CHAPTER II

Financial Management of PRIs

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The Panchayati Raj Institutions in West Bengal are governed by the West Bengal Panchayat Act, 1973. Under the provisions of this Act, the West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Financial Rules, 2003 and the West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007, have been formulated, to promote proper accounting procedures and act as a control mechanism for financial affairs in Panchayati Raj Institutions. This Chapter presents a synoptic account of compliance deviations in the context of these Rules, leading to violation of general principles of financial management. Though the observations detailed in the succeeding paragraphs are primarily based on the findings of audit of PRIs (18 Zilla Parishads, 61 Panchayat Samitis, 24 Gram Panchayats) by the Examiner of Local Accounts (ELA) during FY 2020-21, the ELA had to depend on information furnished by the Panchayat & Rural Development Department or individual PRIs, on matters not forthcoming from the records available/ produced during field inspection.

2.1 Computerisation and Preparation of Annual Accounts

The Panchayat and Rural Development Department (P&RDD) has developed and implemented two application softwares, *viz*., the Gram Panchayat Management System (GPMS), in FY 2003-04, for preparation and maintenance of accounts in Gram Panchayats (GPs) and the Integrated Fund Monitoring and Accounting System (IFMAS), in FY 2004-05, for preparation and maintenance of accounts in Zilla Parishads (ZPs) and Panchayat Samitis (PSs), respectively.

- Receipt and Payment Accounts of all the 18 audited ZPs, for FY 2019-20, had been generated through the IFMAS.
- Receipt and Payment Accounts of all 61 audited PSs, for FYs 2013-14 to 2019-20, had been generated through the IFMAS.

The 'Annual Statements of Receipt and Payment' (Form-27) of 24 Gram Panchayats (GPs), audited by the ELA, showed that all GPs had prepared their accounts through the GPMS.

2.2 Non-accounting of Collections and Direct Appropriation thereof

Rule 4(5) of the West Bengal Panchayat (Zilla Parishad & Panchayat Samiti) Accounts and Financial Rules, 2003, stipulates that all sums received by or on behalf of the ZP, from the State Government or collected through its own resources, should be credited to the Local Fund Account and vested with the ZP, in terms of Sub-section (4) of Section 179 of the West Bengal Panchayat Act, 1973. Further, Rule 5(1) of the said Rules requires that all sums (*e.g.* rents receivable from ponds, ferries, fisheries or any other asset or property of the ZP/PS), receivable by the ZP/PS and collected by a person authorised by the ZP/PS, should be deposited in cash, to the cashier, on proper receipt, for crediting the same, within one working day, to the appropriate ZP/PS fund. Rule 5(2) *ibid* specifies that all sums, collected by a person authorised by the ZP/PS, shall be remitted in full to the fund and no portion thereof shall be appropriated directly towards expenditure of the ZP or the PS.

Scrutiny of accounts of nine PRIs[20] showed that these PRIs had accounted for ₹663.97 crore, received from MGNREGS and Swachh Bharat Mission, till FY 2019-20, in separate Cash Books (other than the Main Cash Book), and had not included the same in the accounts of the PRIs concerned. This had resulted in understatement of the receipts of these PRIs. Moreover, Dakshin Dinajpur ZP had directly appropriated ₹18.74 lakh, towards expenditure on procurement of raw materials, wages of daily labour *etc.*, in contravention of Rule 5(2) *ibid.*

Such non-accounting of receipts and unauthorized appropriations thereof, represented financial indiscipline and resulted in understatement of receipts and related expenses in the annual accounts. Despite similar audit observations on this issue in earlier ELA Reports, the practice continued.

2.3 Expenditure Incurred without Budget or more than Budget

Section 137 of the West Bengal Panchayat Act, 1973, prescribes that no expenditure should be incurred unless the budget has been approved by the ZP/PS. Further, Rule 9(4) of the West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Budget Rules, 2008, stipulates that supplementary and revised budgets should be prepared and approved, on or before 28 February, of the respective financial years.

Scrutiny of 'Receipt and Payment Accounts' and Budget statements of PRIs, revealed that, during FY 2019-20, five PRIs[21] had incurred expenditure of ₹ 49.50 crore, from various funds *viz.* PMAY-G, Gitanjali, Total Sanitation Campaign (TSC), 3rd State Finance Commission (SFC), Border Area Development Programme (BADP) etc., without any corresponding budget provisions.

