CHAPTER - I
Chapter - I

INTRODUCTION, OBJECTIVES, RATIONALE OF THE STUDY, OVERVIEW OF LITERATURE, METHODOLOGY AND LIMITATIONS OF THE STUDY

1.1 Introduction

Panchayats have been the backbone of the Indian villages since the beginning of recorded history. Gandhiji’s dream of every village being a republic or Panchayat having powers has been translated into reality with the introduction of the three-tier Panchayati Raj System to enlist people’s participation in rural reconstruction.

The concept of Panchayat is not a new idea in this country, rather, it had been in existence in some form or other from the time immemorial. The institution of Panchayat—a council of five persons at least, is an ancient one in India. The ancient Panchayat system was not under any enacted law, nor under any statutory rule issued by the then ruler rather, it was conventional.

Since independence India has made a significant progress in various sectors of rural development. Rural development, at present, is regarded an elastic concept. It has different meanings and various aspects. According to everyone interprets it in his own conception. Rural development is a strategy to improve the economic and social life of a specific group of people particularly the weaker sections. It has come into international usage to connotate the process by which the efforts of people themselves are united to improve the economic, social and cultural conditions in the life of the nation and to relate them to contribute fully to national programme.

Integrated rural development has been expressed by some authors as a systematic approach aiming at total development of the areas and its people. It brings about the necessary institutional and attitudinal changes. It delivers a package of services through calculated method to encompass not only the economic field, but also the establishment of the required infrastructure and services.
Thus, rural development is a multi-dimensional process, which involves the development of socio-economic conditions of people living in rural areas. It must ensure their participation in the process of development for complete utilisation of physical and human resources for better living condition. However, very concept of development has undergone a sea change in recent years. The classical economists have traditionally defined development in terms of growth, e.g. increase in per capita income. Since the growth model ignores distribution of income amongst various sections and sectors, the Neo-Classicism has redefined development as growth with social justice. In recent years more and more attention is being focused on ‘Basic human needs’ and ‘Quality of life’. World Bank suggested non-monetary Physical Quality of Life Index as indicator of development.

The Ministry of Rural Development is striving to bring about rapid and sustainable development and socio-economic transformation in rural India with an integrated approach towards improving the quality of life of rural people and ensuring equity and effective people’s participation. The thrust of rural development programmes has been to make a frontal attack on poverty through special employment generation programmes, productive asset transfer through institutional credit and subsidy programmes and programmes of rural housing, drinking water and sanitation. Strong thrust has been given to social security programmes for providing assistance to the destitute and poor families.

Any strategy for rural development must involve the people themselves and their institutions at all levels. The need for reversion the Panchayati Raj Institutions has, therefore, been recognised as an instrument for participative planning and implementation of various development programmes at grass root level. The 24th April, 1993 is a landmark day in the history of Panchayati Raj in India as on that day the Constitution (73rd Amendment) Act, 1992 came into force to provide constitutional status to the Panchayati Raj Institutions. According to the Constitution, Panchayats shall be given powers and authority to function as institutions of self-government. The salient features of the Act are:

✓ to provide three-tier system of Panchayati Raj for all states having population of over 20 lakh;
to hold Panchayat elections regularly in every 5 years;

- to provide reservation of seats for scheduled castes, scheduled tribes and women (not less 33 per cent);
- to appoint State Finance Commission to make recommendations regarding financial powers of the Panchayats;
- to constitute District Planning Committee to prepare draft development plan for the district as a whole.

Now, the Panchayati Raj has significantly been placed in the State Legislation of all the states and it deserves the most significant role in changing not only rural India but also the whole of India as the country's economy depends mostly on its rural economy.

Bengal, the erstwhile province in British India, had a long tradition of working of the statutory Panchayats. The diverse experience of running these rural bodies was inherited by West Bengal (a truncated part of the old Bengal province since independence) and the new state has been experimenting with different types and methods of rural self-government since then. Parliamentary democracy that is the institution and institutional affairs—all are 'for the people', 'of the people', and 'by the people', has been introduced in Panchayati Raj system and its organisation has been more or less decentralised through devolution of power and delegation of authority. In other words, a democratic process has been set up along with decentralisation of administration. The Government of West Bengal contemplated to introduce this form of democratic decentralisation through the institutionalisation of Panchayati Raj.

The question of accountability arises when there exists a gap between the user and supplier of funds. For example, in case of a joint stock company, its Board of Directors is accountable to its owners or shareholders who are originally the supplier of the capital of the company. Again, the staffs and subordinates of a company are accountable to the Board of Directors as the plans and policies, which were formulated by the Board of Directors, are performed by its staffs for which they are paid remuneration. The similar idea can also be extended in case of Panchayats. The Members of Panchayats are accountable to the tax-payers or
ultimately to the voters of the relevant Panchayat as the voters elect them having some expectations in their mind that the members should have to fulfill their hope in the period of their holding office. The expected service or project works are done through the machinery of Panchayats, headed by the staffs of Panchayat. So the staffs and workers of Panchayat are accountable to the Members of Panchayat. But, there is a basic difference between a voter and a shareholder. Voters have no proprietary right in Panchayat organisation whereas the shareholders have it and they are entitled to get the audited annual accounts of their company at the Annual General Meeting. The performance of the Members of Panchayats is assessed at the time of election and the voters account for the gap between what they had promised before the election and what has been achieved during the period of their holding office. If the gap is much wider, the voters may decide not to re-elect them. The same kind of operation is found in the election of Directors of a company. Now, in case of corporate management a fundamental question arises: who will control the board of directors as the shareholders have very remote and weak control over the activities of the corporation. As a result, the concept of corporate governance appears i.e. to develop a mechanism through which unregulated power and authority of the board of directors may be checked. In case of Panchayat administration also the members, once elected enjoys unlimited power and unrestrained control so far the ordinary people are concerned. Therefore, the question of self-determination becomes mockery. In fact, the rural people have no other right but to caste their votes. What a speciality is seen in case of Panchayat is that the Members are also accountable to the Government. As the Government allows both capital and revenue grants time to time, it has the right to see whether the grants under respective heads are spending properly, or there is an irregularity. This check is imposed through auditing the account books of the Panchayats.

