

Madhya Pradesh-Panchayat Darpan—An instrument to bring fiscal discipline at the level of Panchayats



The Indian Prime Minister has envisaged an accelerated growth in the nation while stressing the Minimum Government Maximum Governance, which will depend, among others, on quality infrastructure and a foolproof system of devolution of all individual and family-oriented schemes based on entitlement, enhancement of livelihood opportunities, etc. With the Constitutional (73rd Amendment) Act, 1992 coming into force in 1993, Panchayati Raj Institutions (PRIs) were provided constitutional status. Panchayats became the instrument to execute and trigger growth under the Amendment that contains provision for devolution of powers and responsibilities to the PRIs—both to prepare economic development plans, work for social justice and to implement in relation to 29 subjects listed in the eleventh schedule of the Constitution. Manpower at Panchayats, i.e., Sarpanch and Panchayat Sachiv, has limited exposure, while handling more than 150 schemes and sub-schemes of the Central and State Governments. Therefore, an absence of trained manpower results in a noncompliance vis-à-vis statutory formats and traditional accounting. In this context, the Government of Madhya Pradesh has taken up the challenge and an initiative to bring in concurrent audit in the Panchayats with the assistance of The Institute of Chartered Accountants of India (ICAI). Read on to understand the initiatives of the Madhya Pradesh government in this regard...



Dr. Aruna Sharma

The author is Additional Chief Secretary (Rural Development, Panchayat and Social Justice) in the Government of Madhya Pradesh, who may be contacted at psprd@mp.gov.in.

The dream of the Prime Minister of India is to take the country on an accelerated growth rate with *Minimum Government Maximum Governance*. This cannot be achieved just by achieving a higher gross domestic product (GDP) which is defined as an *aggregate measure of production equal to*

Social Responsibility

To ensure an effective execution and empowerment of GPs, the Government of Madhya Pradesh on 26th February 2013 enhanced the administrative approval powers of *gram panchayat* to ₹15 lakh from a mere ₹5 lakh. This enabled the *gram panchayat* to take up the majority of infrastructure works.

the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs); but the need is to ensure quality infrastructure and foolproof system of devolution of all individual and family oriented schemes based on entitlement and enhancement of livelihood opportunities and introduction of social changes.

Many a time in the success story of GDP, failure at these cutting edges gets left out. The instrument to execute and trigger growth under the 73rd Constitutional Amendment is *panchayats*. The Constitutional Amendment Act of 1992 contains provisions for devolution of powers and responsibilities to the *panchayati raj* institutions (PRIs)—both to prepare economic development plans, to work for social justice and to implement in relation to 29 subjects listed in the eleventh schedule of the Constitution.

Manpower at the level of *panchayats*, *i.e.* elected *sarpanch* and *panchayat sachiv*, have limited exposures. At *panchayat* level, they handle more than 150 schemes and sub-schemes of the Central and State Governments spread over various departments with literally no financial training. Thus, the lack of trained manpower and facilities results in noncompliance with statutory formats and resorting to traditional way of accounting.

The Department of Panchayat of the Government of Madhya Pradesh took up the challenge to bring in correction in the system by initiating concurrent audit in *panchayats*. Terms of reference were formulated in consultation with the AG (Accountant General) Office and The Institute of Chartered Accountants of India (ICAI). Tenders were globally invited and Madhya Pradesh was divided into ten zones and the most suitable and able firms were given the job to do the concurrent audit.

Source of Funds

Panchayats receive funds from the following sources:

- Local body grants as recommended by the Central Finance Commission;
- Funds for implementation of centrally-sponsored schemes;
- Funds released by State Governments on recommendations of State Finance Commissions;
- Mandatory share in cess on stamp duty earnings and devolution of funds; and
- Local earnings through tax and fees for rendering of services.