The above cases are indicative of financial indiscipline in the PRIs, as well as deficiencies in the analysis of previous years' trends and assessment of requirement of funds by the PRIs. In spite of the matter being pointed out by Audit, in earlier ELA Reports, these irregular practices had continued.

2.4 Discrepancies in the Reconciliation of Cash Balances

Rule 14 (3) of the West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Financial Rules, 2003, prescribes that the bank account and the Local Fund Account, as reflected in the Cash Book of ZP/PS, should be reconciled with the pass books of the bank and of the treasury, at the close of each month. Similarly, Rule 6(5) (C) of the West Bengal Panchayat

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[20] ***ZPs (₹ in cr)***: *Jalpaiguri (₹ 115.93), Coochbehar (₹ 150.08), Murshidabad (₹ 19.40), Purba Bardhaman (₹ 29.94), Purulia (₹ 210.19), Dakshin Dinajpur (0.77), Paschim Mednipur (₹ 86.37) and Hooghly (₹ 3.25)*
PS (₹ in cr): *Dhupguri (₹ 48.04)*

[21] ***ZPs (₹ in crore)***: *Jalpaiguri (₹ 10.50), Uttar Dinajpur (₹ 26.79), Purulia (₹ 5.71) and Nadia (₹ 1.36)*
PSs (₹ in crore): *Barasat II (₹5.14)*

(GP Accounts, Audit and Budget) Rules, 2007, prescribes that a Bank Reconciliation Statement should be prepared at the end of each month, in respect of each bank account.

Despite recurrent audit observations on unreconciled Bank Reconciliation Statements (BRSs) in previous ELA Reports on PRIs, it was noticed that, out of 103 audited PRIs, during 2020-21, 17 PRIs (though they had prepared the BRS), had not reconciled the differences between the closing balances of cash books and those of the bank/ treasury pass books as detailed below:

(i) in 11 PRIs (two ZPs, and nine PSs), as of 31 March 2020, an amount of ₹29.46 crore, had not been reconciled. ***(Appendix-IV)***

(ii) in six PRIs (four ZPs and two PSs)[22], the unreconciled amounts had not been quantified, in the absence of relevant records.

This was due to various reasons such as non-updation/non-availability of bank/ treasury pass books, as of 31 March 2020, and non-verification of closing balances of inoperative bank accounts. Further, reconciliation of four PSs[23] could not be verified, as the respective PSs had not furnished copies of their Bank and Treasury Passbooks to Audit.

Thus, the accounts of these PRIs lacked accuracy and reliability, as discrepancies about their cash balances had not been reconciled.

2.5 Inadequate Collection of Revenue

(A) Collection of Land and Building Tax: Efficient mobilisation of revenue from own resources helps a local body in achieving self-sufficiency. Section 46 of the West Bengal Panchayat Act, 1973, stipulates that a GP shall impose yearly tax on the land and buildings within its jurisdiction. Rule 10 of the West Bengal Panchayat (GP Accounts, Audit and Budget) Rules, 2007, prescribes that the *Artha-O-Parikalpana Upa-Samiti* of a GP shall be responsible for supervising and monitoring the process of imposition and collection of taxes.

Scrutiny of information relating to collection of taxes by the GPs, revealed that the total collection, during FY 2019-20, had merely been 51.62 *per cent* of the total cumulative demand. Details of collection of land and building tax by GPs, are given in ***Appendix-V.***

As land and building tax constitutes a major part of the 'Own Source' revenue of GPs, imposition, demand and collection of the same needs further prioritization, from the viewpoint of enhancement of the financial capability of the *Gram Sansads*[24], for taking up locally felt development works.

(B) 'Own Source' Revenues: In terms of Sections 133 and 181 of the West Bengal Panchayat Act, 1973, PRIs may levy tolls on vehicles on any road, bridge and ferry service, vested/ established by them or under their management. When the assets or properties, owned, vested or under the control of panchayat bodies, are leased out for fixed revenue, the recoveries for such

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*[22] **ZPs**: Malda, Purulia, Jalpaiguri and South 24 Parganas; **PSs**: Uluberia-II and Magrahat-I*

[23] Cooch Behar I, Magrahat I, Pursurah and Uluberia II

[24] As per Rule 2(11B) of the West Bengal Panchayat Act, 1973, "Gram Sansad" means a body consisting of persons registered at any time in the electoral rolls pertaining to a constituency of a Gram Panchayat.

leased out properties are to be considered as fixed demand and should be recorded in the Demand and Collection Register.

