

Chapter-2

Financial Management

The West Bengal Panchayat (GP Miscellaneous Accounts and Audit) Rules, 1990 and the West Bengal Panchayat (ZP & PS) Accounts and Financial Rules, 2003 were framed for GPs, PSs and ZPs to promote and develop proper accounting procedure in the Panchayat Raj Institutions. After 73rd Amendment of the Constitution, various functions have been devolved to the PRIs and these rules play a vital role in assisting the PRIs to discharge these functions. These Rules act as a control mechanism in PRIs. However, the general precepts of financial management and the Rules were not adhered to. Hence Annual Accounts, budget and supplementary budget were not prepared, there was direct appropriation of fund, balances were not reconciled and revenue collection was poor were as described in the following paragraphs.

2.1 Annual Accounts were not prepared

Rule 29 of the West Bengal Panchayat (Gram Panchayat Miscellaneous Accounts and Audit) Rules, 1990 prescribe that Annual Statement of accounts of the GP should be prepared in Form 30 within 15 days from the end of each financial year and Rule 209(1) of the West Bengal Panchayat (Zilla Parishad & Panchayat Samiti) Accounts & Financial Rules, 2003, prescribe that a monthly Receipt and Payment Accounts should be prepared in Form 27 to ascertain the monthly position of the fund of ZP or PS, as the case may be. The monthly receipt and payment accounts for the month of March would become the Annual Receipt and Payment Accounts.

It was observed during audit of PRIs that 28 GPs failed to prepare the annual accounts in Form 30 and spent ` 17.11 crore against total receipt of ` 23.10 crore during 2007-08 (**Appendix-III**). Similarly, 29 PSs did not prepare the account in the prescribed format but incurred expenditure of ` 22.02 crore, ` 64.98 crore and ` 79.28 crore against total receipt of ` 44.37 crore, ` 112.86 crore and ` 139.01 crore respectively during 2005-08 (**Appendix-IV**). Raghunathpur-I, Manbazar-II, Raghunathpur-II, Pancha, Joypur, Jhalda-II, Arsha and Balarampur PSs did not prepare annual accounts in proper format in any of the years during 2005-08.

As annual accounts were not prepared, receipts of ` 319.34 crore and expenditure of ` 183.39 crore in respect of 57 PRIs could not be vouchsafed by audit, besides representation of financial affairs of those PRIs.

2.2 Expenditure incurred without preparing budget and in excess of budget

Sections 48 (3) and 137 of the West Bengal Panchayat Act, 1973 prescribe that no expenditure should be incurred unless budget was approved by GP and PS respectively. In utter disregard of the aforesaid provisions, 10 GPs spent

₹ 5.80 crore during 2007-08 (**Appendix-V**), while Arsha and Kashipur PSs spent ₹ 6.96 crore during 2005-08 and ₹ 9.59 crore during 2005-07 respectively without preparing budget estimates for the respective years.

The West Bengal Panchayat (Budget & Appropriation of Fund) Rules, 1996 stipulate that supplementary and revised estimates providing for modification of budget should be prepared and approved within the first week of March of the current year by ZP (Rule 30) and PS (Rule 18) and on or before 20 February by GP (Rule 8). It was seen in audit that 899 GPs expended ₹ 148.45 crore in excess of their respective budget provisions under different heads without preparing any supplementary and revised budget estimates during 2007-08 (**Appendix-VI**). Scrutiny revealed that 10 ZPs and 21 PSs expended ₹ 300.28 crore against budget provision of ₹ 158.75 crore under 288 heads during 2006-08 (**Appendix-VII**). Expenditure of ₹ 141.53 crore was unauthorised in absence of any supplementary and revised budget estimates.

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. PRIs therefore, as a Local Self Government, need to strengthen their financial management and take measures to regularise such excess expenditure.

2.3 Direct appropriation of revenues without depositing into bank account

Rule 4(2) of the West Bengal Panchayat (GP Miscellaneous Accounts and Audit) Rules, 1990 prescribe that the custodian of the GP fund shall deposit all receipts of the GP fund in a Savings Bank Account at the nearest Post Office or a Scheduled Bank or a Co-operative Bank in the name of the GP.

In violation of the said provision of the rule, during 2007-08, 422 GPs (**Appendix-VIII**) directly spent ₹ 1.69 crore for miscellaneous payments out of the revenues collected from time to time before depositing those revenues into their respective Savings Bank accounts.

The rule acts as a safeguard against misappropriation of funds while handling liquid cash. Thus, non-adherence to the prescribed rule not only increases risk of misappropriation of funds but also weakens internal control mechanism in PRIs.

