three major subsystem of Government accounting: union or central Government accounting, state government accounting and local government accounting. Panchayati Raj Institutions (PRI’s) accounting belongs to the last mentioned subsystem. The accounting system consists of the
methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities. An effective accounting system which contributes to fulfilling an agency's control responsibilities would give appropriate consideration to establishing methods and records that will:

✓ identify and record all valid transactions;
✓ describe on a timely basis the transactions in sufficient detail to permit the proper classification of transactions for financial reporting;
✓ measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements;
✓ determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period; and
✓ present properly the transactions and related disclosures in the financial statements.

Although government accounting has many features in common with other branches of accounting, there are certain distinct accounting measurement and classification issues which are unique to governmental entities. It is in view of this that government accounting has come to be recognized as a separate branch of accounting. The issues on which attention is focused include the application of the fund concept, the determination of the basis of accounting and the application of the concept of accountability. The discussion begins with the identification of the specified features of governmental entities which are responsible for creating demands for special accounting concepts and principles in government accounting.

**Characteristic Features of Governmental Entities**
The common characteristics of governmental entities are as follows:

**Governmental units exist to serve the citizens**
Governmental entities exist to serve the citizens subject to their jurisdiction. The citizens as a whole establish Governmental entities through the constitutional and charter process.

**The prime source of revenue is taxation.**
A lion’s share of revenue of a governmental unit comes from taxation. There may be two types of taxes: direct taxes and indirect taxes. The taxes are provided by the citizens under the jurisdiction of the governmental entity.
Absence of profit motive

The government entities in general render services to the citizens without the objective of profiting from those services. However, there may be a few exceptions.

Impact of legislations

The operational activities of a governmental unit are subject to legislative enactments, such as operating budgets, borrowing authorizations, tax levies etc.

Accountability and stewardship

The government itself is accountable to a variety of elements of society (Dittenhofer, 1994, p.102). A governmental unit is accountable to:

i. its constituents for the economic use of the resources that they have provided;

ii. other governments and organizations for the efficient and effective use of the resources that they supply; and

iii. the society itself for constituting a dependable, efficient and ethical segment of the fabric of which the society is structured.

The governmental entity needs an accounting system that is capable of demonstrating how efficiently and effectively it has discharged its above-mentioned accountability.

Essential Features of Government Accounting

The essential features of the government accounting system are clearly specified in a UN document as follows (UN, 1969, pp. 17-18).

(1) The accounting system should comply with the constitutional, statutory and other legal requirements of the country.

(2) The accounting system must be related to the budgetary classification.

(3) The accounts must be maintained in a manner that will clearly identify the objects and purposes for which funds have been received.

(4) The accounting system must be maintained in a way that will facilitate the audit by external review authorities and readily furnish the information needed for an effective audit.
(5) The accounting system must be developed in a manner that will permit effective administrative control of funds and operations, programme management and internal audit appraisal.

(6) The accounts should be developed so that they effectively disclose the economic and financial results of programme operations, including the measurement of revenues, identification of costs and determinations of the operating results (the surplus or deficit positions) of the government and its programmes and organizations, provide data useful for economic analysis and reclassification of governmental transactions and assist in the development of national accounts.

**Difference between Accounting Practices of PRI’s and Profit-Seeking Organizations**

As clarified in an earlier chapter, a Panchayati Raj Institutions (PRI’s) has been conceived as an elected political institution, generally known as rural local government, constituted for local population for providing civic services. The nature and significance of the work it performs is quite different from that of profit-seeking business organizations in the private sector. Its main objective is to provide some civic amenities to its citizen at cost price or sometimes even at price lower than the cost. These essential characteristics of a PRI’s organization cannot be found in the activities of a private sector profit-seeking organization, whose ultimate objective of economic operations is to earn profit, or more accurately, to maximize the volume of profit within certain legal boundaries. Because of differences in the objectives, the accounting practices of the two organizations also vary widely. Meigs et al(1979, P. 614) has pointed out that in accounting for business enterprises, economic substance of financial transactions is emphasized over their legal form In contrast and accounting for government units emphasizes legal form over economic substance.

**Framework of Government Accounting and Fund Concept**

The General Accounting Office (GAO) under the Comptroller General of the United States in relation to the conceptual framework of governmental accounting observes (GAO, 1985, pp.2-4) that the objective of financial management in the government organisations is to assure that to the maximum extent possible, the resources entrusted to it are acquired and used lawfully, efficiently and effectively. It has formulated seven underlying concepts that may be considered as key in making a framework of governmental accounting and financial management. These are mentioned below:
Use a structured planning and programming process for evaluating and choosing alternatives for achieving desired objective.

A planning and programming process assists policy makers in focusing on what government should be doing, how to best accomplish it, and how to measure performance based on expectations. The process provides an analytic framework for evaluating the benefits and costs of alternatives and facilitates choices among alternative goals, strategies and programmes.

Make resource allocation decisions within a unified budget

A unified budget focuses attention on total expenditure and revenue requirements since the total requirements are known and deficits are fully disclosed, it becomes helpful for the policy makers to make right decision in the course of allocation of resources.

Preparation of budget and keeping of accounts would be on the same basis

Integration of budgeting and accounting provides a common set of rules by which managers make valid comparisons between estimated and actual results. Difference between the two can also be detected and corrective measures can be taken in time.