Scrutiny of Demand and Collection Registers showed that 62 PRIs had not collected ₹ 15.80 crore, as of March 2020, due on account of lease money, from market complexes, *ferry ghats, bungalows, mela* grounds and stalls, establishment charges etc. Further, the Demand and Collection Registers of these PRIs had not been updated regularly and authenticated by the competent authorities, to watch over the demands of revenue. Reasons for such deficiencies had neither evident from records, nor had they been intimated to Audit, though sought for.

Thus, the aforementioned PRIs had failed to collect 'Own Source' revenue, amounting to ₹ 15.80 crore, which could have been useful in strengthening their finances, for development of the local areas, as also in alleviating their persistent dependence on Government grant. Details of such non-collection, are given in ***Appendix VI.***

2.6 Idle Grants

In terms of Rules 36(4) and 116(5) of the West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Financial Rules, 2003, funds received for implementation of schemes and development works/ assigned schemes, from the State Government, should be utilised without any delay, preferably within a period of six months and utilisation certificates should be furnished within six months from the dates of receipt of the grants.

Scrutiny of Cash Analysis Reports showed that 29 PRIs had not fully utilized grants amounting to ₹ 20.03 crore, received for execution of various schemes/grants like Community Health Care Management Initiative (CHCMI), Sampoorna Grameen Rozgar Yojana (SGRY), Provident Fund for Landless Agricultural Labourers (PROFLAL), State Finance Commission (SFC), National Rural Health Mission (NRHM) etc., for the period ranging from FYs 2007-08 to 2019-20. Failure to utilize grants amounting to ₹20.03 crore, by the PRIs, had deprived the targeted population, of the intended benefits of these schemes/grants.

These PRIs had not formulated appropriate plans or schemes, to utilise these funds for development works and also had not surrendered the unutilised funds, to the grant sanctioning authorities. This was also indicative of inadequate pursuance by the fund sanctioning departments, in ensuring actual utilization of development grants. Details of PRI-wise Idle Grants are enumerated in ***Appendix VII.***

2.7 Cash Payments exceeding permissible limits

Rule 9(7) of the West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007, and Rule 6(3) and 6(4) of the West Bengal Panchayat (Zilla parishad and Panchayat Samiti) Accounts and Finance Rules, 2003, state that Payments against supplier bills are to be made through Account Payee Cheques, provided that: (i) payments against such bills may be made in cash, when the sums payable are less than rupees five hundred (ii) when such sums payable are rupees five hundred or more, but less than rupees two thousand, payments are to be made through cheques, not necessarily account payee cheques (iii) when such sum payable amount to rupees two thousand or more, the payments, in all circumstances, are to be made through Account Payee cheques.

Scrutiny of records revealed that, in regard to the abovementioned rule, nine[25] PRIs had made payments amounting to ₹ 13.47 lakh, in cash, instead of making them through Account Payee Cheques, thereby violating the principle of transparency in the disbursement and utilization of public money.

2.8 Lapsed cheques valuing ₹ 6.73 crore not written back into Accounts

Rule 27(4) of the West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Financial Rules, 2003, stipulates that, if a cheque is not encashed within three months or six months of its issue, as the case may be, such a cheque should be cancelled and the amount should be taken back to the accounts, under the appropriate head of account from which the cheque was drawn, after keeping note on the counterfoil and the voucher.

Scrutiny of Cheque Issue Registers of showed that seven PRIs[26] had not adhered to the above rule and had not written back, in their accounts, the value of 306 cheques, amounting to ₹ 6.73 crore, issued between September 2004 and March 2020.

As a result, the actual fund balance of those PRIs had remained understated, as the amount covered under the lapsed cheques had not been taken back into their accounts. Further, the said amount of funds remained idle to that extent, as the PRIs had not been in a position to utilize the same.

