Chapter 7

APPRAISAL OF PREVAILING SYSTEM
CHAPTER - SEVEN

Appraisal of Prevailing System

In chapter six of the present study an endeavour has been made to depict the present scenario of financial management system as practised by the PRIs in West Bengal in general and the Howrah district in particular. The objective of this chapter is to identify deficiencies related to the prevailing system based on responses as collected by administering two sets of questionnaire, as mentioned in previous chapter, in one hand and in the light of the principles of financial management applicable to government organizations promulgated by authoritative bodies and as practiced in countries abroad on the other.

The appraisal of the financial management pattern prevailing in Panchayati Raj system of West Bengal with particular reference to Howrah district may be discussed under three categories namely:

1. Assessment of record keeping and rules compliances;
2. Assessment of procurement and utilisation of finance; and
3. Assessment of performance of District Council in financial management mechanism of PRIs.

The details of each category are discussed below.

ASSESSMENT OF RECORD KEEPING AND RULES COMPLIANCES

Budgeting

As discussed in chapter -4, it is a statutory duty for all the PRIs to prepare their budget. Budget document not only provides statement of income and expenditure proposed and the actual figures of the previous year it is also a reflection of the priority the Panchayat attaches to various activities related to socio-economic development of its area. Prior to preparation of budget each PRI ascertains the quantum of fund to be received in the shape of grants, contributions and allotment from central and State Government as well as from other sources and also assess mobilization of own fund through revenue generation. But following irregularities have been identified while examining how far the PRIs accomplished the budget rules as prescribed and how the budget serve as the PRIs’ financial plan and operations guide(c/f Chapter-four):

Weak budgeting and budgetary control

At each level of Panchayati Raj, the following deficiencies have been identified:

✓ Budget proposals not approved by the PRIs/Gram Sabha.
Due to non-formulation of annual plan in time:

- majority of PRIs could not incorporate estimates of receipts and payments relating to Plan schemes in their budgets; and
- PRIs incurred plan expenditure without budget approval

Budget plays a vital role in financial management of an entity. It helps to identify areas to be covered on priority basis for development. It is a compact statement of all probable financial resources of a body and their apportionment with reference to annual programme. Moreover, passing of budget by PRIs involves participation of people through their elected representatives for ensuring development through deliberation. Non-preparation of budget by PRIs thus deprives the people from achieving their aspiration and shows lack of financial management. It has been observed by the ELA (2009, pp.17-18) that a large number of PRIs in West Bengal incurred expenditure without preparing budget estimates.

Non-maintenance of registers

Related accounts rules for GP, PS and ZP envisage provision for maintenance of Demand and Collection Register, Appropriation Register, Works Register, Advance Register, Liquid Cash Book and Subsidiary Cash Book, Register for Immovable Properties, Store Account Registers for effective internal control in workings of PRIs. But there are cases where a number of these important books of records are not maintained (cf. Table 6.3). Needless to mention that lack of maintenance of prescribed registers, sources as well as quantum of revenue, appropriation of grants, status of properties, position of works and amount of liquid cash could not be ascertained.

Following lacunas are found in the process of keeping of Cash Book:

- Differences in opening and closing balances;
- Non-accountal of receipts;
- Incorrect and incomplete postings;

Accounts

Preparation of accounts on the basis of pre-set rules and principles and compilation of financial statements on time is one of the basic requirements of good financial management. The study has identified the following deficiencis in this regard:

- Delay in preparation of monthly and annual accounts
- Lack of up to date accounts by the local bodies leading to incomplete picture of their financial position.
- Non maintenance of accounts in the Accounts Formats prescribed by CAG rendering comprehensive analysis of the finances and expenditure difficult. It may be noted that the XIith
Finance Commission has observed that the recommendations by FC-XI relating to maintenance of accounts and audit of local bodies had still to be implemented (para 10.33, p.153). The XI FC, it may be mentioned, has prescribed for a format for maintenance of accounts of PRIs to be formulated by the C&AG and the preparation of accounts be supervised by the C&AG.

