

CHAPTER II

Accounting Procedure and Financial Management in Panchayati Raj Institutions

2 Accounting Procedure and Financial Management

The accounts of the PRIs have been maintained in the formats as prescribed by the State Government which do not provide complete information regarding scheme expenditure and Head of accounts etc. Out of eight formats prescribed by the C&AG for maintenance of database by PRIs, State Government has adopted five formats (1 to 5) in September 2004 and 3 formats (6 to 8) in August 2007. However, these are yet to be implemented. Cases of irregularities observed in audit are discussed in succeeding paragraphs.

2.1 Excess of expenditure over allotted grant - ₹ 125.60 crore

As per Resolution of April 1993 issued by the Panchayat, Rural Housing and Rural Development Department, Government of Gujarat (PRHRDD), the excess expenditure over the allotted grants is not permissible. However, if the excess expenditure is necessary, prior approval of the grant controlling authority must be obtained and arrangement for additional grants must be made during next year. In absence of this, the excess would be debit to the own fund of the PRIs.

Test check of records for the year 2005-06 and 2006-07 revealed that in 20 TPs there was excess expenditure over the allotted grants by an amount of ₹ 125.60 crore (**Appendix-I**). The approval of the competent authority was also not obtained. Further, in violation of codal provisions, the excess expenditure was debited to the various heads of account instead of debiting to the own funds of PRIs.

On being pointed out it was replied by TDOs (April 2009-July 2010) that excess expenditure was incurred mainly for the pay & allowances of the staff and it would be adjusted from next year's grant. The reply was not tenable as the action of the TDOs was against the codal provisions.

2.2 Non-surrender of unspent Government Grants of ₹ 41.23 crore.

As per clause 8 and 9 of resolution dated 19.04.1993 of PRHRDD, GoG, the unspent grant other than grant for the purpose of Pay and Allowances should be adjusted by the grant controlling authority during release of the last installment of

the financial year. Retention of funds up to 20 *per cent* of the grant of Pay and Allowances only is allowed for the payments for the month of March/April.

Test check of records of 19 TPs revealed that neither action had been taken by TDOs to adjust unspent balances from the last installment of the grants which resulted into accumulation of ₹ 41.23 crore in PLA nor the District Development officer and Departmental authorities called any explanation from TDOs for non refunding the unspent grants (**Appendix-II**) as on 31st March 2007.

Detailed scrutiny of 12 test checked TPs revealed that though, unspent grants of ₹ 19.70 crore was available with the TPs as on 1st April 2005, additional grant of ₹ 110.85 crore was allocated to them during the period 2005-06 to 2006-07. Expenditure of ₹ 104.89 crore was incurred from the allotted grant. Out of the balance ₹ 25.66 crore, only ₹ 39.55 lakh was surrendered to GoG by the three TPs (Mahemdavad: ₹ 38.93 lakh, Shihor: ₹ 0.10 lakh and Kalawad ₹ 0.52 lakh) during the period 2005-07. Thus the unspent balance was ₹ 25.27 crore as of 31st March 2007 (**Appendix-III**).

It was stated by the TDOs (April 2009 & July 2010) that necessary action would be taken to utilise the grants or surrender of unspent grants to the Government.

2.3 Non inclusion of Grant and expenditure in Annual Account

As per Rule 211(1) of the Gujarat Taluka and District Panchayat Finance Accounts and Budget Rules, the Annual Accounts of TP/DP shall be maintained and published in prescribed manner indicating total receipts and payments during the year under different heads with opening and closing balances.

Scrutiny of records of four TPs (Shihor, Valia, Umargam and Kadi) for the year 2006-07 revealed that these four TPs received grant of ₹ 1.55 crore (₹ 62.87 lakh: Members of Parliament Local Area Development Schemes (MPLADS) grant, ₹ 68.49:lakh: TFC grants, and ₹ 23.52 lakh: Sampoorna Grameen Rozgar Yojana (SGRY) grant and spent ₹.1.24 crore (TFC: ₹ 41.83 lakh, MPLADS: ₹ 64.74 lakh and SGRY: ₹ 18.52 lakh) during 2006-07. However, receipts of grants and expenditure were not included in the Annual Accounts of respective TP, which was in violation of the codal provisions. This resulted in understatement of receipt and expenditure for the year.

TDOs stated (April-2009-July 2010) that hence forth, such grants and expenditure against the grants would be incorporated in their Annual Accounts.

2.4 Amount lying in Suspense head ₹ 3.92 crore

As per Rule 210 of the Gujarat Taluka and District Panchayat Finance, Accounts & Budget Rules, 1963, the receipt and expenditure of the year of which, heads of

accounts could not be decided immediately was to be debited/credited under suspense head for time being. At the end of respective year, it was to be cleared by credit/debit to its final head of accounts.

