

A Study on financial accountability and accounting system of Rural local Government of Odisha

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ABSTRACT

The 73rd constitutional amendment of India in the year 1992 directed towards the self governance of Panchayats and granting them a dignified power in rural local governance. Therefore, the way of 'federalism' of Indian constitutions start journey in the rural India by decentralization of rural local governments in the form of reinforcing allocation of financial and administrative powers from States to local governing bodies and an exclusive jurisdiction for each Panchayat, with autonomy and power to govern respective area. Thus, Panchayats have a distinct status in the eyes of Indian Constitution. The financial resources of rural local government are scarce, and unable to meet the expenditure requirements, and therefore the dependence on other two upper tiers of government is substantial. There are also requirement of ideal accounting System for accountability. Many of the researchers have been studied in the field of self governance and financial accountability of rural local government in India but no remarkable study have been conducted on the self governance and financial accountability of rural local government of Gram Panchayats of Odisha. So, this is an attempt to study the rural financial accountability and accounting system adopted by Gram Panchayats in Odisha. The present study is based on secondary data. The secondary data have been collected through well designed strategy and these have been collected from various e-journals, e-magazines, e-annual reports of companies and from various reputed websites. The collected data have been classified and tabulated according to the requirements of the study. There are various statistical tools like percentage calculations; valid percentage calculation, etc. have been used for the analysis and interpretation of data. The present study has concluding remark that the rural local government has self governance power but has scares financial resources to meet various expenditures. This study also concluded that there are too many cases of weak accounting, inadequate internal control systems and related irregularities.

Key Words: Financial accountability, internal control systems, Gram Panchayats, Federalism, and Accounting System.

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INTRODUCTION

The Gram panchayats suffered from some serious issues like irregularities in elections, extended supersession, inadequate representation of the weaker sections like scheduled castes and tribes, lack of delegation of powers, and insufficient financial resources till 1991. In light of these concerns, Article 40 of the Constitution brought in the aspect of State government taking steps to provide powers and authority to village panchayats, so as to enable them to function as units of self governance. Over the years, it was observed that Gram Panchayats deserved constitutional status, so that they could function as local agents

of economic and social development. The 73rd constitutional amendment of India in the year 1992 directed towards the self governance of Panchayats and granting them a dignified power in rural local governance. Some features of the 73rd amendment relating to self governance of rural local governance included elections every five years, with supersession not exceeding six months, reservation of seats for scheduled castes, tribes, and women; and providing adequate finance to the Panchayats through securing authorization from State legislature.

Panchayat Raj Institutions (PRI)/ Gram Panchayats are the local governments in the rural areas and have been an integral part of the Indian rural society, although in different forms from time immemorial. The Constitution of India recognized their presence as far back as 1948 that the State shall take steps to organize village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self government.

The 73rd Constitutional Amendment was a formal instrument introduced by the Central Government in 1992 and was blessed by the State Assemblies, to introduce a minimum level of rural decentralization uniformly across the States in the form of self governance power and financial accountability in the rural local government i.e. Gram Panchayat of Odisha.

The Constitution Amendment mandates political empowerment of the PRIs leaving issues of design and implementation on sectoral, administrative and fiscal aspects of decentralization to the States. In Odisha, the State Assembly passed the required conformity Acts in 1994, 1995 and 1997 to set in place the present form of the 3-tier system of Panchayati Raj consisting of Zilla Parishad at the district level (ZP), Panchayat Samiti at the block level (PS) and Grama Panchayat at the village level (GP).

The Odisha Grama Panchayat Act, 1948 is the first legislation prescribing the constitution, power and functioning of Grama Panchayat in the State. In the year 1950-1951, 500 Grama Panchayats were set up in different areas of the State. During the period from 1958 to 1961 Community Development Blocks were established in the State in selected areas. Odisha Zilla Parishad Act was enacted in the year 1959 but Zilla Parishads were not constituted immediately. Subsequently Zilla Parishad Act was amended and titled as the Odisha Panchayat Samiti and Zilla Parishad Act, 1959 in the year 1961 (Orissa Act 24 of 1961). In the year 1961, three-tier system of PRIs was established in the State covering all the villages.