2.9 Diversion of Funds

Rules 8 (3) and 110, of the West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Financial Rules, 2003, stipulate that no portion of any loan, special grant or contribution, may be appropriated, even temporarily, for any purpose other than that for which it was intended, without the approval of the concerned person, institution, local authority or the State Government sanctioning such fund.

Scrutiny of records of 103 PRIs had revealed that in four PRIs[27], an amount of ₹ 21.89 crore, had been diverted (during 2013-2020) from one scheme/grant head (Ganga Action Plan, 3rd SFC, *Amar Thikana*[28] *etc.*), to other scheme heads (SBM, PMAY (G), *Sabuj Sathi*[29] *etc.*), in violation of the abovementioned Rule.

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[25] ***GPs/Amount in Lakh***: *Antpur/2.46, Chiladangi/0.07, Ghospur/0.48, Khanakul II/2.16, Khelar/0.62), and Tararui/0.45 during 2018-19*

PSs/Amount in Lakh: *Domjur/3.40 during 2016-21, Bamangola/3.70 during 2014-20 and Barasat-II/0.13 during 2015-20.*

[26] ***ZPs (No. of Cheques/Amount in lakh):*** *Bankura (5/1.66), Birbhum (61/66.78), Coochbehar (52/370.72), Murshidabad (12/2.12), Malda (1/1.08), Paschim Medinipur (171/229.98) and Purba Medinipur (4/0.82)*

[27] ***ZP /amount in crore***: *Murshidabad/21.50*

PSs /amount in lakh: *Panchla/1.88, Dhupguri/23.17, and Balagarh (13.70)*

[28] *A scheme named "ASHRAY" under IAY pattern being implement by P&RDD which was later renamed as "AMAR THIKANA". The scheme was discontinued and merged with "GITANJALI" w.e.f. 01.04.2014 vide Memorandum no. 382-HI/HG/P/1B-5/2013 dated 29 May 2014.*

[29] *Sabuj Sathi: A scheme launched by Govt. of West Bengal for distribution of bicycles to an estimated 40 lakh students studying in classes IX to XII in Government Schools, Government Aided Schools and Madrasas of the State.*

Three PRIs (Murshidabad ZP, Balagarh PS and Panchla PS) had admitted the observation. The Dhupguri PS had not furnished any reply.

2.10 Non-Production of Records

Rule 218(3) of the West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Financial Rules, 2003, states that it shall be the duty of the Executive Officer as well as the Drawing and Disbursing Officer of the Zilla Parishad or the Panchayat Samiti, as the case may be, to ensure the personal appearance of and or supply of the records, documents, explanation etc., for the work or job of the technical and or non-technical official, before the audit or immediately, on the spot, during the course of audit. Rule 28(4) of the West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007, states that the auditor shall have the authority to ask for production of any document, including the internal audit report and any information which may be necessary for the purpose of audit.

Despite this, four[30] PRIs, failed to provide various records, like the Works Registers of the MGNREGS, Fourteenth Finance Commission Funds and Total Sanitation Campaign, e-tender documents, Resolution of Form 27[31] *etc.*, amounting to ₹ 4.44 crore, to Audit.

As a result, the veracity of various documents maintained by these PRIs, could not be verified in audit.

Amta-II PS and Shyampur-II PS admitted the observation and cited various reasons like engagement of concerned officer in Election duty during audit or engagement of different agencies for implementation of work etc. The replies are not tenable, as the records belong to the PRI and should have been in the office premises irrespective of officer/ officials dealing the job. The remaining PRIs[32] did not furnish any reply.

[30]***PRI/amount in lakh: PSs**: Amta II/206.5, and Shyampur II/142.66 **GPs**: Kshirgram/7.11, and Negun/87.44*

[31] *As per Rule 27(2) and 27(3) of West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007, the Executive Assistant shall prepare the annual statement of receipts and payments encompassing the receipts and payments in Form 27 by 15th April every year for the preceding year. The Pradhan shall place it before the Artha-O -Parikalpana Upa-Samiti for discussion and acceptance and thereafter shall place the approved statement in the next general meeting of the Gram Panchayat for deliberation and approval by 30th April every year. Hence resolution of this meeting is an important document in preparation of accounts.*

[32] *Kshirgram GP and Nigan GP*