Use accounting principles which match the delivery of services with the cost of services

It is only the accrual principles of accounting that provide policy makers and management with consistent information to compare project/service costs between periods of agencies. These also help in minimizing inter-period distortions and better informed cost/benefit evaluations become possible.

Encourage financial accountability

A system of detailed and summary management reports identifies costs and accomplishment by the managers and organizations assigned the responsibility for controlling costs, provides accurate, comprehensive information on spending decisions and helps in evaluating those decisions.

Measure outputs as well as inputs

In government budgeting and management reporting system, it is necessary to incorporate the measurement of performance by the managers by way of comparing the project cost with output. It helps to determine if objectives are achieved at an acceptable cost. Analysis of how costs change in proportion to output assists future programme planning.
**Prepare consolidated report**

Consolidation of annually audited financial statements provides an overall picture of the government’s financial conditions. Disclosure of the cumulative financial effect of past decision aids the citizens and policy formulators in analyzing resources and commitments.

**Concept of Fund Accounting**

Fund accounting is an accounting system emphasizing accountability rather than profitability, used by non-profit organizations and governments. In this system, a fund is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations (Hay, 1980, p.5). Engler et al (1995, p.886) has rightly pointed out that the fundamental equation for the fund accounting theory may be described as Assets = Restrictions as Assets.

In fund accounting a fund may be defined as a separate pool of monetary and other resources established for the purpose of specified activities and is operated and accounted for independently of other accounting entities. According to the GASB (1987, p.45) a fund is

... a fiscal and accounting entity with a self-balancing set of accounts recording cash and /or other resources together with all related liabilities and residual equities or balances, and charges therein, which are segregated for the purpose of carrying on specific activities of attaining certain objectives in accordance with special regulations, restrictions or limitations.

In government accounting a fund is a sum of money and often other assets constituting a separate accounting entity, created and maintained for a particular purpose and having transactions subject to legal or administrative restrictions. There is a basic difference between conventional commercial accounting and fund based accounting. While in former system generates one set of accounts consisting of a number of interlocking self-balancing accounts, the latter is composed of multiple sets of accounts, called funds, and within each fund there exists a set of self-balancing accounts.

The objective of the fund system of accounting is to assure that the funds have been properly utilised and to give a report in compliance with finance related legal and contractual restrictions as stated above in basic equation of fund accounting. A fund is established when restrictions have been placed on the purpose for which particular resources may be used. Thus if the law provides that a tax is to be levied for park purposes, the establishment of a Park Fund provides a control over the proceeds from the levy. Establishment of a separate fund means that there must be a separate accounting unit with a separate bank account and the financial information of an individual unit
should not be combined with other accounting units of the governmental entity. In financial management of government organisations, where internal control mechanisms play a vital role in economic, efficient and effective usage of public money, in addition to the budgetary control, fund accounting practices may be considered as a second level of control by restricting the employment of particular resources (Rutherford, 1983, p.46).

**Basis of Government Accounting**

Basis of accounting refers to when the effects of transactions or events should be recognised for financial reporting purposes. The basis of accounting is an essential aspect of measurement focus because a particular timing of recognition is necessary to accomplish a particular measurement focus. The effects of transactions or events can be recognised on an accrual basis (that is, when the transactions or events take place) or a cash basis (that is, when cash is received or paid). In accrual basis of accounting, in addition to recording transaction resulting from the receipts and disbursement of cash, the amounts the organisation owes others and those that owe to the organisation are recorded. Cash basis of accounting, on the other hand, recognises transactions only when cash receipts and payments are involved. No attempt is made to record unpaid bills owed by the organisation or amounts due to the organisation.

There has been a prolonged debate over the issue of whether governmental entities should prepare and present their accounts on a cash basis or on an accrual basis. During the early of seventies of last century, initiatives have been taken by some of the developed countries like USA and UK to change the cash basis of accounting generally followed in governmental entities. For example, modified accrual basis of accounting was promulgated by AICPA as the basis of government accounting. In the UK another version of the method is known as “income and converted payments” method. However, In 1990 the Government Accounting Standard Board (GASB) of the USA published an important guideline on *Measurement and Basis of Accounting – Governmental Fund Operating Statements* and clarifies its position stating that “this statement requires the use of an accrual basis of accounting to recognise the effects of transactions or events that affect financial resources in the period they take place.” Since then there have been exercises by the government of most of the countries across the world to switch over from cash or mixture of cash and accrual to the full accrual basis of accounting. For example, countries like Australia, New Zealand, the Netherlands, Sweden and Switzerland have moved over to accrual accounting and accrual budgeting. Again there are countries like Canada, Japan, Italy and Portugal that have adopted full accrual accounting but follow cash based budgeting.

*It refers to what is being expressed in reporting an entity’s financial performance and position.*
Others countries like France, Indonesia, Philippines, Republic of Korea and Sri Lanka have set in motion the process of moving over to an accrual based accounting system.