PROBLEMS OF THE STUDY:

1. Financial flows are limited in all rural local government i.e. Gram Panchayats.
2. All Gram Panchayats having traditional financial instruments in light of development functions.

REVIEW OF LITERATURE:

The institution of local government has a long history in India. Even in ancient India, there were various types of local government institutions including Panchayats. But during the Mughal period, the local government units greatly deteriorated. Even in the time of East India Company and during the early British suzerainty, the local bodies decayed considerably. But it cannot be gainsaid that these local government institutions acquired representative character during the British period and the municipal institution are the legacy of British administration. Literature on Gram Panchayats administration is scattered in a large number of public documents, research and other academic documents and descriptive writings of national leaders and administrators associated with the Gram Panchayat institutions.

Ryan, C., Dunstan, K. and Stanely, T (2000) in their paper “local government accounting standard-setting in Australia: Did constituents participate?” examined constituent participation in the ‘due process’ for the first public sector accounting standard, that for local government (AAS 27). They concluded that account preparers were underrepresented in their responses and used less sophisticated lobbying strategies than other respondents. The research also concluded that some constituents had favorable access to the ‘due process’, and that standard setters did not receive all pertinent information from constituents.

Kumar, P., Kumar, D. and Kumar, N. (2013) in their research paper “ICT in Local Self Governance: A Study of Rural India” studied the necessities of ICT in self governance of rural local Government in India. They concluded that ICT emerged as a tool for reinforcement of local self-governance.

Grossi, G. and Mori, E. (2014) in their research paper “From Consolidation to Segment Reporting in Local Government: Accountability Needs, Accounting Standards, and the Effect on Decision-Makers” studied the need for accountability and decision-making in a theoretical framework, gives account of a pilot project realized by the municipality of Reggio Emilia, which introduced CFSs and segment reporting. They concluded that in preparing segment reporting, new accounting methods and performance measurement systems need to be introduced into public management also by fulfilling politicians.

Nena, S. (2014) in her research paper “An Empirical Study on Financial Performance of Corporations of Gujarat State” studied the govt. system of accounting and fund management of local bodies. She concluded that local bodies should follow & maintain uniform accounting practices, more efforts, controlling measures, efficiency & transparency while preparing budgets, They should prepare uniform formats of budgets & uniform classification of different heads of revenues & Capitals.

P. Sujatha (2016) in her research paper “Accounting and Audit System in Urban Local Governments in India” studied the accounting and audit system in urban local govt. in India. She concluded that accounts of each scheme/project are required to be kept separately. Utilization Certificates are required to be sent to Central Government for centrally sponsored schemes and to State Government for State schemes.

RESEARCH GAP OR RELEVANCE OF THE STUDY:

A no. of good research has been conducted and also published on the self governance and the financial accountability of local government in India. But there is no research has been made on self governance and financial accountability of rural local government i.e. gram panchayats of Odisha.

OBJECTIVE OF THE STUDY:

1. To examine the financial accountability of the rural local government of Odisha.
2. To analyse accounting system adopted by Gram Panchayats for accountability.

RESEARCH METHODOLOGY:

The study is based on secondary data. The secondary data have been collected from e-journals, e-magazines, e-annual report, from different websites etc. The above data have been collected in the month of May and June 2017. There are various tools like percentage calculations; valid percentage calculation, etc. have been used for analysis and interpretation of results.

HYPOTHESIS OF THE STUDY:

H1: The local governments of Odisha have power of self governance.

H2: There are irregularities in financial accountability of local government of Odisha.

DATA ANALYSIS AND INTERPRETATION RESULT:

PRIs are directly under the general supervision and control of the State. The first State Finance Commission was set up in 1996 to make recommendations as regards the financial powers of the panchayats.

Table No. 1: The present three-tier structure in Odisha

	Location	Nos
Zilla Parishad	At Districts	30
Panchayat Samiti	At Blocks	314
Gram Panchayat	At Villages	6,234

(Source: Panchayat Raj Department, Odisha)

1. Accounting System for GPs

The Ministry of Panchayati Raj, Government of India after consultative process with C&AG and State Governments prepared a Accounting System for the Panchayati Raj Institutions to ensure transparency and accountability in the operations of the financial transactions in Panchayats.

