CHAPTER-II

Financial Reporting in Panchayat Raj Institutions

CHAPTER II

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

FINANCIAL REPORTING IN PANCHAYAT RAJ INSTITUTIONS

2.1 Framework

2.1.1 Financial reporting in the Panchayat Raj Institutions (PRIs) is a key element of accountability. The matters relating to drawal of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by the Zilla Panchayats (ZPs) and Taluk Panchayats (TPs) are governed by the provisions of the Karnataka Panchayat Raj Act, 1993 (KPR Act, 1993), Karnataka ZPs (Finance & Accounts) [KZP (F&A)] Rules, 1996, KPR TP (F&A) Rules, 1996, Karnataka Treasury Code, Karnataka Financial Code, Manual of Contingent Expenditure, Karnataka Public Works Accounts Code, Karnataka Public Works Departmental Code, Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

2.1.2 Annual accounts of ZPs and TPs are prepared in five statements for Revenue, Capital and Debt, Deposit and Remittance (DDR) heads as prescribed in Rule 37(4) and 30(4) of KZP (F&A) Rules, 1996 and KPR TP (F&A) Rules, 1996. Gram Panchayat (GP) accounts are prepared on accrual basis by adopting Double Entry Accounting System (DEAS) as prescribed under KPR GPs (Budgeting and Accounting) Rules, 2006 [KPR (GP B&A) Rules]. As per the recommendations of the Thirteenth Finance Commission, the PRIs have to prepare the accounts in the Model Panchayat Accounting System (MPAS) from 2011-12 as prescribed by the Government of India (GoI). The ZPs and TPs prepared the accounts in MPAS formats from 2011-12 but the GPs were yet to adopt the MPAS formats.

2.2 Financial reporting issues

2.2.1 Maintenance of accounts in Zilla Panchayats and Taluk Panchayats

The KPR Act, 1993 stipulates that annual accounts were to be prepared and got approved by the General body of the PRIs within three months from the closure of the financial year and were to be forwarded to the Accountant General/Controller of State Accounts for audit. Audit test-checked the records of four ZPs, eight TPs and 40 GPs for the period 2009-10 to 2013-14 to ascertain the proper maintenance of accounts and reporting thereon, as detailed in **Appendix 2.1**.

Audit observed that there were delays in preparation of accounts and its approval in all the three tiers of PRIs. The delay in approval of accounts was to the extent of 90 days in test-checked ZPs, 48 days in test-checked TPs and up to 130 days in test-checked GPs.

2.2.1.1 Deficiencies in ZP and TP accounts

The deficiencies noticed in accounts of ZPs and TPs during 2013-14 are detailed below:

- The State Government withdrew (October 2006 and June 2007) the Letter of Credit (LOC) system in Forest Divisions and Panchayat Raj Engineering Divisions (PREDs). Consequently, both the divisions stopped issuing cheques. However, annual accounts of 21 ZPs for the year 2013-14 reflected huge balances relating to earlier period as detailed in **Appendix 2.2**. This indicated that the ZPs had not reconciled the encashed cheques with treasuries, resulting in incorrect reporting of expenditure.

- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by the ZPs. However, 16 ZPs had not taken any action to clear the suspense accounts. The balances outstanding are detailed in **Appendix 2.3**.

2.2.1.2 Maintenance of Accounts by GPs

The State Government enacted the KPR (GP B&A) Rules, which provided for mandatory preparation of accounts based on DEAS in GPs on accrual basis with effect from April 2007. The State Government decided (July 2007) to avail of the services of Chartered Accountant (CA) firms to introduce DEAS in GPs.

- None of the test-checked GPs maintained General Ledger and Journal Books as envisaged in the KPR (GP B&A) Rules. Audit could therefore not ascertain the complete financial position of the GPs.

- As per KPR (GP B&A) Rules, annual accounts of the GPs shall be placed before the elected bodies for consideration and approval before 30 June of every year. However, the 13 test-checked GPs had not placed the annual accounts in DEAS before the elected bodies.

- The CAs were to train the GP staff in the software developed and ensure preparation of the accounts in DEAS for the year 2008-09 with the assistance of CAs and independently from 2009-10 onwards. However, staff of the selected GPs had not been trained and accounts were prepared with the assistance of CAs up to the year 2013-14.

2.3 Irregular utilisation of cess amount

GPs were required to collect various cess such as Health, Education, Library and Beggary at 15 *per cent*, 10 *per cent*, six *per cent* and three *per cent* respectively, on the amount of tax collected on land and buildings and were to remit them to the authorities[4] concerned within the time prescribed by the

[4] Education Cess - Education Department, Health Cess - Health Department, Beggary Cess- Directorate of Beggary and Library Cess - Department of Libraries

State Government after retaining 10 *per cent* of the cess collected as collection charges.

In the 40 test-checked GPs, ₹9.15 crore collected towards health (₹4.16 crore), education (₹2.76 crore), library (₹1.65 crore) and beggary (₹0.58 crore) cess during the period 2009-14 was utilised by the GPs without transferring the same to the authorities concerned, resulting in irregular utilisation.

2.4 Thirteenth Finance Commission grants

2.4.1 Delayed release of Thirteenth Finance Commission grants to PRIs

The Thirteenth Finance Commission guidelines stipulated that the grants received from GoI were to be transferred to PRIs within five days of their receipt by the State Government, failing which interest at Reserve Bank of India rate was to be paid for the delayed period. Audit observed that there were delays ranging from 1 to 48 days in crediting funds to individual bank accounts of PRIs. The interest of ₹5.03 crore for the delay in release of funds was not paid to PRIs by the State Government.

2.4.2 Incorrect reporting of expenditure

It was noticed during audit that ZPs had treated the amount released to implementing officers as expenditure in the Utilisation Certificates (UCs) furnished to Rural Development and Panchayat Raj (RDPR) Department for the year 2013-14. However, it was seen in the annual accounts of test-checked ZP, Bengaluru (Urban) that ₹2.78 crore was still lying (March 2014) with implementing officers. This had resulted in incorrect reporting of expenditure figures in the UCs.

2.5 Other issues

2.5.1 Non-withdrawal of unspent amount

The State Government *vide* Order dated 8 September 2004 split the ZP and TP funds into three categories *viz.*, Fund I (Funds related to Centrally Sponsored Schemes (CSS) and State share of CSS), Fund II (State grants) and Fund III (Own funds), and directed treasuries to write back the unspent amount available at the end of the financial year in Fund II account to Government account after reconciliation. However, the treasuries did not write back the unspent balance of ₹1,552.94 crore outstanding under Fund II accounts of ZP and TP for the year 2013-14.

2.5.2 Locking up of funds

An unspent amount aggregating ₹68.14 crore was lying in inoperative bank accounts of 28 ZPs as on 31 March 2014 pertaining to various closed/inactive schemes for the last one to five years and no action was taken by the ZPs to refund such unspent amounts to Government. This had resulted in locking up of Government funds to the extent of ₹68.14 crore.

2.6 Conclusion

The annual accounts of ZPs, TPs and GPs were submitted after due dates. Unspent amounts of scheme funds were locked up in inoperative bank accounts. Balances under suspense heads of accounts were not reconciled. The State Government had not written back unspent balances under ZP and TP funds. There was delay in release of Thirteenth Finance Commission grants to PRIs. GPs had irregularly utilised the cess amount collected without remitting it to authorities concerned.