Thus, accounting is not confined to economic or commercial organisations only. Where there is money or where there is use of money, there is a need of maintaining an accounting system. Hence, it is true to local self-bodies, such as Panchayats, Municipalities etc., where public money is spent by the people, who are not the owners of the fund or resources used there. Recording of daily transactions and preparing the final accounts are essential for an organisation. Commercial undertakings prepare periodical accounts, i.e., Trading and Profit and Loss Account
and Balance Sheet to know operational results and financial position at the end of
the relevant period. The primary object of Government Accounting is not to
ascertain the gain or loss on the government activities in carrying out its objectives.
No government is interested in knowing the net result of any operation i.e. how
much surplus or deficit is resulted from the operation but it is surely interested to
know the financial position after a certain period. Government accounts are
designed to enable the Government to determine how much money it needs out of
the pocket of the tax payers in order to run its necessary activities. The object of
Panchayat accounting is to guide how to utilise public money as the restrictions
imposed by the higher authorities, so as to give maximum benefit to the local
people. Thus, the basic features of keeping records of the gram panchayat is to
represent the Annual Income and Expenditure of the Panchayat for public and for
the higher authorities. It shows how much money, a particular Panchayat body has
received from different sources and how the collected funds have been used during
a particular period.

Government uses public money for the welfare of the society. Most of the
resources are utilised by the government through local self-bodies, such as,
Panchayats, Municipalities, Corporations etc. As these bodies also collect money
directly from public by levying taxes, imposing octroi, cess, duty etc., as such they
use public money, they must necessarily keep a systematic record of day to day
transactions, so that it can be known where they stand. Panchayat visibility or
transparency in the use of public money is the most important object of keeping
proper records of expenses. Panchayat representatives are trustees who spend
money on behalf of the people. Panchayat account should reflect this aspect of
Panchayat system.

To start with, an attempt is made to bring out the place and role of accounting
in the present day local self-government which, according to Harries, is the
"government by local bodies, freely elected, while subject to the supremacy of the
national government, are endowed in some respects with power, discretion and
responsibility which they can exercise without control over their decisions by the
higher authority. The extent of power, discretion and responsibility which the local
bodies possess is a matter of degree, which varies considerably in the various
countries." (1) In many developing countries, it seems that there is a tendency towards organising local self-government to give them sound footing, the process of social, economic and political transformation. (2) In India, local self-governments in both urban and rural areas are in operation for a long time, still the need to recognise them, especially in rural India, was felt. (3) Consequently, Panchayati Raj System came into force. The scope of the activities of the state has greatly been widened at present due to industrial revolution and advancement of science and technology. But, it reaches to such an extreme, particularly in welfare states, it becomes impossible for the government to perform all activities alone. In a federal state like India, all functions cannot be performed by the Central Government alone. Thus, increasing activities of the state and administrative expediency require decentralisation, territorial and functional both, and it is necessary to organize the activities of local authorities to share the burden. (4) To have an effective exercise of this venture, accounting has become an important tool as this is the area in which public are interested and, in fact, absence of a proper accounting system may result in undermining the confidence of the public at large. Above all, Panchayat Accounting has been gaining more and more importance in the matter of planning and controlling the country’s economic progress.

The Government of India is giving more and more emphasis on Panchayats for rural development. In order to improve the quality of life of the rural poor and to ensure equal and effective participation of the people, various programmes are in action. The name of different schemes with their approved outlays for rural development and poverty alleviation is shown Table No. 1.1.
Table 1.1

Statement showing Approved Outlays in respect of Plan Schemes (Rs. in crores)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1.</td>
<td>Jawahar Rozgar Yojana</td>
<td>2077.70</td>
<td>2095.00</td>
<td>2095.00</td>
</tr>
<tr>
<td>2.</td>
<td>Employment Assurance</td>
<td>1970.00</td>
<td>1990.00</td>
<td>1700.00</td>
</tr>
<tr>
<td>3.</td>
<td>Scheme</td>
<td>448.00</td>
<td>450.00</td>
<td>100.00</td>
</tr>
<tr>
<td>4.</td>
<td>Million Wells Scheme Integrated Rural</td>
<td>571.00</td>
<td>740.00</td>
<td>859.00</td>
</tr>
<tr>
<td>5.</td>
<td>Development Programme</td>
<td>40.00</td>
<td>60.00</td>
<td>70.00</td>
</tr>
<tr>
<td>6.</td>
<td>Rural Artisans Scheme</td>
<td>200.00</td>
<td>0.94</td>
<td>0.00</td>
</tr>
<tr>
<td>7.</td>
<td>Ganga Kalyan Yojana Training of Rural Youth for Self-Employment</td>
<td>59.00</td>
<td>60.00</td>
<td>70.00</td>
</tr>
<tr>
<td>8.</td>
<td>Development of Women and Children in Rural Area</td>
<td>65.00</td>
<td>100.00</td>
<td>116.00</td>
</tr>
<tr>
<td>9.</td>
<td>Indira Awaas Yojana Drought Prone Areas</td>
<td>1190.00</td>
<td>1600.00</td>
<td>1710.00</td>
</tr>
<tr>
<td>10.</td>
<td>Programmes</td>
<td>115.00</td>
<td>95.00</td>
<td>95.00</td>
</tr>
<tr>
<td>11.</td>
<td>Desert Development Programme</td>
<td>70.00</td>
<td>90.00</td>
<td>85.00</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6805.70</td>
<td>7280.94</td>
<td>6900.00</td>
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</table>