The simplified accounting formats were circulated among the members of the sub-committee, and were subsequently approved on 15th January, 2009. These formats are simple to implement and by adopting them states will have better financial control over and will gain in terms of better financial management and greater creditability.

2. Features of Accounting System

The accounting practices prescribed for PRIs are by and large; akin to the accounting practices followed by the State Governments which are as follows.

- Ø Each institution i.e. Zilla Parishad/Mandal Parishad / Gram Panchayat is an accounting entity.
- Ø The accounts are kept on cash basis.
- Ø The financial transactions are classified on three tier structure i.e. Functions (major head), programs/ schemes (minor head) and objects (object head)
- Ø The nomenclature of the Major Heads is kept identical to the 29 functions listed in the Eleventh Schedule of the Constitution.
- Ø Sub-heads have been prescribed for classification of scheme under appropriate function.
- Ø States may choose and operate those major/minor heads as required in their particular context without changing the overall structure.
- Ø There is a strong relationship between accounting and budgeting and the accounting system provides the basis for appropriate budgetary control.
- Ø The institutions are not required to prepare a balance sheet and the details of assets are kept in the subsidiary registers and records of the PRI
- Ø The Receipts and Payments Accounts would incorporate revenue and capital, deposits, loans and advances and remittances.
- Ø Period of accounts is a financial year ending 31st March.

The Accounts are to be kept in two parts,

Part - I: To record transactions of all receipts and expenditure relating to Panchayats Fund

Part - II: To record transactions relating to Provident Funds, Loans, Deposits and Advances.

3. Codification in Chart of Accounts

The purpose of Codification is to better organize accounting principles and laws to simplify user access. The synchronization of the 'PRIASOFT' with the accounting codes will lessen the risk of noncompliance of accounting standards and policies.

The following changes are incorporated in the model accounting system as compared to the new accounting formats introduced earlier.

- ü First tier i.e. Major Head (four-digit) represent functions enumerated in the Eleventh Schedule of the Constitution.
- ü Second tier i.e. Minor Head (three-digit) represent activity/programme of the functions.
- ü Third tier i.e. Object Head (two-digit) represent the object of receipts/ expenditure.
- ü A two digit sub-head is introduced to distinguish the grants released by central and state governments. Considering the number of state schemes Alpha-numeric sub-heads can be operated for state schemes.

4. Registers prescribed.

Under accounting system 8 formats are now recommended instead of 16 prescribed earlier. Maintenance of these Registers would eventually help in shifting over to Accrual System of Accounting. The theoretical frame work of accounts developed for PRIs laid a strong foundation for the preparation and maintenance of accounts and their audit.

- § The prescribed receipts and payments formats, along with statement of demand collections, and assets, address critical aspects of the accounts.
- § The formats depict all the (29) functions listed in the Eleventh schedule to the constitution and show funds transferred to PRIs under various programmes and schemes.
- § The accounts and the budget formats are synchronized and linked to the functions performed by the PRIs
- § The codification prescribed makes the accounts amenable to computerization for building up a database and generation reports for effective monitoring.

Sl. No.	Form No.	Name of the Register
1.	Form – I	Monthly/Annual Receipts and Payments Account
2.	Form - II	Consolidated Abstract Register
3.	Form - III	Reconciliation Statement with Bank and Treasury
4.	Form - IV	Statement of Receivable and Payable
5.	Form – V	Register of Immovable Property
6.	Form - VI	Register of movable Property
7.	Form - VII	Inventory Register
8.	Form - VIII	Register of Demand, Collection and balance

PRIASOFT

Panchayati Raj Institutions Accounting Software is a web-based e-governance application, developed by National Informatics Centre, Ministry of Information Technology, and Govt. of India for Panchayati Raj Institutions to effectively monitor and manage their accounts. It addresses the monitoring of funds at three-tier Panchayati Raj Institutions (PRI) under different account heads, on a month end basis. Its objective is to facilitate better financial management of Panchayati Raj Institutions (PRIs) by bringing about transparency and accountability in the maintenance of accounts thereby leading to better credibility and ultimately strengthening of PRIs. The citizen section of the application provides financial information to the public whereas the government section captures data and generates MIS reports in the specified format as per the need at the state, district, block and GP levels. The project has been operational since 2003.

