

CHAPTER-2

Accounting procedures

In terms of recommendations of the 11th Finance Commission, Government of India, Ministry of Finance issued guidelines for utilisation of funds related to local bodies which envisage that C&AG of India should prescribe formats for preparation of budget and for keeping accounts. The format prescribed by the C&AG of India for maintenance of database by PRIs is yet to be adopted by the Government of West Bengal. The accounting formats for PRIs have been maintained in the form as prescribed by the State Government.

A number of cases of irregularities including non-preparation of annual accounts, amount spent without preparing budget or in excess of budget provisions, direct appropriation, non-reconciliation etc. were revealed in audit and are discussed in succeeding paragraphs.

GRAM PANCHAYATS

2.1 Non-preparation of annual accounts

Twenty nine GPs did not prepare Annual Accounts

According to the provision of the West Bengal Panchayat (GP Miscellaneous Accounts and Audit) Rules, 1990 (hereinafter referred to as “Accounts Rules”), Annual Statement of accounts of the GP should be prepared within 15 days from the end of each financial year. In contravention of the Rules, 29 GPs (**Appendix-I**) did not prepare the accounts for the year 2006-07.

2.2 Expenditure incurred without preparing budget

Seventeen GPs expended Rs 7.35 crore without budget allocation

Every GP has to approve and adopt by 31 January each year, the budget for the following financial year. No fund is to be released to the GP until the budget approved under the rule for the same financial year is received by the PS having jurisdiction over it.

Seventeen GPs (as detailed in **Appendix-II**) did not prepare, approve and adopt the budget for the year 2006-07 and unauthorisedly spent Rs 7.35 crore without any budget allocation during the year. In violation of the said rule, these GPs were also allotted funds during 2006-07.

In absence of any budget, the actual requirement of funds was not placed before the government and funds were released in a routine manner to these GPs.

2.3 Expenditure incurred in excess of budget provision

804 GPs expended Rs 58.03 crore without preparing revised budget estimates

Supplementary and revised budget estimates were to be prepared, if necessary, by seventh of February each year. But 804 GPs (as detailed in **Appendix-III**) spent a total of Rs 58.03 crore in excess of their respective budget provisions under different heads without preparing any supplementary and revised estimates during 2006-07.

2.4 Direct appropriation of revenues without depositing into bank account

According to Rule 4(2) of the Accounts Rules, the custodian of the GP Fund (i.e. the Pradhan) shall deposit all receipts of the Fund in a Savings Bank Account to be withdrawn therefrom as and when required subsequently. But it was seen in audit that 90 GPs spent Rs 73.34 lakh during 2006-07, out of the revenue collected by them from time to time without depositing the revenue collected into their respective Savings Bank Accounts in contravention of the said Rule (as detailed in **Appendix-IV**). It is evident that liquid cash was being handled without depositing them into the bank. This may lead to misappropriation and embezzlement of funds.

2.5 Non-reconciliation of cash balances

Non-reconciliation of cash balance of Rs 2.26 crore by 99 GPs

The Accounts Rules enjoin 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 by way of reconciliation. However, in 99 GPs, a total amount of Rs 2.26 crore remained unreconciled (as detailed in **Appendix-V**) at the end of the financial year 2006-07.

In the absence of reconciliation, it was difficult for audit to obtain a reasonable assurance regarding the accuracy of accounts of these GPs. Besides, absence of regular monthly reconciliation of cash balances is fraught with the risk of misappropriation of funds remaining undetected.

2.6 Non-realisation of revenue

Seventy one per cent of Demand remained unrealised in 3,185 GPs

The GPs were empowered to impose yearly taxes and duties and also levy rates, fees and tolls to augment their own revenue base. In 3,185 GPs, against a total cumulative demand of Rs 94.10 crore, Rs 66.89 crore could not be realised at the end of 2006-07. The unrealised amount constituted 71 *per cent* of the total demand (as detailed in **Appendix-VI**). Shortfall was due to lack of initiatives in augmentation of revenue, inadequate internal controls and a weak monitoring mechanism in the PRIs. Poor realisation of revenue adversely affects the capacity of the PRIs in strengthening their own revenue base.

2.7 Losses due to theft and defalcation of funds

Twenty four cases of loss were noticed in 24 GPs

Twenty four cases of loss in the shape of cash, foodgrains and office assets were noticed during 2006-07 in respect of 24 GPs (as detailed in **Appendix-VII**). The thefts/defalcations were possible due to non-adherence to financial rules and laxity in taking of adequate safeguards of the properties of the GPs against theft.