(Source : Annual Report 2000-01, Ministry of Rural Areas and Employment, Government of India, P-143)

From the above chart, it is clear that the Government of India has constantly been increasing the outlays on the various programmes for rural development. These programmes are to be implemented by the Panchayats. It means that the huge money is spent or disbursed by the members of Panchayats, utilization of those funds should be properly accounted. It needs a good accounting and audit system to control and evaluate the activities of Panchayats. And this cannot be done without having a proper and effective accounting and control system. The present accounting system of Panchayats as it appears from a primary observation is inadequate for proper recording of transactions of huge expenses and is unable to provide effective control on them. Moreover, it is not able to provide pertinent information regarding those expenses.
Therefore, the basic purpose of the study is to explain in detail the present accounting procedures of Panchayats. We shall first thoroughly examine the present accounting system to find out the shortcomings and loopholes of the present system and then our attempt should be to provide the suggestions for to plough in the loopholes and rectify the shortcomings. Our aim is to give some suggestions for improving the present accounting system keeping in mind the public accountability of Panchayats. The accounting system of Panchayats should give emphasis on all its major areas of activity e.g. financial accounting, cost accounting and auditing. It appears that all the three branches of accounting should be put together to help better planning and utilisation of available resources and to improve the control system of Panchayat activities. Without having effective control over the use of its resources, expected growth and development of the rural sector of our economy cannot be achieved. This study will examine the role of accounting from this aspect of economic development. At present, Panchayat administration has been entrusted with the responsibility of planning and development of rural economy. A new system of planning for rural development has been introduced which is made on the basis of grass root level information and instead of top-down planning, bottom-up planning is now prepared. This has enhanced the importance of accounting as a method of recording and supplying information relating to the use and application of funds. It should no longer be regarded as a traditional administrative activity as it has to look after all the developmental activities of the rural economy. This highlighted the need for developing proper and effective accounting system for Panchayat administration. Our efforts will be to develop a system of accounting, which will meet the present needs of Panchayat. To this end, we shall endeavour to present a model for Panchayat accounting.

1.2 Objectives

Accounting is generally articulated as the mechanism to ascertain the extent of accountability. The accountability question is very much important while we try for success in any piece of organised venture. From a time immemorial, accounting for the performance of the efforts has been a common characteristic feature in the course of development. Accountability is a term that has been used at different times with different connotations. But specially when comes the question of
government activities, naturally it reaches the peak in its meaning and application. The accounting mechanism, it can be safely said, should match the accountability aspect for successful management. And it is a must and a non-available pre-requisite while we talk about public administration. History tells us that even in antiquity, public administration was held to be the major accountability area of a nation’s administration. In ancient China, as told by the parables of Confucius, the emphasis lied on proper public administration and admonitions to choose honest, unselfish and capable public officers. The scene has hardly been changed today. Instead, the term ‘public accountability’ sounds too heavy to be ignored. So, to start any discussion on accounting for or accounting of local self-government’s performance, it requires to define ‘public accountability’ in a really meaningful way. It is very important to know and understand public accountability and its impact on the accounting of profit-seeking and non-profit organisations.

Public Accountability

Basically, ‘public accountability’ is a phenomenon associated with the western-type states. It calls for openly declared facts and open debate of them by laymen and their elected representatives. Moreover, there is no clear master-servant relationship; public accountability means reporting to persons other than to one’s own superiors who have the power to make open criticism. So, the very basis of public accountability is information and the debate and discussion on that basis. But unlike non-governmental organisation, be it a profit or non-profit association, the ultimate responsibility lies mainly on two agencies—the funding agency and numerous contributors towards such agency, i.e. the tax-payers or the citizens as a whole, who should not be equated with the position of equity members of a company in which case funding is a deliberate investment while tax-paying is not. As an essential pre-requisite to a social contract, every tax-payer deserves to know and to let them know should be a reciprocal arrangement as without it, the very concept of democracy would be frustrated. So, only the financial information would not suffice. Instead, attention should be given on the point whether the expenditure has been incurred in tune with the overall development policy of the Government. As a result, public accountability, in its true sense, attracts our attention for a
reference to the political accountability too. In a broader sense, it may be described as social accountability.

Thus, we may divide the bases of public accountability into four heads – policy accountability which is concerned with the declared long term development policy; programme accountability which means whether the work carried on matches the goals set; process accountability which is concerned with whether the procedures used to perform are properly adequate; and fiscal accountability which is concerned with whether funds were expended as stated. The accountability, we have discussed, articulate the different phases of activities starting from the planning to implementation.

**Changing Pattern of Public Accountability**

So, the concept of public accountability appears to be too broad. And to speak the truth, in recent times, due to the government’s diversification policy with mounting social emphasis on participating administration, the question of public accountability has become a very important issue at the grass root levels. The people have found interest in examining the accountability aspect of so many local governments they come in contact with in their day-to-day life. Thus, there has been a basic attitudinal change in the sense that people are becoming more and more conscious of their roles and have started comparing performances for informed judgement and decision-making.

**Reporting**

So, it appears to be clear that we should accept public accountability as the base of any local Government’s accounting system. It is quite established a fact that the whole accounting arrangement is directed towards generation of information that will help the users to verify the authenticity of the claim of success. Since the compositional character of the information users in such cases is largely different covering a wider range of people in comparison with that of any commercial organisation, while reporting performance, a local Government should ensure that—
Local authorities not only produce accounts, but also give considerable information to the Central Government for its own purposes including the public expenditure survey system and the distribution of grant aid. So, like usual corporate practices, the accounts here should also reflect a ‘true and fair view’ as audited by concerned auditors. Hence, one faces the question of dependability, materiality and comparability. To improve the reporting system, we should try to visualise a situation where apples can be compared with apples.