2.4 Non-reconciliation of discrepancy in cash balances

Rule 5(4) of West Bengal Panchayat (GP Miscellaneous Accounts and Audit) Rules, 1990 prescribes that the balance of the Bank Pass Book of the GP shall be checked with reference to the Cash Book at the close of every month. Similarly, Rule 21 (12) of the West Bengal Panchayat (ZP & PS) Accounts and Financial Rules, 2003, prescribe that the Bank account and the Local Fund account as reflected in the Cash Book shall be reconciled with Pass Book of the Bank and of the Treasury at the close of each month. Sub-Rule 13 of the

aforesaid rule require that differences detected should be rectified immediately by the PRI itself or the matter should be immediately brought to the notice of the Treasury/Bank for settlement of discrepancies depending on whether the mistake occurred in the Panchayat itself or otherwise.

Scrutiny revealed that in 85 GPs, a total amount of ` 1.62 crore remained unreconciled at the end of 2007-08 (**Appendix-IX**). Jalpaiguri ZP and 17 PSs did not reconcile difference of ` 37.35 crore between Cash Book and Pass Book balances of Banks and Treasuries as on 31 March 2008 (**Appendix-X**). Barabazar and Patrasayer PSs prepared Bank Reconciliation Statement but audit could not verify those statements for want of supporting documents. North 24 Parganas ZP and Udaynarayanpur PS did not update treasury Pass Book up to 31 March 2008. Uluberia-I PS did not update both Cash Book and Pass Book up to March 2008 at the time of audit during May 2008.

The reasons for such difference were mistakes made by PRIs/wrong debit/non credit by Treasury or Bank. Unless such discrepancies are immediately got rectified from the Treasuries/Bank, the rectification process would become more difficult with the passage of time.

As discrepancies in cash balance were not reconciled, the accounting lacked transparency. This indicates that internal control mechanism in the PRIs was not fully functioned.

2.5 Non-realisation of revenue

The GPs are authorised to collect taxes, rates and fees and are also empowered to lease out immovable assets like markets, lands, ponds and tanks. Scrutiny in audit revealed that 3,068 GPs could collect only ` 23.93 crore in the shape of tax, fees, rates etc. against total demand of ` 95.01 crore during 2007-08 (**Appendix-XI**). Thus, the collection was only 25 per cent of the total demand.

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.

2.6 Non-maintenance of registers

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 for effective internal control in workings of PRIs. Audit scrutiny of 18 ZPs, 151 PSs and 3,214 GPs during 2008-09 revealed that 735 PRIs did not maintain Demand and Collection Register, 1,039 PRIs did not maintain Appropriation Register, 1,589 PRIs did not maintain Advance Register and 2,059 PRIs did not maintain Works Register, among others. Details of non-maintenance of Registers are at **Appendix-XII**.

In absence 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.

2.7 Losses due to theft, defalcation of funds and other assets

Thirty five cases of theft and defalcation of cash and office assets were noticed during 2007-08 in respect of three ZPs and 32 GPs (as detailed in **Appendix-XIII**). This was possible due to non-adherence to financial rules and laxity in taking adequate safeguards against theft.

2.8 Deficiencies in internal audit of PRIs

Rule 212 of the West Bengal Panchayat (ZP&PS) Accounts and Financial Rules, 2003 requires that internal audit of the accounts of ZPs and PSs shall be conducted by the Samiti Accounts and Audit Officer (SA&AO) and the Parishad Accounts and Audit Officer in respect of PS and by the Regional Accounts and Audit Officer (RA&AO) in respect of ZPs at least once in every month. Similarly, Rule 32 of the West Bengal Panchayat (GP Miscellaneous. Accounts and Audit) Rules, 1990 prescribes that internal audit of GPs shall be conducted by the respective Panchayat Accounts and Audit Officers (PA&AO) at least once in every month. Report of internal audit of each quarter should be prepared and sent to the auditee within one month after inspection.

Audit scrutiny of 18 ZPs, 151 PSs and 3,214 GPs during 2008-09 revealed that internal audit of Bankura and Bardhaman ZPs, 67 PSs (**Appendix-XIV**) and 1,252 GPs (**Appendix-XV**) was not conducted for periods ranging from one year to five years. Internal audit in five¹ PSs was conducted only for a part of a year. Further, internal audit of one ZP and 12 PSs² were conducted but no report was received by them.

The objective of the internal audit is to assess the effectiveness of various internal control systems of a PRI and also to assist the administration in the effective discharge of its responsibilities. Internal audit helps to ensure financial propriety in implementation of plans and programmes and acts as an aid to the administration for better performance. Thus, absence of internal audit not only weakened the internal control mechanism of PRIs, but also deprived the PRIs of the support for improvements in their service delivery mechanism.