In India the Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller & Auditor General of India on August 12, 2002 with the objective of formulating standards relating to accounting and financial reporting by the Union, the States and Union Territories with Legislature. In Indian Government Accounting Standard 4 as issued by GASAB, it has been mentioned that *the accounting shall be on Cash Basis, i.e. the transactions in Government accounts shall represent the actual cash receipts and disbursements during a financial year as distinguished from amounts due to or by the Government during the same period.* But the Twelfth Finance Commission recommended adoption of accrual accounting for the Union and the State Governments. The Central Government has accepted the recommendation in principle. The state governments like Assam, Bihar, Kerala, Madhya Pradesh, Maharashtra, Sikkim, Uttarakhand and West Bengal have also accepted the idea of accrual accounting in principle. Therefore, GASAB is now formulating principles and detailed operational framework and comprehensive road map for migrating basis of government accounting from cash to accrual. Two pilot projects have been completed in this regard. One is *Research Study on Piloting Accrual Accounting in the State of Andhra Pradesh* and report submitted to the government on April 2010. Another report prepared on *Pilot Study on Migration to Accrual Accounting Forest and Health Departments of State Government of Madhya Pradesh* and submitted on May 2010. Based on the pilot studies, GASAB is now developing the Version 1.0 of the financial statements formats and is working on a comprehensive migration manual to facilitate entity level implementation.

At present, the PRIs in West Bengal are keeping their accounts on cash based double entry system. However, it may be mentioned that since 2004-05, the urban local bodies in our state have been keeping their accounting records following the principles of accrual based double entry system which is based on the National PRI Accounting Manual (NMAM) as prepared by C&AG on recommendations of Twelfth Finance Commission.

**ACCOUNTABILITY**

Accountability is an obligation to answer for a responsibility that has been conferred. It is often linked with the obligation of the leader, government, and corporate managers to answer for their actions to those who selected, elected or appointed them. In government entities, accountability refers to the obligation on the part of the public officials to report on the usage of public money and
resources which are controlled by the entity. It is often used synonymously with such concept as responsibility, answerability, blameworthiness, liability, and other terms associated with the expectation of account-giving. As an aspect of governance, it has been related to problems in the public sector, non-profit and private worlds. In leadership roles, accountability is the acknowledge and assumption of responsibility for actions, products, decisions, and policies including the administration, governance, and implementation within the scope of the role or employment position and encompassing the obligation to report, explain and be answerable for resulting consequences.

The bases of accountability may be varied. Stewart (1984, p.16), Sinciair (1995, p.225) have identified, apart from financial accountability, a number of forms of accountability like accountability for probity, accountability for legality, accountability for efficiency, public accountability. Behn (2001, pp.3-8) provides a slightly different classification, which recognizes four accountability types: accountability for finances, for fairness, for the use (or abuse) of power and performance. For Behn, the substance of financial accountability is rather straightforward and is provided in the answer to a question "whether the organization and its officials have been wise stewards of the resources with which they were entrusted".

However, in relation to the government accounting and financial reporting, the financial accountability is the most relevant as argued by Boyne and Law (1991, p.179) saying "the annual report is the only comprehensive statement of stewardship available to the public."

The Concepts Statement No. 1 of the Governmental Accounting Standards Board's (GASB) Objectives of Financial Reporting (1987, p. 28) regards accountability as the cornerstone of government financial reporting. From this perspective, the GASB articulates the key objectives of governmental financial reporting, including the disclosure of information on a government entity's financial condition, as:

Financial reporting should assist users in assessing the level of services that can be provided by the government entity and its ability to meet its obligations as they become due . . . Financial reporting should provide information about the financial position and condition of a government entity (GASB, 1987, p. 28).

In response to GASB, CIPFA (1995) added that the concept of stewardship in the public service is closely related to the concept of accountability. The Institute also believes that financial Information is one of the key ways in which accountability is communicated, and that, therefore, public service Organisations have an opportunity to use published financial statements as the main vehicle for demonstrating their accountability. In this context, the accountability of organisations, according to Bird (1973, p. 3), involves potentially two fundamental features: "the need for the agent to render
an 'account' of his dealings with the stewardship resources, and [to] submit to an examination (usually known as an 'audit') of that account by or on behalf of the person or body to whom he is accountable". It is, therefore, the duty of the local authority to provide relevant financial information (annual reports) to satisfy the needs and interest of their potential users.

Financial accountability is about responsible stewardship for the use of public money. Financial accountability is a means of ensuring that public money has been used in a responsible and productive way. It is about verification of legality and regularity of financial accounts, but also about making sure that value for money has been achieved in the use of resources (Lord Sharman, 2001).

The basic object of financial accountability, as defined above, relates to organizational actions undertaken with the aim of stewardship and productive use of public money and it raises three questions – What is public money? What is stewardship of public money? What is meant by its proper and productive use?

Public money may be expressed as the money raised by the Government in the form of taxes, fees and charges, or under other Government statutory powers, or borrowed by the Government and used for the purposes of funding governmental activities. Once public money is allocated to be spent, it is possible to talk about another complex and mainly economic concept of "public expenditure". Public expenditure could be defined as simply everything that is currently spent in the government's name, as well as its future obligations and liabilities (Watson, 1997, p. 43).

In a democratic state, the standards of public money stewardship are normally expected to be higher than in the private sector. The main reason for this lies in the fact that there is often an element of coercion involved in raising public money, which should oblige the Government to take a very good care on how to use it (Lord Sharman, 2001, p.15). Public money stewardship is the requirement that public money is spent in accordance with existing laws, regulations and principles prevailing in the country.