2.8 Non-maintenance of records/registers

The prescribed basic records like Demand and Collection Register, Appropriation Register, General Stock Register, Advance Register, Allotment Register, Works Register, Asset Register, Store Account Register etc. were to be maintained by every GP for its smooth functioning as well as for depicting a true and fair state of its affairs. Scrutiny of data by Audit from 3,348 GPs⁶ spread over 17 ZPs and one MP revealed that the GPs

⁶ Jalpaiguri Division: 715 GPs; Presidency Division: 1,108 GPs; Bardhaman Division: 1,525 GPs.

generally failed to maintain prescribed records and books pertaining to the year 2006-07 (as detailed in **Appendix-VIII**). Some of the important books and records that were not maintained include Demand and Collection Register, Appropriation Register, General Stock Register, Advance Register, Allotment Register etc.

2.9 Internal Audit

According to the Rules, the internal audit of the GP accounts was to be conducted by the respective Panchayat Accounts and Audit Officers (PA&AO) at least once in every month. Internal audit report should also be prepared by PA&AO for every three months ending on 30 June, 30 September, 31 December and 31 March of a financial year. It was seen that in 31 *per cent* of the total number of GPs, no such internal audit was conducted during 2006-07 (as detailed in **Appendix-IX**).

The slackness in internal controls is fraught with the risk of unauthorised withdrawals, non-detection of financial inaccuracies, non-detection of mis-utilisation of properties, etc. Inadequate internal audit can compound the risk.

ZILLA PARISHADS (ZP) AND PANCHAYAT SAMITIS (PS)

2.10 Non-preparation of annual accounts

Four PSs did not prepare Annual Accounts

According to Rule 209 (1) of the West Bengal Panchayat (ZP & PS) Accounts & Financial Rules, 2003 (hereinafter called the Accounts Rules), a monthly Receipts and Payments Accounts should be prepared within 15 days of the following month and the monthly receipts and payments accounts for the month of March shall become the Annual Receipts and Payments Accounts. In violation of the provision of the Accounts Rules, four PSs did not prepare the accounts during 2004-07 (as detailed in **Appendix-X**).

2.11 Expenditure incurred in excess of budget provision

Expenditure incurred in excess of budget provisions by 19 PSs and nine ZPs

Rule 18 of the West Bengal Panchayat (Budget & Appropriation of Fund) Rules, 1996 stipulates that supplementary and revised estimate providing for modification of budget of the PS should be prepared, if required, and approved before the first of March of the current year. But 19 PSs (as detailed in **Appendix-XI**) altogether spent Rs 1.46 crore during 2004-05, Rs 2.06 crore during 2005-06 and Rs 1.10 crore during 2006-07 in excess of their respective budget provisions under different heads.

Rule 30 also prescribes the time schedule for preparation, approval and adoption of budget of ZP. Nine ZPs (as detailed in **Appendix-XII**) altogether spent Rs 18.46 crore during 2006-07 in excess of their respective budget provisions under different heads without preparing any supplementary budget.

Non-preparation of budgets by adhering to the procedures deprived the PRIs of proper planning and budgetary control enabling optimum utilisation of available resources in the most effective and efficient manner.

2.12 Non-reconciliation of cash balances

The Accounts Rules stipulate that at the close of each month, the Bank account and the Local Fund account as reflected in the Cash Book, shall be

Non-reconciliation of Cash Book balance of Rs 4.01 crore and Rs 2.32 crore by 20 PSs and two ZPs respectively

reconciled with Pass Books of the Bank and of the Treasury. But, scrutiny revealed that during 2006-07, 20 PSs (as detailed in **Appendix-XIII**) did not reconcile their balances as per Cash Book and Pass Book. A difference of Rs 4.01 crore during 2006-07 in respect of the PSs remained unreconciled as at the end of 31 March 2007. Similarly, a difference of Rs 2.32 crore during 2006-07 in respect of two ZPs remained unreconciled (as detailed in **Appendix-XIV**).

Thus, the un-reconciled balances reflect lack of internal control and project an incorrect financial status of the ZPs and PSs. Consequently, the risk of fraud/embezzlement and mis-appropriation of funds cannot be ruled out.