However, during test check of records for the year 2006-07 it was noticed that in three TPs an amount of ₹ 3.93 crore was lying in suspense head which was carried forwarded routinely without making any efforts to clear the suspense account as shown in **Table No.7** below:-

Table No.7: Amount lying in Suspense (₹ in crore)

Name of TP District	Opening Balance	Credit during the year	Debit during the year	Closing Balance.
Umargam, (Valsad)	0.82	0.20	0.45	0.57
Pardi,(Valsad)	1.72	3.02	2.65	2.09
Navsari, Navsari	0.67	1.48	0.88	1.27
Total	3.21	4.70	3.98	3.93

Keeping huge Government fund/Government grants in suspense head for long period is fraught with risk of misappropriation/ embezzlement of Government money.

On being pointed out it was replied (January-July 2010) by TDOs that matter would be taken up with DPs and Government to clear the suspense head.

2.5 Purchase of materials without inviting quotations ₹ 2.35 crore

As per rule 14 B of Gujarat Gram and Nagarpalika Financial Account and Budget rules and Rule 171 of Gujarat Contingency Expenditure Rules read with Finance department resolution of May 1994, any purchase exceeding ₹ five thousand should be made by inviting quotations at least from three suppliers and purchase exceeding ₹one lakh should be made by inviting tender through advertisement in leading news papers.

Review of records of 268 VPs of 19 districts for the period 2005-07 revealed that procurement of material such as cement, steel, bricks, pipes, kapchi (rubble) etc. worth ₹ 2.35 crore from private parties was made (**Appendix-IV**) without obtaining quotations or obtaining competitive price from the open market for purchases of more than ₹ five thousand. Apart from violation of Government instructions it has deprived the VPs of the benefit of availment of comparative and competitive rates.

When this was brought to the notice of Panchayat authorities, it was stated (January-July2010) that henceforth proper procedure would be followed while procuring the material.

2.6 Unrealistic Budget

According to Section 116 (1) of the Gujarat Panchayat Act, 1993 every VP is required to prepare annual budget and get it approved by general body of the Panchayat. It is essential to take utmost care in preparing budget with realistic estimates giving due attention to the prioritized needs of the people.

Review of records of 36 VPs of DP Bharuch & Rajkot (**Appendix-V**) revealed that during 2005-06 and 06-07 as against estimated receipt of ₹ 3.12 crore and ₹ 3.90 crore actual receipt was ₹ 1.25 crore and ₹ 1.82 crore respectively with variation of 60 *per cent* and 53 *per cent*. Similarly as against estimated expenditure of ₹ 2.87 crore and ₹ 2.37 crore actual expenditure was ₹ 1.35 crore and ₹ 88.61 lakh during 2005-06 and 2006-07 respectively with variation of 53 *per cent* and 63 *per cent*.

Similarly scrutiny of records (2005-06 and 2006-07) of 17 TPs, variation between estimates and actual receipt and expenditure was noticed. The actual against estimates formed 79 percent (2005-06) in respect of receipts, while expenditure actual formed 78 percent (2005-06) and 92 percent (2006-07). The variations in estimates and actual of receipts and expenditure in respective years were due to non raising of periodical demand, non pursuance of demands and insufficient receipts of grants. Thus, the budget was not prepared realistically and the internal control (monitoring) system was weak.

2.7 Non preparation of revised or supplementary budget

Section 117 of GP Act provides for preparation of revised or supplementary budget or re-appropriation of funds which requires approval of the Panchayat in the same manner as if it were an original annual budget estimate. It was, however, noticed that five VPs⁹ spent ₹ 15.45 lakh in excess of their budgetary provisions without preparing any supplementary and revised estimates which had ranged from 15 *per cent* to 23 *per cent* of their total expenditure

2.8 Non reconciliation of cash balance with Treasury pass books

Rule 171 and 183 of the Gujarat Taluka & District Panchayat Finance Account and Budget Rules, 1963 provide that the balance of Treasury pass book shall be reconciled with reference to the balance of cash book at the close of every month and difference, if any, be reconciled.

⁹(1) Pariage, (2) Borbhatha, (3) Bhadhat, (4) Barbhathabat & (5) Bakrat (Taluka Ankleshware DP Bharuch)

However, test check of records of 22¹⁰ TPs for the years 2005-06 & 2006-07 had revealed that there was un-reconciled difference of ₹ 8.43 crore (**Appendix-VI**) as on 31 March 2007. The unreconciled differences were fraught with risk of misuse/misappropriation of funds.

TDOs concerned stated (January-July 2010) that efforts would be made to reconcile the balances.

2.9 Deficiency in maintenance of Cash Book

As per the Gujarat Taluka Panchayat and District Panchayat Finance, Accounts & Budget Rule, 1963, Cash Book is a preliminary and important record. It should be maintained properly under the supervision and control of head of the office/Branch Officer.