✓ Local bodies are yet to create the database on finances prescribed by CAG. In some States this work has been entrusted to consultants.

✓ Lack of a centralized agency for consolidation of accounts and creation of a comprehensive database on finances of local bodies.

Financial Reporting

Financial reporting requirements stem from a variety of sources, and financial reports serve many purposes. For example, they serve as tools for use by managers to control their organizations and to monitor the extent to which management’s objectives are being achieved. They also provide information to external parties on an organization’s financial operations and compliance with a variety of requirements. The PRIs should also comply with preparing accurate, current, and complete disclosure of the financial results of financially assisted activities as per the norms prescribed by the funding authorities like state or central government in one hand and the stakeholders on the other.

The present study has observed that though the PRIs in each tier prepare the financial reports as per the form prescribed in the relevant Accounts Rules, but in most of the cases it fails to obtain the basic objective of preparing financial reports as the financial reports do not contain the following important supporting documents:

➢ Statement showing closing balance of investment in bank post office and others;
➢ Statement showing receipts and expenditure incurred on plan/non-plan schemes with head-wise details;
➢ Statement showing head wise grant received from the government;
➢ Statement of head wise refund of loans and grants received from the government;
➢ Statement showing details of opening balance, receipt and expenditure under centrally sponsored schemes;

Internal controls

It has been referred in chapter V that internal control is a process, affected by an entity’s decision makers, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in three categories namely, effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

In view of the above, the following weaknesses have been found with respect to the effectiveness and efficiency of operations:
Major inefficiencies have been found in the areas of procurement of stores and execution of works. This results leading to fraud, misappropriation and embezzlement of funds.

Due to the absence of periodic reconciliation of receipts and expenditure clear picture cannot be duly assessed regarding the fund position at a particular period of time.

Failure to assess the fund position at a particular point of time results inability to take appropriate measures against errors and inaccuracies through monthly accounts. This mounting of inefficiencies in the operations PRIs.

Lack of receipts and expenditure controls resulting in huge savings and excess expenditure.

It has also been seen that the present system of asset management as followed by PRIs in the state in general and Howrah district in particular is very weak due to missing of asset registers, inadequate physical verification, lack of effective control and more importantly, no institutional mechanism to track assets has yet neither been established nor grown up.

It has been a common feature for PRIs of all the three tiers not to record and value the assets owned by them. It is observed that most of the PRIs do not maintain the asset register properly and even they were not aware of the assets under the public domain. Table 6.3 shows that only 38% sample GPs maintain Register of Immovable Properties, meant for keeping records of All immovable properties possessed by GP and also all public roads, paths and water courses as well as records of all lands, buildings, tanks, ferries, fisheries, markets, huts and any other property vested in and controlled or created by the GP. The account rules also do not properly guide how to record the assets as owned and generated by PRIs. Again, since the balance sheet is not prepared there are chances not to record assets properly (as there is no articulated system of accounting for assets and expenses) and the safeguarding of assets cannot be assured. Besides, no practice is being followed by the PRIs to provide fund for maintenance of assets generated from government projects in budget proposal.

Implementation of schemes

It has been observed in the ELA Audit Report (2007, p.73), while dealing with shortcomings of implementation of schemes, that:

Non preparation of annual action plan, wrong selection of beneficiaries, irregular engagement of contractors, curtailment of Central share for under-utilisation of funds, misappropriation of funds, withdrawal of money by submission of fake and fraudulent bills etc., were the major impediments in delivering the intended benefits to the target population under the Centrally Sponsored Schemes.

Following are the problems identified for PRIs in Howrah district in the course of implementation of schemes for which fund is available from upper tier governments:
Cases are there where the PRIs fail to avail assistance from central government scheme due to failure to adhere to stipulated conditions and underutilization of available funds.

Funds available for implementation of government schemes remain blocked over years either for wrong planning at initial stage or seem not feasible for beneficiaries at a later stage.

Some of the expenditures as incurred in relation to implementation of a particular scheme, identified as inadmissible and unfruitful expenditure.