Another feature of the public money stewardship concept is achievement of "value for money" for the use of resources. Value for money (VFM) relates to the obligation of public bodies to make the best use of the resources at their disposal and obtain three Es – economy, efficiency and effectiveness. In VFM concept, "economy" is concerned with minimising costs, "efficiency" with achieving the maximum output from a given input, while "effectiveness" is concerned with the extent to which policy objectives have been achieved.

Thus it may be may concluded that the key objective of financial accountability is to attain stewardship of public money through securing the principles of legality, regularity, propriety and VFM for the use of public funds.
Financial accountability in its core sense is a “democratic” accountability, as a relationship established between the Government and its citizens, where citizens, through direct (elections) or more often indirect means and institutions (representative institutions and other bodies), are holding the Government to account for stewardship of public money. The core financial accountability relationship assumes that citizens need to be assured that possible public wrongdoing is minimized within government at all levels in the chain of command. This implies the reassurance that sufficient internal and external checks exist so that reliable outside judgment can be made on Government operations having the ultimate aim of securing and safeguarding of public money (Dwivedi and Jabbra, 1989, pp. 5–7).

In government accounting, the Government as an entity is the accountee of financial accountability. At a lower level of generalization, it is the executive who is authorized to spend public money and which is, therefore, called to give an account of its actions. Again, the officials who deal with public funds, and who, therefore, can individually be held accountable for dealing with public funds. In the course of discharging their stewardship obligations, finally the accountees have to prepare financial reports of the entity which requires a third party attestation (i.e. it must be audited by qualified auditors) and that should be submitted to the accountor along with notes to accounts and other related documents.

The most important factor in securing financial accountability is the preparation and publication of accounts statements. The financial statements should be prepared in time and audited professionally to provide assurance to the stakeholders that the public funds have been spent judiciously as per law. It is generally agreed that as wide publicity as practicable should be given to the accounts of local bodies like PRIs and that these should be published in such a form as to be intelligible to ratepayers without special knowledge of accountancy. There should be an obligation on these bodies to devise a means of providing the electorate with financial information about services in reasonably simple and straightforward terms. In West Bengal, the budget and annual account of receipts and payments is mainly prepared to attain the requirement of financial accountability of Panchayati Raj Institutions.

FINANCIAL REPORTING PRACTICES OF PRIs IN WEST BENGAL

Budget

Budget is a vital document in a government organisation. As mentioned earlier, preparation of budget and keeping of accounts on the same basis is one of the basic characteristic features of a government entity. The budget formulation process has four major dimensions:
• setting up the fiscal targets and the level of expenditures compatible with these targets. This is the objective of preparing the macro-economic framework;

• formulating expenditure policies;

• allocating resources in conformity with both policies and fiscal targets. This is the main objective of the core processes of budget preparation; and

• addressing operational efficiency and performance issues.

A good budget process is characterized by several essential features. The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital asset (GFOA, 1998, p.3). A good budget process:

• Incorporates a long-term perspective,

• Establishes linkages to broad organizational goals,

• Focuses budget decisions on results and outcomes,

• Involves and promotes effective communication with stakeholders, and

• Provide incentives to government management and employees.

The utility and usefulness of budget in a government organization can be identified as below:

**A Policy Document**—The budget would document the financial, operational policies, and priorities that guide PRIs’ budgetary decisions. Budgetary goals and objectives, and expenditure priorities would be articulated and documented.

**A Financial Plan**—The budget would serve as the Panchayat’s financial plan by identifying revenues and expenditures. Furthermore, the assumptions and trends upon which these financial projections are made would also be described. Through the use of charts and tables, PRIs would present financial data in a clear, concise and easy to comprehend manner.

**An Operations Guide**—The budget would describe the activities, services or functions to be carried out by institutions. Qualitative and quantitative measures, or outputs, by which program performance and results will be evaluated, would be identified. Program beneficiaries, such as the number of citizens served, and the number of employees required to carry out each activity would be specified. Therefore, the budget of each institution not only identifies the cost of each activity, but also the level of service to be provided, the number of citizens who will benefit from the service, and the staffing level required to carry out the activity.

**A Communication Device**—The budget document would serve as the mechanism by which citizens, PRI officials, policy-makers, potential investors, if any, and others can understand a PRI’s budgetary issues, trends, and choices addressed in the budget.
However, the effectiveness of budget is not above criticisms. Wildavsky (1988, p. 317) sums up the arguments against isolated annual budgeting as follows:

- short-sightedness, because only the next year’s expenditures are reviewed;
- overspending, because huge disbursements in future years are hidden;
- conservatism, because incremental changes do not open up large future vistas;
- and parochialism, because programs tend to be viewed in isolation rather than in comparison to their future costs in relation to expected revenue.

The Principles of the Budget Process

GFOA (1999, p.4-5) of the USA has identified four basic principles of budget of a government organisation:

1. Establish Broad Goals to Guide Government Decision Making

A government should have broad goals that provide overall direction for the government and serve as a basis for decision making.

2. Develop Approaches to Achieve Goals

A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.

3. Develop a Budget Consistent with Approaches to Achieve Goals

A financial plan and budget that moves toward achievement of goals, within the constraints of available resources, should be prepared and adopted.