Test check of records for the period 2006-07 revealed that in six¹¹ TPs maintenance of Cash Book suffered from some serious limitations as detailed below:-

- (i) Before taking into use, the number of pages in a Cash Book should be counted and certificate of head of the office/Branch Officer to that effect should be obtained on the first page of the Cash Book. However, this has not found to have been complied with in case of 5 TPs.
- (ii) Accountant should write the cash book daily and at the end of the day cash balance should be worked out with his dated initial and it should be attested by the head of the Office/Branch Officer. However, it was not done in five TPs¹² and particularly in TP Palitana neither accountant nor TDO had signed the transactions of Cash Book between the periods 3rd April 2006 to 12th July 2006.
- (iii) Correction/overwriting in Cash Book were not attested by head of the office/Branch Officer in four TPs.
- (iv) Pencil was used for recording transactions of receipts and expenditure and sum of the total amount on four pages (page numbers 58, 93, 98 and 110 of cash book for the period 2005-06) in TP Jodiya of DP Jamnagar.
- (v) Physical verification /surprise check of cash balance was not done by the two TDOs, TDO, Palitana of DP Bhavnagar and TDO, Meghraj of DP Sabarkantha.

¹⁰ Nalia, Uchchhal, Kalawad, Navsari, Kamrej, Tankara, Tarapur, Mundra, Ghogha, Vadnagar, Keshod, Idar, Mahuva, Valia, Vallabhipur, Palitana, Shihor, Talaja, Choryashi, Sutrapada Khambha and Vyara.

¹¹ (1) Palitana (2) Pardi (3) Meghraj (4) Jodia (5) Jasdan and (6) Valiya

¹² (1) Jodiya, (2) Palitana, (3) Pardi, (4) Jasdan and (5) Meghraj

- (vi) Opening balance of the current year was not attested (2006-07) by three TDOs (Jasdan of: DP Rajkot, Pardi of DP Valsad and Meghraj of DP Sabarkantha)
- (vii) Break up of account i.e. Own fund, Government fund, Debt fund etc. was not shown (2006-07) in the Cash Books of two TPs (Jodiya of DP Jamnagar and Valiya of DP Bharuch).
- (viii) In TP Jodiya, daily Closing Balance (C.B.) between 1st April 2006 and to 10th October 2006 was not attested by TDO. Further it was noticed that as against actual expenditure of ₹ 16 66 lakh expenditure of ₹.16.76 lakh was recorded in the cash book. This resulted in overstating of expenditure to the extent of ₹.0.10 lakh on 30th March 2007. TDO was required to scrutinise the transactions and reconcile the difference. Due to non arriving of closing balance from time to time, this has happened.

TDOs replied (January-July 2010) that audit instructions were noted and in future cash books would be maintained properly.

2.10 Non realization of revenue ₹ 2.88 crore

As per Section 168 and 170 of GP Act, 1993, the PRIs have been entrusted with functions and duties relating to the collection of land revenue including cess. The panchayats are further required to recover any tax or fees on due dates as provided under Section 215(1) of the GP Act. Moreover, in order to increase the source of own revenue, VPs should also review the rates of taxes periodically. Further, VPs in the event of non payment of tax could take action of levy penal interest, invoke writ and write off the dues under section 215 of the Act.

During the Test Check of 81 VPs (2009-10) it was observed that as against total demand of ₹ 4.09 crore during 2006-07 an amount of ₹ 1.22 crore (30 per cent) could only be recovered resulting in outstanding demand of ₹.2.87 crore as on 31 March 2009 (**Appendix – VII**). Records did not reveal that such actions were initiated by the concerned VPs.

Poor recoveries of the taxes indicated that proper internal control system was not effective for recoveries to be effected in time.

TDOs stated (April 2009- March 2010) that efforts would be made to increase the revenue by issuing demand notices.

2.11 Annual Accounts prepared without supporting statements

Codal provisions provide that Accounts of Income and Expenditure should be maintained in the prescribed manner and should be laid before Panchayat.

During test check of 10 TPs¹³ for the year 2005-07, it was observed that the Accounts of Income and Expenditure were prepared in the relevant forms, however, the supporting statements as detailed below were not prepared and attached with the annual accounts.

- (i) Statement showing closing balance of investment in bank, post office and others.
- (ii) Statement showing receipts and expenditure incurred on Plan / non Plan schemes with Head wise details
- (iii) Statement showing Head wise grant received from the Government.
- (iv) Statement of Head wise refund of loans and grant received from the Government.
- (v) Statement showing details of opening balance, receipt and expenditure under Centrally Sponsored Schemes.
- (vi) Statement showing details of opening balance receipt and expenditure.
- (vii) Statement showing the details of Zila Vikas Nidhi, Utejak Nidhi, Samkari Nidhi and Gram Vikas Nidhi.
- (viii) Statement showing loans received from District Panchayat and payment thereof.