It is not uncommon for PRIs to diverse funds meant for one scheme for the other. It creates problems for release of further installment of grant for the original scheme.

Irregular adjustments without vouchers and utilization certificates are very common feature in relation to implementation of scheme.

Besides, defective identification and selection of beneficiaries fails to generate the real benefit to the group of people for whom the scheme is originally meant for.

Utilization of funds

The proper and timely utilization of funds as received from the upper tier governments on account of implementation of schemes and projects is a pre-condition of good financial management of organizations like PRIs. But analyzing the questionnaire as administered and considering the related records and documents the following shortcomings are identified in relation to the utilization of funds:

It is a very common allegation against the PRIs not to keep a transparent muster roll. Fraudulent, irregular and excess payment noticed during test check of muster rolls.

Cases are there where excess grants have been released at the time of year ending. It leads to increased unutilized balances remain with the bank.

PRIs do not maintain Asset Register properly. The assets as generated in the process of implementation of schemes are also not duly recorded in the Asset Register. It creates problems related to future maintenance, asset mapping.

Sometimes it happens that the ZP fails to transfer funds as fall due to Gram Panchayats. This problem, however, can be solved by way of introducing electronic money transfer which is initiated by the State Government very recently.

Problems like weak material management, absence of periodical stocktaking, reconciling shortages and purchases without tenders/quotations are very common factors relating to the utilization of funds.
Meager collection on account of own fund

Table 6.7 shows that the selected PRIs of Howrah generated meagre amount of income under own fund during a period of five years (2005-06 to 2009-10). It is only 9% of the total income of GPs comes from own sources. It is 2% and 4% respectively in case of PSs and ZP. Thus it is evident that the PRIs in each tier are mostly dependent on the funds as released from the upper tier governments for both administrative functions (revenue grant) as well as for the activities related to developmental work (capital grant). The picture is no different in the state as a whole. The Third SFC (2008) has observed the similar type of income pattern while examining the percentage of OSR with respect to the total income of the PRIs across the state and mentioned that (p.27):

... only 4.41 per cent of GPS’ revenues was derived from OSR and more than 95 per cent from the Governments in 2004-05. The percentages of OSR of GPs in 2005-06 and 2006-07 were only 2.97 and 3.42 respectively. The position of OSR in relation to total revenue of the PRIs in all the three tiers were 5.10 per cent, 3.63 per cent & 4.70 per cent for the years 2004-05, 2005-06 & 2006-07 respectively.

Property tax is the major source of own fund

It can be seen from Table 6.8 that in case of GPs, more than 50% of total OSR comes from tax revenue. The remaining portion i.e. non-tax revenue is less than 50% of total OSR comes from 22 items (see Table: 3.1) with an average of only 2% per item. Such a situation in the domain of Panchayati Raj has emerged mainly because of three problems with respect to the assignment of revenue powers to the Panchayats – (i) although in terms of numbers, there are so many different types of taxes, fees and charges which can be imposed by them, most of the levies are only in the statute books and are just not levied as the ratio between collection and cost of collection is insignificant in the economic point of view of generating revenues except the Property Tax, (ii) under valuation of the property resulting into low demand of Property Tax and (iii) poor collection of such low level of tax demand. The Third SFC of West Bengal (2008, pp.33-34) has rightly observed that “The impact of OSR on GPs’ total expenditure and per capita expenditure was thus too insignificant. Under such circumstances, one can hardly expect any degree of self-governance.”

On the other hand, the collection under property tax as per the demand notice is poor. Table 6.8 shows that a major part of property tax as levied by sample GPs remains unprocured and the gap between demand and collection is increasing over years (fig. 6.2).

Needless to mention that mobilisation of revenues from its own resources helps a local body in achieving self-sufficiency. Poor collection of revenues by the GPs hindered the process of
development of rural areas as these revenues could have been utilised by the GPs for various works based on requirement of the Gram Sansads.