Ever since the Eleventh Finance Commission, focus has been to develop systems for transparency, accountability and fiscal discipline with robust accounting principles in the three tiers of *panchayat*, the district *zilla panchayat* (ZP) and *janpad panchayat* (JP) that are equipped to understand and implement intricacies of bookkeeping, accounting and audit principles, but with the *gram panchayat* (GP), the story is different. The situation becomes more serious with GP being the major cutting edge for the decision-making and implementing body in 80% of the activities in the decentralized system. To ensure an effective execution and empowerment of GPs, the Government of Madhya Pradesh on 26th February 2013, enhanced the administrative approval powers of *gram panchayat* to ₹15 lakh from a mere ₹5 lakh. This enabled the *gram panchayat* to take up the majority of infrastructure works. Another issue was lack of information that *gram panchayat* will get in a financial year as grant in aid, as the funds of Thirteenth Finance Commission, State Finance Commission, Stamp Duty, Cess, *etc.*, were each devolved in 2 to 3 instalments separately. Thus, in no given year, *panchayat* could plan holistically for their real requirements. *Janpad* and *zila panchayats* were getting no independent untied funds and a beginning was made from the year 2011-12.

The Government of Madhya Pradesh thus simplified the system on two accounts:

1. **Convergence of grant:** Convergence of all grants in aid schemes into *panch pameshwar*, so as to ensure a release in two instalments by granting minimum fund flow. This enabled the three tiers of *panchayat* to plan for their real

needs and then a holistic plan was executed. As a result, more than ₹5,500 crore has been devolved since 2011-12. The money has been converged with the MGNREGA (Mahatama Gandhi National Rural Employment Guarantee Act) to make cement-concrete roads, *Panchayat Bhavans* and also top up construction of *Anganwadi Bhavans*. Twenty per cent of the fund is allowed as contingency to take up repairs, maintenance, etc. Besides, electricity charges for water supply are also reimbursed. Specialised schemes like *Haat Bazar* construction are also taken up in the three-tier system.

2. **Directly sending the fund:** Direct Transfer (DT) of funds is resorted to the three tiers of *panchayat*, i.e. ZP, JP and GP, as per their entitlements through electronic fund management system (e-FMS), thus cutting down the delays at all stages and better fiscal discipline.

Panchayat for E-Monitoring and Accounting Discipline

Each *panchayat* is equipped to build up the infrastructure in terms of good *Panchayat Bhavan*, *e-panchayat* room and ICT (information and communication technology) infrastructure (computer hardware, e.g. desktop with 1.3 Mgps webcam, audio system, scanner, laser printer, 1 KVA UPS, 42" LED screen TV, 8 port LAN switch, 8 GB pen drive, etc.), which is already provided. Nearly, one third of the *panchayats* is in the process of being connected to the internet.

Functionaries of a *panchayat* are *gram sachiv* (Village Secretary), *gram rojgar sahayak* as *saha sachiv* (Additional Village Secretary), one accounts person for a group of three *panchayats* provided under the RGPSSA (Rajiv Gandhi *Panchayat Sashaktikaran Abhiyan*), one sub-engineer for a group of five *panchayats*; a *panchayat samanvayak* (*panchayat* coordinator) for a cluster of ten *panchayats* is provided. Cluster *Panchayat Bhavan* has an extra room for these group functionaries.

A critical analysis showed that the GP is expected to maintain for each of the schemes, eight statutory reports as listed by the C&AG (Comptroller and Auditor General of India), in the Government of Madhya Pradesh as per the Section 129 of MP *Panchayat Gram Swaraj Adhiniyam*, 1993 and Financial Rules, 1999, there were 16 formats for GPs, 22 for JPs and 25 for ZPs for PRIs to follow these accounting formats.

GPs dealing with nearly 100 schemes on an average result into the following observations in the Annual Technical Inspection Report on local bodies for the year ending 2011-12:

- Budget and annual accounts were not prepared by PRIs in prescribed formats;
- Details of receipts and expenditure of PRIs were not complied at PRD level;
- Utilisation of grants transferred to PRIs was not ensured; and
- Need to streamline the fund flow directly to PRIs was felt.