In absence of such important and vital statements, Major Head wise clear, correct and authentic position of accounts with closing balance of grants, deposits, advances, liabilities of the entity etc could not be ascertained and verified.

TDOs stated (April 2009- March 2010) that from the ensuing year all the required statements would be incorporated in the Annual Accounts.

2.12 Non / Improper Maintenance of Records / Registers.

As per codal provision, PRIs are required to keep and maintain register/records, books / accounts in the prescribed formats giving all the required details. It was, however, noticed that prescribed basic records as detailed below were not being maintained by most of the PRIs. The implications of non-maintenance of these records are as detailed in **Table No.8** below:

Table No.8

Records, Registers improperly Maintained/not maintained and Implication	
Advance Ledger	The purpose, age and amount of advance to be realized / adjusted as of 31 March each year could not be ascertained. Due to this, probability of loss to the PRIs cannot be ruled out.

¹³(1)Nandod,(2)Ghogha,(3)Mendarda,(4)Ahmedabad,(5)Visnagar,(6)Tarapur,(7)Tankara, (8)Choryashi,(9)Zalod, and (10) Olpad,

Grant / Loan Appropriation Register	Grant / Loan received, purpose & date of receipt, appropriation made from time to time and amount lying unutilized in respect of a particular grant / loan as on 31 March of each year could not be ascertained.
Loan Register	The date of receipt, amount, condition attached and overdue instalment of loan with interest could not be ascertained.
Demand & Collection	Demand, collection and balance for a particular year could not be ascertained. In absence of posting of the collection money in the register, the detection of fraud and embezzlement would be difficult.
Work Register	In absence of work Register, schemes taken up, estimated cost, the progress of work and its details viz. value of work done, payments made, materials issued, date of completion, works not completed / suspended, outstanding amount to be paid against the work executed, could not be ascertained. Any excess payment, in terms of cash / Material, would be difficult to be detected.
Deposit Ledger	Amount of the deposits and their adjustment could not be ascertained and therefore possibility of misappropriation and embezzlement of money could not be ruled out.
Registers of Lands, Revenue and Asset	Identification and valuation of assets, proper record of all land, sites of buildings, tanks, ponds, etc. could not be ascertained.

Some specific cases as noticed during audit are discussed latter in this Report. For want of proper maintenance of basic and vital records understatement/overstatement of the expenditure cannot be ruled out.

TDOs of test checked TPs stated (April 2009-March 2010) that in future required Registers would be maintained properly with recording necessary details.

2.13 Security Bond from Principal (s) of Pay Centres was not obtained

As per Rule 272 and 68 of Taluka and District Panchayat Finance Account and Budget Rules, TPs should maintain Security bond register in prescribed form No. 6 and on first day of each financial year, certificate to the effect that security bond holder is alive, should be recorded in the register. Further, as provided in circular of January 1992 of Director of Primary Education Gandhinagar, to safe guard against irregularities / fraud misappropriation, a security bond for ₹ 5000/- from the principal of pay centres of primary schools are to be obtained along with certificate of their solvency.

Scrutiny of the records (2005-06 and 2006-07) of 21 TPs revealed that security bonds from the Principals of the Pay Centres were not obtained. Further except TP Bhesan, in none of the TPs, the security bond register was maintained.

On this being pointed out, it was replied by the TDOs, (April 2009- March 2010) that now onwards, audit instructions would be observed and necessary security would be obtained.

2.14 Conclusion

In a large number of cases, expenditure was incurred in excess of budget provision without preparing any supplementary and revised estimates. Some of the PRIs did not reconcile their balances as per cash book and pass book every month resulting in huge amounts remaining un-reconciled at the end of the year. Absence of vital statements in support of annual accounts in some of the PRIs and non-maintenance of the records and books prescribed in the accounting rules not only resulted in loss of audit trail but impaired their accountability. Internal audit and internal control mechanism were inadequate to ensure proper accounting of substantial public funds dealt with by the PRIs. The State Government had adopted the formats for maintenance of database on the finances of PRIs, however, the same are yet to be implemented by the PRIs. Records were either not maintained or maintained improperly.

2.15 Recommendations

The following recommendations are made for strengthening budgeting and financial control:

- Maintenance of accounts and related records should be enforced through a comprehensive system of incentives/disincentives and accountability
- Financial discipline and control should be monitored through a computerized monitoring system and accountability for irregularities, including budgeting digressions should be enforced.
- Periodical reconciliation of bank pass book with cash book should be done and discrepancies, if any, should be taken up on priority with the banks for its early resolution.
- Internal Audit and Internal control mechanism needs to be strengthened.