The Meaning of Rural Development

Economic development has conventionally been defined as an adequate rate of growth of per capita income, and it has generally been assumed that if economic development so defined occurs living conditions of all people will correspondingly improve. Two basic dimensions of development are (i) economic growth and (ii) equitable distribution of the fruits of the development. The components of socio-economic well-being are the substance of development. The term development, however, refers to “the process of (i) a general improvement in the levels of living, together with, (ii) decreasing inequalities of income distribution, and (iii) the capacity to sustain continuous improvements overtime—A minimal”. The magnitude of the task of rural development with a view to alleviating poverty, eliminating unemployment, reducing inequalities and increasing productivity as well as consumption and literacy level etc. demands organisational and institutional efforts on the widest possible scale.

In short, rural development primarily implies generalised increases in (a) rural labour productivity resulting in growing incomes, (b) rural employment opportunities, (c) education, (d) health and nutrition, (e) consumption including
food, housing and such services as water supply, electricity, transportation, entertainment, police and protection and so forth. (5)

The theme of rural development has been the current livelihood. Nicholls has emphasised, “the almost universal importance of having a substantial and reliable agricultural surplus is the basis of launching and sustaining economic growth”. (6) Historically the land reforms are necessary for increasing overall agricultural output as existing land tenure system constitutes a severe obsolete to rural development in many countries.

Nevertheless, rural development needs a truly multi-disciplinary approach for planning and implementation of its programmes. Obviously a multi-level planning is required for effecting rural development plans. These plans have to be dovetailed in the State and Central plans. Further, it is very necessary that self-governing units at various levels permeate with the democratic spirit. A revamping of the Panchayati Raj System is absolutely essential. For this purpose, the political leadership at the state and central level must delegate some of those powers, which rightly fall in the local sphere.

Reviewing the past rural development experience in India, we find that it was characterised by the organisational deficiency at the grass root level, which was responsible for not achieving sustained growth of rural sector. Number of studies of national and international importance pointed out this deficiency. For example, Rural Development Committee of Cornell University, after having done the field cases studies in eighteen nations, came to the conclusion that “there is a strong empirical basis for concluding that an efficient system of local organisations is necessary, especially for the development which emphasises the improvement in the productivity and welfare of the majority of the rural people.” (7)

The Central Team on Agricultural Production 1963, after visiting many states, pointed out that, “unsatisfactory administrative and organisational arrangements were, by far, the most important single factor responsible for inadequate progress in the sphere of agricultural development.” (8)
The Administrative Reform Commission has also arrived at the conclusion that, "the organising machinery is not adequate to meet the growing demands of the agricultural development." (9)

As evident from the past experiences, the policy measures, which have been adopted by the higher-level governments, have not proved effective in promoting rural development. Some of the policies of the government were quite relevant and specific but failed due to the conflicts of political and administrative structures. Growth strategies adopted for the rural development were specially designed for short run rather long run benefits by way of utilisation of resources, which were readily available. The allocations were made without giving the desired importance to the local institutions, which were very close to the rural population. Hence, Panchayati Raj Institutions were neglected in the process of decision-making by the higher-level governments in regard to growth strategies for rural development.

**Panchayati Raj System and the Process of Rural development**

The first objective of any institution is the mobilization of limited and finite resources and to allocate it in such directions, which are beneficial for the people at the local level. This can only be made possible if the local institutions are involved in planning and goal setting. As local people has better knowledge about their problems, difficulties, needs and expectations, Panchayati Raj is the only organization at the grass root level, which can most efficiently diagnose the local problems and local needs. Local organisations can provide more detailed information on local conditions and possibilities than central agencies can acquire or handle. Development work in future needs intricate designing and greater co-ordination, which would be unwise to attempt at a State level. The entire developmental programme needs co-ordination at a decentralised level. This is not one that can be left only to official machinery. The need for locally elected organisations to supervise, co-ordinate and arrange for feedback is increasingly being felt by the State Governments themselves and it is here that Panchayati Raj as a system can provide the answer.

Firstly, if the planning is done by the local authorities, local people should be consulted on a regular basis during the planning period. This will generate
participatory process of the development and generate better information for decision makers at the local level.

Secondly, planning through the local organisations will make it easy for the identification of constraints, which have retarded agricultural growth. Regional variations as well as the technological, economic, socio-cultural and environmental constraint check the operational suitability of the plans.

Thirdly, planning for the rural development at the grass root level will lead them to adopt such investment and plan priorities, which will be most suited to the specific needs of the local people.

The Panchayati Raj Institutions can play a great role in the preparation of plans for rural development. It will ensure the co-operation of all the people in mobilizing resources available at the local level and devising the best possible ways of using the resources to fulfill all the local needs and requirements.

Mobilisation of resources is another factor, which must not be ignored while planning for rural development. It is not only the setting of goals and priorities which are needed but also proper utilisation of various resources—natural, financial and human to be integrated with it. The local institutions having knowledge of the available and potential local resources are in a position to mobilise them for rural development.

The next factor, which is of crucial importance in the process of rural development, is the provision of all those services, which are needed for increasing rural welfare. Priority should be given to those factors, which are specially needed by the small farmers in increasing their agricultural productivity. Unless services such as drinking water, irrigation, transportation and marketing facilities, credit, fertilisers, health services etc. are reached to the farmers, the objectives of rural development can hardly be fulfilled. Provision of these services can only be possible through some form of organizations, rather as close to the rural people. Panchayati Raj Institutions are the only decentralised authority at the local level to shoulder this kind of responsibilities. Douglass Ensminger rightly pointed out that, "local self-government is the best possible means to introduce farmers to such
modern agricultural practices as use of green manure as well as social education and institution building and carry out schemes for modernising agriculture by securing people’s participation through people’s institution.” (10)

**Relationship Between Local Organisations and Rural Development**

Rural organisations and rural development are inter-active. Rural development signifies as improving the living standards of the subsistence population residing in rural areas. It requires that there should be efficient mobilisation and allocation of resources so that the low-income population is able to avail all the welfare and productive facilities.