2.13 Losses due to theft and defalcation of funds

Loss of cash and kinds in four PSs and in one ZP

Four cases of loss of cash and foodgrains including office assets were noticed during 2006-07 in respect of PSs (as detailed in **Appendix-XV**). FIR was lodged by Bankura ZP for missing of 840 steel plates, valued at Rs 1.26 lakh, from ZP's Rural Electrification Development Corporation (REDC) godown in November 2006.

Being custodians of these assets and funds, these losses prove that the PSs and the ZP could not discharge their responsibilities by taking adequate safeguards. In addition, weak internal controls stir up such serious lacunae in the system.

2.14 Non-maintenance of records/registers

Scrutiny of data from 181 PSs, 17 ZPs and one MP revealed that PSs⁷ and ZPs⁸ under three divisions, as detailed in **Appendix-XVI** and **Appendix-XVII**, were found to have failed to maintain prescribed records and books such as Demand and Collection Register, Appropriation Register, Stock Register, Advance Register, Asset Register, Deposit Ledger etc.

In absence of mandatory subsidiary records, true and fair view of the use of resources and assets could not be ascertained. Proper maintenance of basic records should be ensured to avoid any incorrect reporting of the achievements to the Government.

⁷ No. of PSs that failed to maintain records:

Demand and Collection	112	Asset	80	Advance	48	Adjustment	4
Appropriation	34	Annual Accounts	20	Investment	30	Movable/Immovable properties	85
Unpaid Bill	59	Stock Register	41	General	67	Establishment Check	25
Works/Scheme	51	Deposit Ledger	52	Liquid Cashbook	73		

⁸ No. of ZPs that failed to maintain records/registers

Demand and Collection	9	Asset	6	Stock	1	Deposit	2
Appropriation	8	Advance	1	Works/Scheme	6	Movable and Immovable Properties	7
Unpaid	7	Establishment	1	Investment	4		

2.15 Internal Audit

Rule 212 of the Accounts Rules provide that internal audit of the accounts of PSs should be conducted by the end of each quarter by the Samiti Accounts and Audit Officer. However, no internal audit was conducted in 77 PSs during 2004-05, 57 PSs during 2005-06 and 37 PSs during 2006-07 (as detailed in **Appendix-XVIII**) and seven ZPs⁹ in 2006-07.

During test check of 16 PRIs between August 2008 and October 2008, it was noticed that for the period from 2004-08, internal audit was not conducted at all in eight PSs¹⁰. Seven PRIs¹¹ did not place the internal audit report in the *Artha Sthayee Samiti* meeting for discussion while eight PRIs did not take any action in compliance of the observations raised therein. Nine PRIs¹² did not prepare replies to the observations and as such the same were not sent to the State Government. It was also pointed out that the audit reports contained observations on various recurring irregularities such as irregularities in maintenance of Cash Book, non-preparation of Bank Reconciliation Statement, irregularities in execution of various schemes including Centrally Sponsored Schemes, important registers not being maintained, irregularities regarding budget etc.

Thus, laxity in appraisal activity with reference to plans, programmes, rules and regulations resulted in increased risk of non-performance of the PRIs. Lack of compliance to the audit observations is also a serious lacuna in the internal control mechanism of the P&RDD.

2.16 Conclusion and Recommendations

Conclusion :

The 'own fund revenue' constitutes a very small percentage of the total revenue from all sources of the PRIs. The PRIs spent considerable funds without preparation, approval and adoption of budget. 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 unreconciled at the end of the year. Absence 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.

⁹ Birbhum, Dakshin Dinajpur, Hooghly, Murshidabad, Nadia, North 24 Parganas and Paschim Medinipur.

¹⁰ Chakdah, Nakashipara, Bongaon, Jalangi, Krishnaganj, Haringhata, Sagar and Berhampur.

¹¹ Murshidabad ZP, Bankura ZP, Amta-II PS, Berhampore PS, Sagar PS, Bongaon PS and Chakdah PS.

¹² Bankura ZP, Cooch Behar ZP, Murshidabad ZP, Haringhata PS, Amta-II PS, Berhampore PS, Sagar PS, Bongaon PS and Chakdah PS.

Recommendations :

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

- Maintenance of accounts and accounts records should be enforced through a comprehensive system of incentives/disincentives and accountability.
- Financial discipline and control should be monitored through a computerised monitoring system and accountability for irregularities, including budgeting digressions should be enforced.