4. Evaluate Performance and Make Adjustments

Program and financial performance should be continually evaluated, and adjustments made, to encourage progress toward achieving goals.

GFOA (1999,p.5) also pointed out the following twelve broad goals in the process of government decision making which are essentially reflected in the course of preparation of government budget:

1. Assess community needs, priorities, challenges and opportunities
2. Identify opportunities and challenges for government services, capital assets, and management
3. Develop and disseminate broad goals Develop Approaches to Achieve Goals
4. Adopt financial policies
5. Develop programmatic, operating, and capital policies and plans
6. Develop programs and services that are consistent with policies and plans
7. Develop management strategies Develop a Budget Consistent with Approaches to Achieve Goals
8. Develop a process for preparing and adopting a budget

9. Develop and evaluate financial options

10. Make choices necessary to adopt a budget Evaluate Performance and Make Adjustments

11. Monitor, measure, and evaluate performance

12. Make adjustments as needed

**PREPARATION OF BUDGET BY PRIs**

**Gram Panchayat (GP)**

The preparation of Budget of a GP is guided by the West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007. The preparation of GP budget is a long exercise. It has to be prepared considering different aspects and the steps involved in the preparation of GP budget can be stated as below:

- **Step – I:** Preparation of Gram Sansad Budget (Form-34)
- **Step – II:** Estimation of Receipts of Funds by GP
- **Step – III:** Estimation of Upa-Samiti wise Expenditures considering GUS budget (Form-35)
- **Step - IV:** Preparation of GP Budget

**Preparation of Gram Sansad Budget**

- A five year plan (perspective plan) has to be framed out wherein the programmes, schemes and works to be undertaken during the period are to be included;
- Annual plan has to be prepared on the basis of five year plan and which of the programmes are to be executed in the coming year are to be earmarked;
- Assessment of fund required to give shape of the annual plan;
- **Gram Unnayan Samiti (GUS)** has to prepare the budget of GS as per the format given in Form No. 34;
- GS budget has to be prepared on the basis of data generated from neighbourhood meetings and also on fund realistically available in the following year;
- The budget of GS so prepared is to be sent to GP by 14 August each year.
Contents of Form 34

It has two different sections, namely Receipts and Payments. The heads of account in receipts sections has mainly three items. These are Programme fund, Untied Fund and Own Source Revenue from GP. Under the payment side of GS budget seven different sectors are considered namely, Shiksha, Janaswasthya, Nar o Sishu Unnayan, Krishi o Sanshlisto, shilpa, Parikathamo, and Onnanya Bibidha. The budget also provides the probable sources funds required to implemented the programmes and broadly categorised into two – (i) contribution from Community/beneficiary/own sources and (ii) anticipated receipt from GP(Govt. Grant/untied fund/GP own source). The Chairperson of GUS has to certify that the budget has been prepared in pursuance of the decisions taken in the annual meeting of GS.

GUS and Budget of GP

GUS is entitled to receive advances from the GP concerned on account of the following:

1. Contributions and grants made by the central or state government, ZP, PS to the GP or out of the own resources of the GP
2. Fund required for execution of any work, project or scheme as has been entrusted by the GP
3. Gifts or contributions from any trust, endowment, members of the GS or the public in general.

The fund so received from GP by GUS is advance in nature and the GUS is responsible to GP for submission of adjustment against each component of advance received on each occasion separately.

Estimation of Receipts of Funds by GP

The first step that the GP has to undertake to prepare its Budget is compilation of preliminary outline budget. In order to ascertain the estimated receipts, the budgets of GUSs are considered to calculate fund likely to be received by the GP. The main sources of fund as shown in GUS budget are as above.

Estimation of Upa-Samiti Wise Expenditures

Considering the budgets of Gram Sansads, the outline budget of payments is prepared upa-samiti wise. Accordingly, all the Upa-samities of GP prepare their outline budget separately in Form – 35 taking into account their functional areas, already earmarked, namely, Shiksha, Janaswasthya, Nar o Shishu Unnayan, Krishi O Sanshlisto, Shilpa and Parikathamo.
**Preparation of GP Budget**

On receiving the *Upa-samiti* wise outline budget the outline budget of GP is prepared in Form - 36. But in order to prepare the final budget of GP for the next financial year a series of formalities are to be observed by the GP keeping in mind the time schedule for each of the stage. The Accounts Rules of 2007 prescribes such schedule and it may be summed up as below:

**Important Dates**

1. Gram Sansad budget to be sent to GP by 14 August each year.
2. Estimation of receipts of funds to be completed by GP on or before 31 August each year.
3. Estimation of Upa-Samiti wise expenditures to be completed by GP on or before 15 September each year.
4. Outline budget of GP to be prepared on or before 1 October each year.
5. Outline budget of GP to be placed at the meeting of Artha O Parikalpana Upa-Samiti for consideration and modification on or before 10 October each year.
6. Modified outline budget to be laid before the specially convened meeting of GP for consideration and modification and to prepare Draft Budget latest by 30 October each year.
7. Draft budget is to be disseminated in public places for general information of public at large on or before 5 November each year.
8. A copy of Draft Budget is to be sent to Panchayat Samiti on or before 7 November each year.
9. Draft Budget to be placed in the half-yearly meeting of Gram Sansads during the month of November and objections and suggestions are to be recorded.
10. The Draft budget along with objections and suggestions is to be placed in the meeting of Gram Sabha on or before 31 December.
11. Considering objections and suggestions offered by Gram Sansads, Gram Sabha and Panchyat Samiti, the draft budget after modifications to be approved as budget of GP at a specially convened meeting on or before 31 January.