Local organisations, on the other hand, are micro-level organizations, which assist the process of rural development at the lowest level. Panchayati Raj Institutions, as an example of such developmental administration by people’s own representatives at the grass root level, best suited to churn the soil in rural India and induce social change.

**Relationship between Panchayati Raj Institutions and Accounting**

The activities of Panchayati Raj Institutions are increasing day by day. This requires more funds in order to implement the plans and programmes for improving rural economy. This needs a good accounting system including all the branches of accounting, such as Financial Accounting, Accounting, Management Accounting and Auditing. It helps to control the financial activities of Panchayati Raj Institutions.

![ACCOUNTING Diagram](ACCOUNTING)

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15
This figure is the functional relationship among various forms of Accounting. The accounting system is the major quantitative information system in almost every organisation. It provides information for various purposes. The advantages of various forms of accounting can be achieved by introducing them in the accounting system of Panchayati Raj Institutions in a more practical manner. To get maximum benefits from the accounting system, an integrated approach to apply different branches of accounting should be applied in the Panchayat accounting system to make its synergic effect.

Financial Accounting

A good system of Financial Accounting helps to record the financial transactions in a proper and systematic way. Accounting, as a single word, usually refers to ‘Financial Accounting’. (11) Accounting is the language of Finance. (12) It is necessary to record the financial transactions of Panchayati Raj Institutions in a detailed manner and to classify them properly. It helps to measure the performance of the Panchayati Raj Institutions.

Cost Accounting

Though it is more popular in the industrial field, it is also fruitful in Panchayat Accounting. It can help in checking the misuse of funds, in maintaining the efficiency of the staff and the quality of the services and in many other ways. Cost Accounting is a quantitative method that accumulates, classifies, summarises and interprets information. But, now the boundaries of Cost Accounting have increased tremendously. It now refers to the gathering and providing of information for decision needs of all sorts. Modern Cost Accounting is generally used as a near synonym for Management Accounting. (13)

Management Accounting
Any form of accounting which helps in the efficient management is called Management Accounting. Preparation of budgets for Panchayati Raj Institutions and the use of estimate and/or Standard Costing are techniques of Management Accounting. It is based on a single argument that without an appropriate and timely flow of information contained in the account books, effective and efficient management is impossible. Although this specialised branch of accounting can be used more effectively by big business houses, its principles may be practised by the management of Panchayati Raj Institutions with the help of existing accountants who is not evidently specialised in Management Accounting. It will definitely mean more authorities for and reliance on the accountant, who will act as advisor to the management at various levels.

Auditing

Now, the Panchayati Raj Institutions are entrusted with a huge amount of properties and funds for enabling them to do their duties efficiently. But, at the same time, there is much possibility of manipulation and misappropriation of funds and properties. In order to check such fraudulent work, it is necessary to set up an effective audit system for the examination of the justification and rationality of all the financial activities of Panchayati Raj Institutions.

1.3 Rationale of the Study

The activities of P.R. are increasing day by day. In recent years there has been a rapid increase in the range and magnitude of economic operations of PR, particularly in West Bengal. This requires more funds in order to materialize the plans and programmes for improving rural economy. Large sum of money are now being spent each year by these bodies in providing various kinds of civic facilities to the rural people and in carrying out different types of developmental and employment promotional programmes as well. The combined annual spending of PR operating in the State now exceeds hundreds of crores of rupees. This spending level will increase further in future when the P.R. will be required to play a more active role in implementing the Five-year Plans.
The massive increase in the level of spending of P.R. has brought in its wake the need to strengthen the accounting and reporting systems used by these entities. In the present study, an endeavour is made to discuss, elaborately, the accounting principles and practices that are observed by P.R. in West Bengal and to examine the weakness or deficiencies that underlie such principles and practices. Efforts are also made to prescribe measures that may be adopted with a view to increasing the effectiveness of the accounting and reporting systems of P.R. in West Bengal.

1.4 An Overview of Literature

Accounting is much more than the posting of figures in certain predetermined accounts and some subsequent numerical computations. It is important to know why the figures are, what they are and to determine and constitute the accounts where the figures should be posted. In the case of local bodies, the centre of attention in the preparation of accounts is the interest of the residents of the area under the local body.

To understand the origin and the nature of the problem we discussed it with some resource persons. Moreover, we had gone through some of the works done by reputed persons in the field of accounting for local self-government and related areas with special emphasis on those studies, which are concerned with our research problem. To be conversant with the concept, relevant reports, records and findings have been studied. As suggested by Robert Ferber and P.J. Verdoom in their Research Methods in Economics and Business "Knowing what data are available often serves to narrow the problem itself as well as the technique that might be used", we may have a practical realisation of the basis of our study. The survey of literature in the field of our study helps us to find out the research area, to develop the research problem and to organise the research work. Accordingly, literature related to this field has been dealt with in an in-depth manner for the purpose of the present thesis.