**Major portion of OSR Is used for administrative expenditure**

It can be seen from Table: 6.20 that maximum portion of OSR (range between 60% and 77%) are being spent by the GPs for administrative expenditure. Most of the components of the expenditure relate to the day to day administrative expenses that the GPs are to meet with and no grant is received from upper tier government under these heads. Meagre amount of income are spent on education and health of village people. The allocation on account of education and health mostly relate to programme of sensitization to the village people regarding education and health. No considerable portion of income is spent on account of maintenance of earlier developmental projects funded by upper tier governments, state or central.

The PSs also, like GPs, are compelled to spend a major portion of their OSR so collected towards the administrative expenditure and it is mainly used to pay salary to the staff not under the government pay roll. But these types of expenditure seem to be essential in carrying out the various types of functions in discharging day to day activities (Ref. Table 6.27).

As major portion of income is being spent for office administration which is revenue expenditure in nature, the scope for utilising OSR fund on account of infrastructure development becomes very restricted. The deployment of more funds (out of OSR) towards the developmental projects may also create opportunities for future generation of revenue income which, needless to mention, would be

**Inefficient system of electronic transfer of funds to PRIs**

Since 2006, the state government has introduced a system of electronic transfer of funds through banks for reducing the time gap between release of grants for various purposes to the PRIs by the government and actual credit of the fund in the accounts of the PRIs (*Notification 1406-PN/O/I/3B-5/2005, Government of West Bengal*). Under this system, all the PRIs should have opened a Fund Transfer Account (FTA) in the nearest SBI branch (Ref Table: 5.1). As per the advice of the Department, the SBI transfers the apportioned amounts to the FTAs of the respective panchayat bodies through their own network.

On getting information of credit of funds in the FTAs, the PRIs concerned withdraw such fund and deposit them in their designated bank account for the particular programme. Appropriate ledgers are required to be maintained to operate each FTA, so that balance of fund, if any, in the FTAs can be clearly segregated programme-wise for future use.
The system of such electronic transfer of funds and accounting of transactions of transferred funds by PRIs has some deficiencies as below:

1. It has been found that transactions of FTAs were not included in the Cash Book and no Ledger was maintained for the purpose. It is therefore difficult to ascertain that funds received in FTAs by PRIs were spent/ transferred for the purpose for which they were received.

2. The system inherits the possibility of double recording (as pointed out in ELA Report, 2009, pp. 21-22). Where transactions of FTAs were incorporated in the Cash Book and in annual accounts, the receipts and payments of those PRIs became inflated on account of double recording, i.e. once under FTA head and the other under actual programme head on transfer of funds from FTA. Inflation of receipts and payments in the books of accounts of PRIs would become more if funds to PS and GP were transferred through FTAs of higher tier of PRIs, i.e. through ZP (for PS) and through ZP and PS (for GP).

Thus, it can be said unless the defects of electronic transfer of funds are duly addressed for corrections, the true and fair representation of the state of affairs regarding receipt and utilisation of funds by the PRIs can hardly be achieved. It is a deficiency in financial management process of PRIs that misrepresents absorption capacity and performance of these entities as a whole.

ASSESSMENT OF PERFORMANCE OF DISTRICT COUNCIL

The constitution of District Councils (DC) in Panchayati Raj of West Bengal was first introduced in 1994 by way of inserting Section 214A in the West Bengal Panchayat Act, 1973. The objective of formation of such a new body, as stated in the Act, is “to examine the accounts of the Panchayats within its territorial jurisdiction, in relation to the budget approved by the Panchayats concerned for the expenditure to be incurred by such Panchayats, the annual report of such Panchayats and such other accounts of such Panchayats as the District Council may think fit” [Sec. 214A (2) (a)]. In fact, the DC can play vital role in the sphere of financial management of PRIs by exercising its may fold operations – by guiding the PRIs to keep records and prepare budget as per rules, by playing the role of watch dog in scrutinizing the accounts and by offering suggestions for the betterment of financial management practices.