The process of preparing Gram Panchayat budget is shown in figure 4.1 as below:
Fig: 4.1

PROCESS OF PREPARING GRAM PANCHAYAT BUDGET

BUDGET OF GRAM PANCHAYAT
(FORM – 36)

(i) Contributions & Grants By
   Central, State or ZP, PS to GP
(ii) Own sources of Income
(iii) Other Receipts

UPA-SAMITI WISE COMPILATION OF
BUDGET ESTIMATES AS RECEIVED FROM ALL GSs

BUDGET OF GRAM UNNAYAN SAMITI
(FORM - 35)

PROGRAMME FUND

UNTIED FUND

OWN SOURCE REVENUE FROM GP

SECTORWISE (UPASAMITI) BUDGET

MISCELLANEOUS

BUDGET OF GRAM SANSAD
(FORM 34)

SHIKSHA

JANASWASTHYA

NARI O SHISHU UNNAYAN

KRISHI O SANSHLIS

SHILPA

PARIKATHAMO

Source: Paper presented by U Bhattacharyya at PKC College, Kanthi, on 22 Dec. 2010
**Budget of Panchayat Samiti and Zilla Parishad**

The Panchayat Samiti or Zilla Parishad, on ascertaining the information regarding the amount of the probable grants, contributions and allotments of fund that may be available for the following financial year, determine apportionment of share of each Sthayee Samiti to prepare budget for its functional area. Accordingly, all these Sthayee Samitis will prepare outline budget in Form 1 of the West Bengal Panchayat (Panchayat Samiti and Zilla Parishad) Budget Rules, 2008. After integrating the outline budgets of all Sthayee Samitis, the Panchayat Samiti or Zilla Parishad has to draw up its total budget in Form 2 of the said Rules. Excepting the expenditure for regular establishment, all other expenditure may be incurred only when-

a) expenditure is within the budgetary provision;
b) sanction of the concerned authority has been obtained;
c) the project/work/scheme is included in the Annual Action Plan;
d) the purpose is commensurate with the order of priority for taking up execution of the project/work/scheme; and

e) if prior sanction of the State Government is necessary for execution of the project/work/scheme or for the incurring such expenditure, such sanction has been obtained.

**RECORDING OF TRANSACTIONS AND PREPARATION OF FINANCIAL REPORTS**

A separate rule covering the provisions regarding the maintenance the books of accounts and registers for the GP was introduced in the year 1990 in the name of West Bengal (Gram Panchayats) Accounts, Audit and Budget Rules, 1990. The same has been amended in the year 2007 and provision was made for double entry system of accounting and keeping accounts in computers etc. The amended Rule is operative from 1.4.2008. Till 2003, the accounts and audit of the Panchayat Samitis and the Zilla Parishads were governed by the Zilla Parishads Act of 1963 and only from 1.4.2003 the Rules governing the maintenance of accounts and audit of the Zilla Parishads and the Panchayat Samitis was introduced under the title, “West Bengal (Zilla Parishads and Panchayat Samitis Accounts, Audit and Budget) Rules, 2003.

The account structure and financial management system supports the following outputs:

1. Voucher Generation
2. Preparation of Cash Books
3. Cheque Issue Register
4. Subsidiary Cash Books
5. Ledgers
6. BRS and Fund Analysis
7. Receipts and Payments Accounts

A comparative analysis on the basis of above seven segments of accounting of three tier panchayat institutions is shown in Table No. 4.1 as below:
Table: 4.1

RECORDING OF TRANSACTIONS AND PREPARATION OF FINANCIAL REPORTS AS PRESCRIBED IN ACCOUNTS RULES

<table>
<thead>
<tr>
<th>Recording and Generation of FR</th>
<th>As prescribed in West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007</th>
<th>As prescribed in West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Financial Rules, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voucher Generation</td>
<td>All receipt-vouchers and payment-vouchers shall be chronologically numbered by consecutive numerals in English, Bengali or Nepali on the basis of chronological sequence separately for each of the said two groups for each financial year and the voucher numbers so assigned shall be noted in the relevant columns of the Cash Book.</td>
<td>All receipts of Fund shall be entered in the Cash Book on the basis of credit vouchers prepared in Form 6 with reference details of each such receipt. Similarly, all payments out of the Fund shall be entered in the Cash Book on the basis of debit vouchers prepared in Form 7 with reference to each such claim passed for payment. Such credit vouchers and debit vouchers shall be distinguishable by two different colours of paper and shall have two separate consecutive serial number year-wise.</td>
</tr>
<tr>
<td>Preparation of Cash Books</td>
<td>The Cash Book shall be maintained on double column basis. The left or debit side of the Cash Book shall have two separate columns - one for cash transaction and other for transactions relating to Savings Bank Account. On the right side or credit side there shall be two separate similar columns.</td>
<td>The Zilla Parishad or the Panchayat Samiti shall maintain Cash Book in Form 9, in the debit side of which shall be entered all sums received under subsection (1) of section 179 or section 132, as the case may be. Similarly, there shall be entered in the credit side of the Cash Book, all disbursement made by the Zilla Parishad or Panchayat Samiti. Following the double entry system of accounts, all the debit and credit entries in the Cash Book shall have a corresponding entry in the respective ledgers. The Cash Book shall be closed and balanced each day and checked. The Cash Book balance shall be analyzed at the close of the month showing balance of Fund and position of cash, scheme-wise, head-wise or purpose-wise, available for utilization.</td>
</tr>
<tr>
<td>Cheque Issue Register</td>
<td>As soon as any amount is received by the Gram Panchayat through a cheque or bank draft, the particulars of the cheque or bank draft shall be recorded</td>
<td>As soon as any amount is received by the Zilla Parishad or the Panchayat Samiti through a cheque, its particulars shall be recorded in the Register of Cheques</td>
</tr>
</tbody>
</table>
in a Cheque / Draft Receipt Register in Form 2 and the amount shall be entered in the Cash Book.
When a cheque is issued by the Gram Panchayat, the particulars of the cheque issued shall be recorded in the relevant column of the Cheque Book Register and the amount of the cheque shall be entered in the bank column of the Cash Book with corresponding entries of other particulars.