The literature reviewed has been divided into two broad heads:

1. General aspects of accounting, and
2. Panchayats—finance, accounting, administration and control.
General aspects of accounting

In the backdrop of changing scenario, the author, K.R. Sharma (1999) talks about some of the issues in accounting in the next millennium. He emphasises on good governance, maintenance of high standards of value, accountability and transparency. While the values should remain the bedrock of the system, he argues, transparency should prevail all over, so that people may develop faith and confidence in the system. (14)

Sujit Sikidar and Hem Ch. Gautam analyse the recent developments as to globalisation of accounting standards on the basis of a cross-country study. They strongly advocate that there should be uniformity in accounting practices throughout the world to pave the way for development of international accounting. (15)

G.S. Batra has evaluated the emerging trends in the development of accounting standards. He has highlighted the problem areas and suggested that the issue of compliance with the accounting standards should be monitored by an independent body consisting of professional experts. (16)

Jyoti Bikash Sarker (1991) examines how management accounting can be useful in providing meaningful information for policy formulation and financial decision making at various levels of governmental operations. He discusses the basic features of different systems of governmental budgeting and narrates the mechanics of Government Accounting in India. The generation of decision-useful data, according to the author, may greatly be facilitated if cash basis is replaced by accrual basis of Government Accounting. (17)

G.D. Roy (1991) traces the origin of the development of accounting research in India. He is of the opinion that accounting academics should pay more attention to conceptual and theoretical issues in selecting research topics. He laments over the lack of meaningful data banks and urges upon the professional accounting bodies to take appropriate measures for remedying this shortcoming. (18)
According to M.C. Maloo (1984), accounting is an evolving discipline; it has progressed step by step in response to changing social needs for information about businesses. Many accounting ideas, formerly accepted on the basis of expediency, have been supplanted by other ideas useful to decision-making. Many accounting ideas have been found unworkable in changing environments, and some provisionally accepted ideas have been found extremely relevant from the standpoint of sound accounting theory. (19)

Prof. H.S. Kulshrestha (1961) says that accounting should never be taken merely as a study of the method used by business for keeping their accounts. Such a view will make this branch of knowledge stagnant and the concerned academic thinkers idle. The busy businessman has little time to think and is by nature selfish and so a lot of subjectivity is likely to be present in their accounting practices. On the contrary, an academician can take an impersonal, unselfish and social view of the matters connected with accounting. On such an approach and attitude on the part of accounting academicians, will depend the future and character of accounting. (20)

Prof. A.K. Basu (1981) says that the frontiers of accounting are ever expanding. According to him, during the earlier stages of its development, accounting was mainly concerned with the problems of measuring and interpreting the results of economic activities of business enterprises. But today it finds itself in the position of having to undertake the responsibilities of measuring, interpreting and communicating the results of almost all types of economic activities of an economy. This expansion in the boundaries of accounting has necessitated the creation of several branches. If this trend continues, still more branches will come out in the future. There may also arise a need to redesign the very structure of accounting and establish it in a separate school of measurement, thereby divorcing it from the business environment. (21)

To discuss about materiality, Gin Chong says that an item is considered material if its non-disclosure or discloser in the financial statements would affect the decisions of preparers, auditors and users of such statements. The decision on whether to disclose an item in the statement depends on the nature and size of the
item itself, and its effects on the truth and fairness in the statement’s presentation. However, to what extent an item is considered material remains judge mental. (22)

**Panchayats—finance, accounting, administration and control**

The basic principle of local finance, according to U.Bhattacharyya (1992), is to provide money to meet the cost of the services carried out without imposing an intolerable burden upon the tax payers and without the local authorities being unduly dependent upon assistance from the national or state exchequer. The local bodies should be financially so sound that their dependence on government becomes minimal. Financial independence of the local bodies has also been considered important from the viewpoint of their autonomy. (23)

Dubey (1972) postulates that the main responsibility for improving the socio-economic conditions in the village rests with the people themselves. He argues that unless people consider community development as their own activity and realize its value and recognize its contribution to their own welfare, no substantial result could be achieved. (24)

Naidu (1980) views that the concept of people’s participation is a very comprehensive one which includes almost all the activities concerning common life e.g. social, economic, political etc. (25)

According to Sundaram (1984), people’s active participation leads to realistic plans, better resource mobilization, better implementation with greater cooperation, better chances to develop talent for management and administration, better integration of activities, better evaluation of the success of programmes and finally wider distribution of benefits. (26)

Viswanath (1979) observed that Panchayati Raj Institutions in India had not been very successful because the programmes were not geared to meet the real needs. (27)
Verma (1971) pointed out that Panchayati Raj Institutions suffered mostly due to lack of expert knowledge, scarcity of financial resources, bureaucracy and politics. (28)

Pimplaskar (1984) also observes that the lofty ideals and the far-reaching fruit of the schemes envisaged by its precursors have not yield the expected results. According to him, the main reason for this is that the Panchayati Raj Institutions have not been made autonomous in reality. (29)

Md. Jalaluddin Ahmed (1995) says in his research work that leadership should be emerged out of a community through a natural selective process. Leader of a PR-unit should be elected from among the elected representatives of the PRIs through a democratic process of voting. Democracy in our country is also faced with many problems. We started with adult franchise for the poor illiterate masses and then began to plan for social change and economic growth. But, in other developed countries, the ideology of equal opportunity or welfare services for all followed economic affluence and social service consciousness. In India, the process has been reverse and as a result it is focused that the electorate and the elected representatives are more anxious about the distribution aspect of developmental process than about the production aspects. This problem has further been aggravated with the extension of democracy at the grass-roots level where the leaders are more concerned to immediate benefits to their supports than to growth of rural economy. This has further retarded the growth and development of economy of this country. Rural administration should be run with economy and justice, justice to the rural people which implicitly demand that administration should be sympathetic and responsive to the need of the people, helpful in guiding citizens and consider towards the illiterate and the poor. PR-leaders who run the rural administration keep in mind all the needs of the rural people and also honour their aspiration. Then only expected economic and social goals would be attained. (30)