Need for a Accounting Software

Keeping with the spirit of the Constitutional amendments and the philosophy of decentralization which recognizes that grassroots level participation and implementation is the very essence of good governance; Panchayats are being increasingly invested with responsibility of implementation of many schemes and programmes. But In order to deal with this challenge the Panchayats lacked the technical knowhow and the ability to manage these funds. Some of the key audit concerns brought out in CAG's Reports are summarised below:

1. Budgeting

- v Weak budgeting and budgetary control.
- v Budget proposals not approved by the PRIs/gram Sabha.

- v Due to non-formulation of annual plan in time majority of local bodies could not incorporate estimates of receipts and payments relating to Plan schemes in their budgets and local bodies incurred plan expenditure without budget approval.

2. Postings in Cash Book

- v Differences in opening and closing balances.
- v Non-account of receipts.
- v Incorrect and incomplete postings.
- v Non- reconciliation of cash book with bank pass book.

3. Accounts

- v Delay in preparation of monthly and annual accounts
- v Lack of up to date accounts by the local bodies leading to incomplete picture of their financial position.
- v Non maintenance of accounts in the Accounts Formats prescribed by CAG rendering comprehensive analysis of the finances and expenditure difficult.
- v Local bodies are yet to create the database on finances prescribed by CAG. In some States this work has been entrusted to consultants.
- v Lack of a centralized agency for consolidation of accounts and creation of a comprehensive database on finances of local bodies.

4. Utilization of funds

- v Incomplete works.
- v Fraudulent/irregular/excess payment noticed during test check of muster rolls.
- v Release of excess grants leading to increased unutilized balances.
- v Non – adjustment of Abstract contingent Bills.
- v Non- maintenance of property records – risk of encroachments/ mis-utilization.
- v Sums due to Gram Panchayats not transferred by ZPs
- v Diversion of expenditure for schemes to other purposes/ schemes.
- v Weak material management – absence of periodical stocktaking; reconciling shortages; purchases without tenders/ quotations.

5. Internal controls

- v Lack of internal controls in the areas of budgeting, procurement of stores and execution of works leading to fraud, misappropriation and embezzlement of funds
- v Absence of periodic reconciliation of receipts and expenditure.
- v Non-operational internal controls against errors and inaccuracies through monthly accounts.
- v Lack of receipts and expenditure controls resulting in huge savings and excess expenditure.
- v Weak asset management – missing asset registers, inadequate physical verification, lack of effective control & no institutional mechanism to track assets.
- v Absence/arrears in internal audit in the local bodies.

6. Implementation of schemes

- v Loss of assistance due to failure to adhere to stipulated conditions and underutilization of available funds.
- v Blocking of funds.
- v Instances of unfruitful/doubtful expenditure noticed.

- v Diversion of scheme funds.
- v Irregular adjustment without vouchers & utilization certificates.
- v Defective identification of beneficiaries and selection of beneficiaries.

7. Grassroots planning

- v District Plans did not reflect the felt needs of local bodies.
- v Release of funds before approval of action plans.

8. Loss of revenue

- v Non-realisation of taxes, rent, license fee and auction proceeds.
 - v Short collection of sales tax; non-remittance of statutory taxes & cess to govt. account.
- The Ministry of Panchayati Raj have therefore requested the National Informatics Centre (NIC) to develop a software to address these issues, capturing the 3-tier classification, and providing a true and fair view of the existing financial position of the Local self Governments. The software should take into account the reports, codes and formats as prescribed by CAG. Accordingly, NIC working closely with the CAG developed the software called “PRIASOFT”.