2.9 Defects in the system of electronic transfer of funds to PRIs

The Government of West Bengal (GOWB) introduced (2006) 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 GOWB and actual credit of the fund in the accounts of the PRIs and of the Darjeeling Gorkha Hill Council (DGHC). Under this system, all the PRIs should have opened a Fund Transfer Account (FTA) in the nearest SBI branch. At the State-level, a similar FTA has been opened with the SBI, Kolkata Main Branch by the Directorate of Panchayats & Rural Development. On the advice of the Directorate, the SBI transfers the apportioned amounts to the FTAs of the respective panchayat bodies through their own network.

¹ Bhatar, Nabagram, Tamluk, Sahid Matangini and Barabazar PSs.

² Year 2006-08: Birbhum ZP, PSs: Budge Budge-I, Chandrakona-I & II, Debra, Garbetta-I & II, Keshpur; Year 2007-08: Hariharpara, Krishnanagar-II, Kanksa; Year 2005-08: Jhalda-I; Year 2005-07 : Jhalda-II.

Where respective shares of PSs and GPs cannot be pre-determined, the entire amount is transferred through FTAs of the respective ZPs. These FTAs are used for receiving fund only. 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 FTAs, so that balance of fund, if any, in the FTAs can be clearly segregated programme-wise for future use.

Scrutiny revealed lapses in the system of such electronic transfer of funds and accounting of transactions of transferred funds by PRIs as follows:

- Uniform accounting practice had not been followed by every PRI. While 16³ ZPs incorporated transactions of FTA in Cash Book and in annual accounts for the year 2007-08, Birbhum and Uttar Dinajpur ZPs did not do so. However, Uttar Dinajpur ZP entered the same in the Annual accounts for the year 2008-09. Where transactions of FTAs were not included in the Cash Book, no Ledger was maintained. There was thus no scope to ascertain that funds received in FTAs by PRIs were spent/transferred for the purpose for which they were received.
- On the other hand, 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). For example, if ` 300 is transferred in this way (at the rate of ` 100 for each tier), then the aggregated receipts in the books of PRIs would be ` 900 as detailed below.

PRI	Receipt (Rupees)		Payment (Rupees)	
	Head	Amount	Head	Amount
ZP	Allotment from State Government (in FTA of ZP)	300	Transfer to designated account -contra	100
	ZP share (Designated head-contra)	100	Sub allotment to PS/GPs share	200
			Expenses under designated head	100
PS	Allotment from ZP (FTA)	200	Transfer to designated account-contra	100
	PS share (Designated head-contra)	100	GP Share	100
			Expenses of own share	100
GP	Allotment from PS (FTA)	100	Transfer to designated account-contra	100
	Designated account (Contra)	100	Expenses of own share	100
	Grand Total	900		900

Audit scrutiny of Receipt & Payment Accounts of 15 ZPs (except Jalpaiguri, Birbhum and North 24 Parganas ZPs⁴) revealed that out of total receipt of grants of ` 918.67 crore in FTA, ` 915.76 crore was withdrawn from FTAs and transferred either to the designated accounts of the ZPs or to the FTAs of the lower tiers (PS/GP) during 2008-09. Hence, total receipt of grants as per the books of accounts of the PRIs was at least ` 1,834.43 crore (` 918.67 plus

³ Bardhaman, Paschim Medinipur, Siliguri Mahakuma Parishad, Hooghly, Murshidabad, Nadia, Purulia, Purba Medinipur, Dakshin Dinajpur, Howrah, South 24 Parganas, Bankura, Jalpaiguri, Cooch Behar, North 24 Parganas and Malda.

⁴ Jalpaiguri ZP did not prepare Annual Accounts, Birbhum ZP did incorporate the figure in their Accounts and figure of North 24 Parganas ZP was not available.

` 915.76) in 2008-09 against actual receipt of ` 918.67 crore. Thus, an inflation of at least ` 915.76 crore occurred in receipts during 2008-09.

Thus, the aforesaid defects in the electronic transfer of funds vitiated true and fair representation of the state of affairs regarding receipt of funds by the PRIs and utilisation of funds. This led to misrepresentation of absorption capacity of PRIs and performance of the PRIs as a whole.

2.10 Conclusion and Recommendations

Conclusion

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.

Recommendations

Concerted efforts should be taken to strengthen internal control and monitoring mechanisms, both at the level of the Panchayat and Rural Development Department, as well as individual PRI management level, relating to the following areas:

- Proper and timely maintenance of Accounts, preparation of realistic budget, reconciliation of differences between Cash Book balance and Bank Pass Book balances immediately and maintenance of basic records to ensure true and fair picture of the institutions;
- Speedy and timely recovery of revenue to achieve self-sufficiency;
- Identification and plugging of loopholes to safeguard against losses due to theft, defalcation of funds and other assets; and
- Timely internal audit and prompt action on the audit observations to assist the administration in the effective discharge of its responsibilities.