Gopikanta Mondal in his research work explains the machineries of rural developmental programmes and he says that a large number of members belong to landless labour and marginal farmers. These people have very little formal
education and experience in management of organization. These representatives are intellectually inferior to the civil servants and other experts deputed to the Panchayat administration. As a result, there is an intellectual gap between the elected representatives and administrative staff members of Panchayats. It is expected that civil servants and experts will help the local representatives in different activities of Panchayats. But, the Panchayat administrators specially the members of Indian Administrative Service (IAS) and West Bengal Civil Service (WBCS) deputed to Panchayat have generally urban background as such they posses a very little knowledge about rural community. They also do not understand the problems of rural people. As such they have no idea about the needs and expectations of rural people. Moreover, they are not happy with their posting at Panchayat office. Essential nature of these administrators is clientship and isolationist. As a result, they are not interested in the jobs of Panchayats as such they adopt the attitude of passing the buck. This non-committal attitude of Panchayat officials provide enough scope for Panchayat elected representatives to dominate the Panchayat institutions. But the Panchayat representatives are out and out political persons so they always have preference to their political objectives than the welfare to the common rural people. They owe their allegiance to their present political parties. This have opened flood-gate for politicalisation of Panchayats. (31)

1.5 Methodology of the Study

The present study has been undertaken to identify and prescribe the accounting and control system, which should be informative, true and fair, and effective for Panchayat administration and provide necessary information to the people of Panchayat. For this purpose, the accounting and control system of Panchayati Raj Institutions need to be analysed through a research study. Therefore, a research methodology in performing the research work is to be evolved. We have identified our research work to be empirical one. A research study is generally designed to solve a research problem. Research methodology focuses on the ways and means to systematically solve the research problem.
We have purposively selected the Birbhum District as our reference because the district itself has a vast potentiality of rural development in the diversified fields of agriculture, cottage industries, irrigation, etc. Again, being a teacher of a rural college in the area of a Gram Panchayat of the Birbhum District, the researcher is well conversant with the profile of the district and is well acquainted with Panchayati system. Moreover, it is one of the backward districts of West Bengal whose rural people basically depend on agriculture as industrial development in real sense has not yet started. It is expected that Panchayati Raj Institutions play an effective role in rural economy in this district. Therefore, Birbhum District has been chosen and taken as the sample district for the study.

Scope of the Study

The District of Birbhum has 169 Gram Panchayats under 19 development blocks. This study is mainly confined to the Birbhum District. The different panchayat bodies are taken under the purview of the study. Being a sample study, it has to remain restricted to a few number of villages, Gram Panchayats, Panchayat Samitis and the Zilla Parishad of the district. Numerically speaking, one (1) ZP, five (5) PS, and twenty (20) GPs have been selected for the study. Details of sampling method and technique have been discussed in the following paragraphs.

Sampling Designs

For the purpose of effective management of the study, sampling has been made cautiously and systematically so as to get unbiased results. Moreover, the following process has been adopted for the very purpose of selecting the samples.

(i) Firstly, we have selected the Zilla Parishad (ZP) of the district of Birbhum, which is the topmost tier of the panchayat system. As there is only one ZP in a district, the question of taking sample dose not arise.

(ii) Secondly, out of 19 (nineteen) Panchayat Samitis (PS) at the Block levels in the district, 5 (five) PS have been selected for the study, which represent more than 25 per cent of the total number of Panchayat Samitis.

(iii) Thirdly, 4 (four) Gram Panchayats (GP) are selected from each of the selected PS. Thus, total number of GPs taken for this study comes to 20 (twenty).
Hence, the study covers 1 (one) ZP, 5 (five) PS, and 20 (twenty) GPs. While taking sample from the different bodies of the PR, we have not applied any discrimination, nor any bias towards those panchayat bodies constituted and run by a particular political party. We have applied the random sampling technique in selecting Panchayat Samitis and Gram Panchayats. Table No.1.2 depicts the sample size of the different PR bodies and the percentage thereof that represent population.

Table No.1.2

Sample Size of the Panchayat Bodies for the Study

<table>
<thead>
<tr>
<th>Name of the Panchayat Body</th>
<th>Total number in the District</th>
<th>Selected Number (Sample)</th>
<th>Percentage of Sample(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zilla Parishad</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Panchayat Samitis</td>
<td>19</td>
<td>5</td>
<td>26.32</td>
</tr>
<tr>
<td>Gram Panchayats</td>
<td>169</td>
<td>20</td>
<td>11.83</td>
</tr>
</tbody>
</table>

(a) Selection of the PS:

There are 19 (nineteen) Panchayat Samitis in the Birbhum district at 19 Community development Blocks (CD Blocks). The office of the PS is closely associated with the CD Blocks as the two are expected to be complementary with each other for the accomplishment of their functions. We have selected 5 (five) PS out of the total 19 in the district. In this case, stratified random sampling method has been followed. The names of the Panchayat Samitis, which have been selected for the study, are as follows: (1) Nanoor PS, (2) Labpur PS, (3) Santinikatan-Sriniketan PS, (4) Illambazar PS, and (5) Mayureswar-I PS.

(b) Selection of the GPs:
In this case, random sampling method has been adopted. 4 (four) GPs are selected at a random from every sample PS. Thus, 20 (twenty) GPs in total are taken out of 169 GPs in the district for the study, which is about 12% of the total.

(c) Collection of Data:

For this study, both primary and secondary sources have been applied to collect necessary data and then we have processed the said data into pertinent information. We have adopted the following procedures for the purpose of the study.

(i) To collect desired information from the primary sources, we prepared a questionnaire and identified a group of respondents from the persons who are directly related to the accounting system of Panchayats, mainly different office-bearers of Panchayat Bodies for the purpose of administering the questionnaire. The questionnaire was divided into two parts—the first part includes the questions for gathering opinions about the present accounting system of Panchayats and the second part includes the questions designed to collect information to assess how far the rules of Present Accounting System of Panchayats is followed. However, each part of the questionnaire has three categories of questions, viz. (i) about recording system, (ii) about control system and (iii) about information system, since the accounting plays an important role in recording the transactions in order to control the financial activities of the concern and to give proper information to the interested parties. The format of the questionnaires is shown in Appendix.

(ii) In case of ZP, the questionnaire was placed to six office-bearers for getting their opinions. Those were Sabhadhipati, Sahakari Sabhadhipati and Karmadhyakshas of four ‘Sthayee Samitis’, namely, Finance, Education, Public Health, and Public Works.