But the role and responsibility of DC as identified in the Act has not been duly discharged in practice. Most of the members remain reluctant in attending the DC meeting and to join the team for PRI visits. Table 7.1 shows the actual participation of DC members, both elected and official, in the DC of Howrah district during the period of five years.
**Table 7.1**

Number of District Council’s Meeting Held Between 2005-06 and 2009-10

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of meeting held</th>
<th>No. of elected member</th>
<th>No. of elected members present in meetings (M₁...Mₙ)</th>
<th>No. of Nominated Officials</th>
<th>No. of nominated officials present in meetings (M₁...Mₙ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>04</td>
<td>07</td>
<td>M₁=5; M₂=3; M₃=5; M₄=5</td>
<td>06</td>
<td>M₁=3; M₂=4; M₃=4; M₄=4; M₅=5</td>
</tr>
<tr>
<td>2006-07</td>
<td>03</td>
<td>07</td>
<td>M₁=6; M₂=7; M₃=4</td>
<td>06</td>
<td>M₁=4; M₂=3; M₃=4</td>
</tr>
<tr>
<td>2007-08</td>
<td>04</td>
<td>07</td>
<td>M₁=4; M₂=4; M₃=5; M₄=3</td>
<td>06</td>
<td>M₁=2; M₂=3; M₃=3; M₄=4</td>
</tr>
<tr>
<td>2008-09</td>
<td>03</td>
<td>07</td>
<td>M₁=4; M₂=4; M₃=5</td>
<td>06</td>
<td>M₁=3; M₂=5; M₃=3</td>
</tr>
<tr>
<td>2009-10</td>
<td>05</td>
<td>07</td>
<td>M₁=6; M₂=4; M₃=4; M₄=4; M₅=5</td>
<td>06</td>
<td>M₁=4; M₂=3; M₃=1; M₄=2; M₅=2</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the meeting book of DC, Howrah

It can be seen from the Table 7.1 that the participation of elected members in DC meetings is much better than its official counterpart. As stipulated in the Act, the DC had to finalise the name of members of Visiting Team for inspection in selected PRIs at a prior meeting. But there were instances where names of the members were recorded in the Minutes Book but no one turned at the time of actual visit. However, the Minutes Book reveals that there were a few occasions when the ZPAAO accompanied the team. This could have been due to the vacancy of ZPAAO post for a long period of time. Needless to mention the ZPAAO is an important member of the visiting team of DC as he only has the technical expertise in accounting and is capable of guiding the Team in the right direction.

Another major criticism is being raised against the effectiveness of DC regarding follow up actions. Only a few instances are found when the District Council referred the cases of functional/financial irregularities as uncovered in the course of their inspection to the appropriate authority for taking necessary actions. What measures have exactly been taken by the appropriate authority against the mismanagement of financial resources and accounting irregularities as pointed out by the visiting team of DC are not been considered in any of the subsequent meetings. Thus, follow-up action and timely intervention by the appropriate authority should be a condition to make the District Council’s operations more meaningful and more effective.

A comparative study has been made in Table 7.2 to point out the deviation of functions of DC in actual practice from that of as laid down in the Act.
### Table 7.2
Comparison between Prescribed and Actual Performance of DC Team