Received in Form 10 and the amount shall be entered in cheque book on the same day. The receipt of such cheque shall be duly acknowledged by giving a receipt in Form 2 and the serial number of the receipt shall be entered in the Register in Form 10.

As soon as a cheque is issued by the Zilla Parishad or the Panchayat Samiti, the particulars of the cheque issued shall be recorded in the Register of Cheques Issued in Form 10A and the amount shall likewise be entered in the cheque book.

Cheque Book shall be kept under lock and key in the custody of the officer authorized and he shall periodically check the Cheque Book and the loss of an unused cheque, if any, shall be notified promptly to the Treasury officer or the Bank manager as the case may be, and the fact of such loss shall be noted in the remarks column of the Register of Cheque Books Issued in Form 14. A First Information Report shall also be lodged to the local Police Station in such cases.

<p>| Subsidiary Cash Books | When for the purpose of maintenance of the accounts of the fund of a programme in a separate and transparent manner, a separate Bank account is opened and Subsidiary Cash Book is required to be maintained in accordance with the directions of the sponsoring authority, any fund received on account of such programme shall be entered first on the receipt side of the Cash Book and immediately thereafter, on the receipt side of the Subsidiary Cash Book. But in case of any payment from this fund, the payment shall be entered first on the payment side of the Subsidiary Cash Book and the total amount of the payment for a day shall be entered on the payment side of the Cash Book. While posting such receipt and payment both in the Cash Book and the Subsidiary Cash Book a cross reference of the Folio number of the Cash Book shall be given in the Subsidiary Cash Book against the related entry and Folio number of the | For any important scheme or programme, a subsidiary Cash Book may be maintained by the Zilla Parishad or the Panchayat Samiti in Form 12 when so directed by the Funding authority with respect to any scheme or programme or when the Panchayat body considers it necessary and expedient to maintain a subsidiary Cash Book in relation to a scheme or a programme. Provisions relating to maintenance of Cash Book shall apply mutatis mutandis for maintenance of the subsidiary Cash Book. Total receipt and expenditure recorded in the Subsidiary Cash Book for every month shall be brought into the principal Cash Book by recording such receipt or expenditure on the last working day of the month for the purpose of calculating the total Fund and for classification of the Fund scheme-wise and head-wise. |</p>
<table>
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<tr>
<th>Location</th>
<th>Details</th>
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<tr>
<td>Subsidiary Cash Book against each entry in the Cash Book. Each such Subsidiary Cash Book shall be maintained in Form 1A.</td>
<td>All financial transaction of the Zilla Parishad or the Panchayat Samiti, as the case may be, shall be recorded in the general ledger maintained as per Form 13 following the double entry system of bookkeeping. Each account maintained in the general ledger shall be totalled every month to facilitate preparation of monthly and annual Receipts and Payment Account of the Zilla Parishad or the Panchayat Samiti, as the case may be. Each account in the general ledger shall show on the top of the left hand side, the budget provision if any in respect of that account made by the Government of India, the State Government, the Zilla Parishad or the Panchayat Samiti, as the case may be.</td>
</tr>
<tr>
<td>Ledgers</td>
<td>Provided that for transaction between cash and bank, entry shall be recorded in the Cash Book only, both in cash and bank columns through Contra Entry.</td>
</tr>
<tr>
<td>Bank Reconciliation Statement (BRS) and Fund analysis</td>
<td>The balance of the Treasury, Bank accounts and the cash balance shall be the balance of the Zilla Parishad Fund or the Panchayat Samiti Fund. Annual verification, monthly verification of balance shall be made by the Accountant and recording on the corresponding page of the Cash Book or the ledger that the balance has been verified with the Treasury Pass Book or the Bank Pass Book, as the case may be. If the transactions in the account are not verified and reconciled for three consecutive months, the defaulting Zilla Parishad or the Panchayat Samiti, as the case may be, shall not draw any Fund from that account either by cheque or otherwise until the account is verified. Any failure to observe this procedure shall be viewed as an irregularity in.</td>
</tr>
</tbody>
</table>