Different Vouchers in PRIASOFT

In ‘PRIASOFT’ vouchers have been sub categorized as under:

a) Receipt Voucher

- i. Direct
- ii. Transfer
- iii. Advance Receipt
- iv. Refund of Advance
- v. Cancellation of Cheque
- vi. Refund of Excess Payment
- vii. Refund of OB advance.

b) Payment Voucher

- i. Expenditure
- ii. Transfer
- iii. Advances
- iv. Receipt Cancellation

c) Journal Voucher

- i. Expenditure Rectification
- ii. Receipt Rectification
- iii. Advance Rectification
- iv. Advance Adjustments
- v. Deductions

d) Contra Voucher

- i. Withdrawing Cash from Bank/Treasury / Post office etc.
- ii. Depositing Cash in Bank/Treasury/Post Office etc.

ACCOUNTABILITY OF GRAM PANCHAYATAS:

The Panchayat Raj Department (PRD) of the State Government is accountable for ensuring that an adequate financial management and accountability framework for the Panchayat Raj Institutions is in place and that funds provided by the State and Center are used for purposes intended. The Panchayat Raj Institutions are expected to provide utilization certificates to support their use of grant-in-aid funds. The

Finance Department of the State Government conducts full audits of the PRIs. The results of these audits are acted upon by the Panchayat Raj Department.

The Panchayat Raj Department (PRD) is also expected to monitor the implementation of the schemes funded by the State and Center to ensure that the purposes intended are being achieved. Monthly physical and financial progress reports are provided to the Panchayat Raj Department (PRD) by the implementing agencies through District Rural Development Agencies (DRDA). The audits of District Rural Development Agencies (DRDA) are carried out by firms of chartered accountants, in addition to CAG's audits and the reports reviewed by the Panchayat Raj Department.

FINANCIAL ACCOUNTABILITY ARRANGEMENTS

Strengths of the system:

1. A framework for financial accounting, reporting and auditing is in place for all funds provided to the PRIs.
2. The key accounting functions have been staffed.
3. Constitution of Palli Sabhas (as ward level constituents of Gram Sabha, the general body of the Grama Panchayat) and introduction of social audit arrangements at the Grama Panchayat level.

Weaknesses of the system

1. PRIs remain almost exclusively dependent on funds from the State and Center. This limits the extent to which the local governments can be self-governing bodies. This is exacerbated by fiscal stresses at the State level making budgeting processes ineffective.
2. Major decisions, such as what kinds of programs will be undertaken and who will be the implementing agency, remain with the State and the Center. PRIs play minimal role in the planning and implementation of schemes – for every function that has been devolved to the PRI, there are specific Line Departments of the State or agencies like DRDAs.
3. Excessive levels of State controls over the PRIs, such as the power of the Collector in ordering enquiries against the elected representatives, authority to suspend resolutions passed in the meetings of the elected representatives of PRIs, have resulted in the PRIs being perceived as extensions of the State.
4. The accountability of the executive of the PRI remains essentially to the Collector at the District level and the State, and not to the elected representatives of the PRIs.
5. The accountability of the elected representatives to their constituents is compromised by their limited role in the management of resources spent at each of the levels of PRIs. The secrecy that surrounds the executive action is most apparent in the selection of beneficiaries for subsidy and poverty alleviation programs – records of meetings do not show how the choices were arrived at or the options or criteria for selection, often concealing the high levels of arbitrary decision making.
6. The Management Information System at the PR Department does not provide information on the financial position of PRIs. This limits the ability of the State to take informed decisions on the allocation of resources between PRIs and to the PRIs as a whole, based on the needs of the rural population.

CONCLUSIONS:

1. It is clear from the study that the State's hand in the management of the PRIs has not allowed the delegation process to proceed as may have been intended by legislation. The reasons for this are complex and worthy of analysis at the national level.
2. The motivation to comply with the accountability framework in place is undermined by the diffusion of roles and responsibilities between the various levels of government with limited checks and balances provided by the State Legislature, as is evident from the CAG audit reports of recent years.
3. Steps are being taken to reduce the fiduciary risk. Preliminary discussions have commenced with the CAG on streamlining the accounting and financial reporting systems including the consolidation of the internal audit function. Initiatives are being taken to train the auditors on PRI auditing.

4. The GPs are empowered to take up the projects on need based basis by preparing the 5 years prospective and annual gram panchayat development plan and maintain proper accounting procedure and guidelines as mentioned in the OGP act and rules.

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