(iii) In case of PS, eight office-bearers of each PS were interviewed to have their opinions on the questions. Those were Sabhapati, Sahakari Sabhapati, BDO, and five other Karmadhyakshas of different ‘Sthayee Samitis’. In this way, total forty office-bearers of different PS were interviewed.

(iv) In case of GP, four office-bearers of each GP were interviewed for gathering their opinions. Those were Prodhan, Upa-prodhan, Secretary and Nirman Sahayak.
Thus, total eighty office-bearers of different GP were interviewed for getting their opinions on various aspects of Panchayat accounting.

(v) Data or information have been collected directly from various documents, records on different programmes and activities preserved and maintained by the Panchayat institutions. Annual Actions Plans of the GPs, Block Plans, District Plans, Minute and Resolution Books, Cash Registers etc., are few of them.

(vi) We have also studied various public documents issued, various statements and reports published by the Government from time to time. For example, Annual Reports of the Ministry concerned, debates in the Assembly, Audit Report etc.

(vii) We have also collected information on the basis of personal observation, investigation, enquiries into the ongoing activities and the existence of already created rural assets as well as personal interview with some selected common people of the sample areas to collect their views and opinions on the activities of Panchayats.

It transpires from the preceding discussion that the main objectives of the present study are:

(i) to evaluate the Present Accounting System of Panchayats, particularly its efficiency and effectiveness;

(ii) to assess how far the Present Accounting rules are followed actually, specially their nature and coverage;

(iii) to suggest a suitable accounting system which will able to record all the transactions properly and to give a true and fair view of the financial position of Panchayats. A model of accounting system shall be suggested which will be easy to record all transactions to provide necessary information to the members of Panchayats for planning and control of Panchayat activities and also to the general public to understand the functions rendered by the Panchayat.

1.6 Limitations of the Study

The findings of the study are based on opinions expressed by the persons associated with to the Panchayat accounting System, as well as the information
collected from the documents maintained by the panchayat bodies. Hence, the objectivity of the study would be limited to the extent the respondents provide their pertinent opinion sincerely, honestly and impartially and also to the extent the panchayat bodies maintain the books of accounts and other records properly.

Though the problems are of national character, our sample area covers only few blocks, villages and common people of Birbhum District in West Bengal. Since the socio-geographic condition varies widely in different states as well as in different places within a state, we cannot repudiate such limitations in analysing the aspects of our study. Yet, the common aspects are taken into consideration without referring to dissimilarities.

It would not be possible to cover the whole population of the district and this is why, the study is conducted on the basis of a representative sample of PRIs and the results are assumed to be the representative for the district of Birbhum as a whole. Nevertheless, it would have been better if all PRIs had been covered in the study. However, considerable care and caution have been taken to make the study as objective as possible with the help of appropriate sampling technique and other statistical methods.

Although the study confines itself to a particular region, still it is expected that it would give a clear concept about the accounting and control system of Panchayat administration all over the country and would portray the actual accounting practice followed in Panchayats and provide a system which will help to show the limitations of present accounting followed in Panchayats.

Summary

When India achieved independence, it was an under-developed country and its economy was largely based on agricultural activities. That is why, agriculture and rural development were given top priority and are still getting much importance in India’s five years plans. The lion’s share of total public sector outlay of each successive plan was allotted to agriculture and allied activities, community and rural development programmes, major and medium irrigation projects, flood control and small-scale industries.
Now, it is very important to examine how the allotted money is being utilized, how much return it generates and how much of income generated remains in the form of physical assets in our rural economy. Only the proper accounting and control of fund can have long-term effect on the rural economy. Accounting is a system of recording the information relating to the utilization of funds in monetary terms and provides those information for control and planning of those activities to the Panchayat representatives and the users. Therefore, it is pertinent to examine how much assets have been generated in the rural economy with the fund available to Panchayats and also to verify and assess its performance.

In our introductory chapter, we have explained the objectives of our study. The main objective of our research work is to discuss the present accounting practices of Panchayats and to examine the deficiencies of such practices. Efforts are also made in the study to prescribe measures to be adopted to increase the effectiveness of the accounting and control system of Panchayat administration.

Literature surveyed in this study may be classified into two groups—one is accounting and the other is Panchayat. Emerging trends in the development of accounting standards, usefulness of Management accounting in providing meaningful information for policy formulation and decision-making at various levels, progress of accounting in response of to changing social needs for information are some issues which have come out from the literature surveyed on accounting. Again, the literature reviewed on Panchayat explains people's participation in Panchayats, problems of Panchayat functioning, present accounting system of Panchayat etc.

The methodology has been explained in detail in this chapter. For this study, both primary and secondary sources have been applied to collect pertinent information. The persons who are directly related to the accounting system of Panchayats, specially, the office-bearers of Panchayat bodies, have been interviewed and necessary data are collected.

Moreover, we have examined various documents, annual reports, budgets, audit reports, books and registers, different forms used in Panchayats. We have also gone through the West Bengal Panchayat Acts and its amendments made from time
to time by the State Legislative Assembly for this research work. We have examined Government policy statements, reviews and reports on Panchayati functions submitted by the different bodies set up by the Government from time to time. Moreover, general economic position revealed in the State Annual Reports of the Ministry of Panchayat and questions raised on Panchayat in the State Assembly as well, have been examined for the study. Various reports and periodicals published by the Government and other institutions have also been examined. All these secondary sources of information have been applied for the present work.

We are well aware about the limitations of the study. A limitation is not a defect or deficiency. Moreover, one can do well by knowing the limitations of the technique he is using, so that, necessary precautions may be taken and the results can be evaluated after taking the limitations into account.
Reference:

10. Doughlas Ensminger, Rural India in Transition, New Delhi, 1972, P- 4.