Since a half yearly statement of receipts and payments and also an annual statement of receipts and payments of the Gram Panchayat are being prepared on the basis of balances of Cash Book and classified accounts maintained in the General Ledger, a BRS need to be prepared on regular basis. The Cash Book shall be closed and balance struck on daily basis and its entries and balances shall be checked with reference to the Pass Book and other relevant records at the close of every month; a Bank Reconciliation Statement shall be prepared at the end of each month in respect of each bank account and also fund analysis for the closing balance of the Gram Panchayat Fund shall be made and recorded in the Cash Book at the end of each month;
Receipts and Payments Accounts

1. Preparation of a monthly statement of fund position showing total fund available with its classification on the basis of sources and nature of different components of the fund.
2. Preparation of a half-yearly statement of receipts and payments for the period 1st April to 30th September.
3. Preparation of the annual statement of receipts and payments encompassing the receipts and payments of the first six months as also that of the next six months of the year, in Form 27.

A monthly receipt and payment accounts shall be prepared in Form 27 to ascertain the monthly position of the fund of Zilla Parishad or Panchyat Samiti, as the case may be. On the receipt side of the receipts and payment account, the figures written shall include the total of receipts on different accounts showing breakup of receipts as current arrear year wise as well as the opening balances of the cash in hand, Local Fund Accounts and Banks Accounts; on the payment side of the receipts and payment accounts the figures written shall include the total of payment on each account as well as the closing balances of the cash in hand, Local Fund Accounts and Bank accounts. Balance under each group appearing under receipts and payments accounts should tally with the balances shown in schedule – 1 to receipts and payments accounts. The monthly receipts and payment accounts for the month of March shall become the annual receipts and payment accounts and it shall be prepared within 30th April of the following year.

Source: Prepared by the Scholar based on Rules and Act

AUDIT OF PANCHAYAT ACCOUNTS

Audit of the accounts is done to ensure that financial transactions related to both income and expenditure has taken place following the prescribed rule and maintaining general prudence in handling government resources. The audit helps to know that every activity involving income or expenditure has been carried efficiently, economically and effectively. Thus the audit process involves scrutiny of all documents; verification of stocks as per record and the report submitted by the auditor is an instrument to ensure accountability of those in charge of handling of Panchayat fund. The Panchayat bodies have to undergo two types of audit: internal audit and statutory audit.
Internal Audit

Internal audit is considered as a valuable tool in securing financial accountability. Internal audit has been defined by the Institute of Internal Auditors (2004) as "independent, objective assurance and consulting activity designed to add value and improve an organization's operations." It is an independent appraisal function for giving feedback to the authorities for knowing the status of maintaining standards of accounting and effectiveness of various control mechanism towards following various rules and orders related to management of finance. One objective of conducting internal audit is to assist the functionaries engaged with maintenance of accounts in improving compliance to relevant rules and executive orders.

Section 196A of the Panchayat Act provides for internal audit of the GP, PS and the ZP in the prescribed manner. The Panchayat Accounts and Audit Officer (PAAO) posted in the Block Development Office is responsible for conducting internal audit of the GPs at least once in every quarter. Internal audits of PS and ZP are conducted by the Samiti Audit & Accounts Officer (posted at the office of the SDO) and the Regional Audit and Accounts Officers (posted at the office of the Divisional Commissioners) respectively. There is also one post of Parishad Audit & Accounts Officer in the office of the District Magistrate who assists the DM in monitoring audit and handling audit queries etc but in many districts they actually work for the ZPs. Conducting internal audit every quarter and submitting such reports and analysis of those reports at appropriate levels are crucial for keeping financial management of the Panchayats in good shape.

In many cases such audits are not conducted on time and the reports of the audit is not followed up sincerely for rectification of the lapses, which are likely to lead to financial mismanagement and even continuation of corrupt practices and misappropriation of fund. There is a provision of Special Audit as prescribed in section 196B of the Act in case of suspected misappropriation of fund.

Statutory Audit

Section 186 of the Act provides for examination and audit of the accounts of the Zilla Parishads, Panchayat Samitis and the Gram Panchayats by the auditor appointed by the State Government and the Examiner of Local Accounts (ELA), who is an officer of the Comptroller and Auditor General of India (CAG) has been appointed as auditor under the said provision. In auditing the accounts, it shall be the duty of the auditor to see that:

✓ Accounts have been kept and presented in the approved forms.
✓ Particular items of the receipts and expenditures are stated in sufficient details.
✓ Payments are supported by adequate vouchers and authority.
✓ All sums received are brought into account and entered in the cash book. The receipts and
expenditures in all cases are such as are authorised by law.

The auditor shall also verify the cash balance in the hand of the custodian of the Panchayat fund on the date of commencement of the audit. The auditor shall audit the accounts of a Panchayat fund immediately after the close of the accounting year and will prepare a paragraph wise report containing his objections and send the same to the GP/PS or ZP concerned. The Panchayat body concerned has to take remedial measures for any defect or irregularity and report the same to the auditor. Failure to such compliance will be looked in to, as per the W.B. Panchayat Act by the SDO/DM or the Commissioner of the Division respectively. The ELA also submits the annual audit report of the Panchayats in consolidated form, which the State Government has to place before the Assembly for necessary scrutiny and action.