<table>
<thead>
<tr>
<th>Functions as Prescribed in the Act</th>
<th>Performance Accomplished by the Team</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination of the accounts of the Panchayat in relation to the budget as approved, the expenditure to be incurred, the annual report and such other accounts as the District Council may think fit (Clause a)</td>
<td>The inspection of budget had regularly been made. Irregularities were found in relation to budget in Panchla PS and Beldubi GP and were duly reported on. Whether the visiting team had ever examined the annual report of Panchayat(s) in course of their inspection was not available from the Minutes Book.</td>
</tr>
<tr>
<td>The District Council has to see whether the monies shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which they have been applied (Clause b(i))</td>
<td>There were a few recorded instances where the team had carefully examined this clause. Detailed inquiries were made during the visit to Joypur and Khalore GP regarding the irregularities of implementing schemes.</td>
</tr>
<tr>
<td>The District Council has to see whether the expenditure conforms to the rules governing such expenditure and also the financial proprieties of such expenditure (Clause b(ii))</td>
<td>This clause had been examined by the team frequently. Irregularities in this regard were pointed out with respect to visits to Uluberia - 1 PS, Maheshpur GP, Salap - 1 GP.</td>
</tr>
<tr>
<td>The District Council has to see whether every re-appropriation has been made in accordance with such rules as are applicable (Clause b(iii))</td>
<td>Whether the visiting team had considered this clause, was not clear from the minutes of District Council meeting.</td>
</tr>
<tr>
<td>Consideration of the inspection reports on the annual audit of accounts and to examine the replies thereto furnished by the Panchayat (Clause c)</td>
<td>This seems to be the most vital part of inspection; but the visiting team did not pay much attention to the audit reports and post audit actions.</td>
</tr>
<tr>
<td>Examination of the accounts of stores and stocks maintained by the Panchayat (Clause d)</td>
<td>This had remained totally untouched. The team only noted down where Stock Register was not maintained (e.g. GPs, namely, Jhorhat, and Maheshpur)</td>
</tr>
<tr>
<td>Pursuing of the matters relating to the unsettled objections raised in any inspection report on audit of accounts of Panchayat and refer such matters to the authorities concerned suggesting</td>
<td>No such function had ever been performed by the District Council.</td>
</tr>
</tbody>
</table>
### corrective actions (Clause e)

<table>
<thead>
<tr>
<th>Suggesting ways and means to remove the difficulties, if any, experienced by the Panchayats in giving effect to any provision of the Act or the rules made thereunder (Clause f)</th>
<th>This had occasionally been done; for example, Pradhan of a GP had taken advances in his own name. There was no office order for taking such advance. This was pointed out and consequently irregularities were checked</th>
</tr>
</thead>
</table>

**Source:** Prepared by the Researcher based on Minute Book

Finally, an observation as pointed out in the audit report of C&AG may be cited as below to have an idea about the lacks in financial management of HZP:

**Decentralised planning and schemes of local development there under frustrated due to inaction on the part of Zilla Parishad (Rs. 19.03 lakh)**

Howrah Zilla Parishad (ZP) received (March 2002) Rs. 30 lakh from Government of West Bengal under Community Convergent Action (CCA) scheme of local development by the Gram Panchayat (GP) under decentralised planning. The fund was to be sub-allotted to the Gram Panchayats in equal shares for taking up similar kind of schemes. Howrah ZP sub-allotted only rupees two lakh to two Gram Panchayats in April 2002 and ZP spent Rs. 8.97 lakh during 2006-2008 from the fund in contravention of the government directives issued in March 2002. ZP stated (February 2008) that the balance grants of Rs. 19.03 lakh would be utilised for decentralisation of planning. Thus, apart from diverting the fund of Rs. 8.97 lakh meant for local development in GPs, the ZP also kept idle the residual amount of Rs. 19.03 lakh since March 2002.

*(Report of the Examiner of Local Accounts on PRIs for the year ending 31 March 2007, pp.45-46)*

Therefore, it may be concluded that the financial management of PRIs deviated from prescribed accounting procedures as the PRIs expended money without preparing annual accounts and did not reconcile the balances between Cash Books and Bank statements. Revenues were directly appropriated before depositing into Bank accounts. There was lack of budgetary control and money was expended either in absence of budget provision or without preparing budget. Primary basic accounting records, viz. Demand and Collection Register, Appropriation Register, Advance Register, Works Register were not properly maintained affecting the quality of governance in the PRIs. The realisation of revenues such as taxes, fees and rates was very poor and huge amount on this account remaining outstanding year after year. Inadequate attention in this area hindered the PRIs' endeavour to achieve self-sufficiency. Corrective measures as well as proper planning could not be adopted due to absence of Internal Audit. Poor internal control mechanism was unable to detect pilferage and resulted in loss of PRIs funds due to theft and defalcation of funds and other assets.