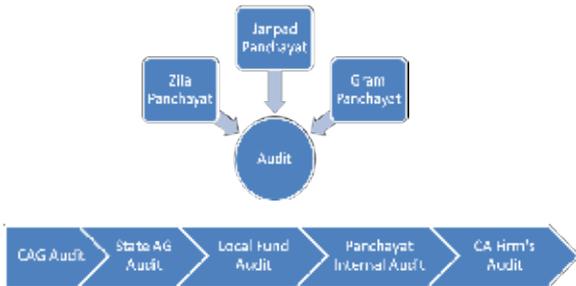
Under this scenario, there was hardly any mechanism to correct the system, unless and until there is intervention of constant handholding at the initial stage. The State therefore decided to work out a mechanism for concurrent audit and got the terms of reference (TOR) formulated, to cater to the requirements of audit and accounting principles. A thorough audit was conducted for the year 2012-13 by a set of expert firms. From 2013-14, a system of concurrent audit was envisaged. Auditors faced the same problems as statutory auditors had, i.e. records not kept as per the norms. Observations of the CA firms were:

- The system was following a fragmented approach towards the process of audit. Schemes were audited for utilisation of funds under various time periods but a comprehensive approach was never followed.
- Previous system of concurrent audit missed the essential element of compilation of data from all sources to generate a comprehensive report.
- Analysis became difficult for the policymakers because of the fragmented data available through the various reports.
- A number of different approaches towards the process of audit led to a clutter and different reports that were difficult to justify in a consolidated format.

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Social Responsibility

Thus, attempts were made to find a solution as training *gram sachiv* and *gram rojgar sahayak* to the satisfaction levels as expected by auditors and enabling tools that reduce their drudgery. *Panchayat Darpan* software is executed. The software captures the fund devolved by the State immediately in the three tiers of PRIs.



Evolution of Panchayat Darpan as Tool for Concurrent Audit by CA Firms

The Department of Panchayat of the Government of Madhya Pradesh evolved a software *Panchayat Darpan* that has a unique feature of two entries, *i.e.* cash book and work register. All statutory reports, scheme-wise details for financial maintenance of accounts and the Auditor General's statutory reports are generated by this software. Data in this software has been captured for the financial year 2011-12 onwards. Till date, entries are for more than 3,75,000 numbers of works.

Salient features of *Panchayat Darpan* are:

- Paradigm shift from traditional voucher entry form to simplified entry form by only two input formats
- *Update work status* and *simplified transactions* help users at grassroots level to make quick entry with minimised errors/mistakes
- Scalable—any number of new scheme can be added
- Accounting jargons not used
- Generation of C&AG 8 formats of accounting reports
- Generation of scheme-based UC
- Inbuilt tools for analysis and verification like uploading of photos, supporting bills and work measurement books, a big support to auditing
- Online availability of amount received and spent are updated in public domain system, therefore a big tool for social auditing as well

Concurrent audit enabled to track the multiple bank accounts, identify the money lying dead, *i.e.* unused for a number of years, and thus take that amount on board and re-decide for creating assets. The handholding enabled to bring in fiscal discipline in the panchayats.

Panchayat Darpan for Financial Record Generation & Fiscal Management

Panchayat Darpan works on the principle that the agency that gives funds like any department of a State Government, ZP or JP enter the funds devolved and then the GP to have only two input formats, *i.e.* cash book and work register and software *Panchayat Darpan* do auto generation of 8 CAG formats:

1. Monthly/Annual Receipts and Payments Accounts
2. Consolidated Abstract Statement/Format of consolidated abstract
3. Bank Reconciliation Statements/Format of Monthly Reconciliation Statement
4. Format of receivable and Payable 5 Assets Registers—Format of Immovable property
6. Format of Movable property
7. Format of Inventory register
8. Format of Demand, Collection and balance

Concurrent audit enabled to track the multiple bank accounts, identify the money lying dead, *i.e.* unused for a number of years, and thus take that amount on board and re-decide for creating assets. The handholding enabled to bring in fiscal discipline in the *panchayats*. An amount of ₹172.81 crore has been tracked that had been accumulated over saving, interest earned or works not started lying for decades.

The data from *Panchayat Darpan* is put on the website of each *panchayat* thus putting it in public domain for anyone including public representatives to see the funds available, works taken and their progress. The website is also linked with the MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Scheme) and *Samagra* (software to capture details of entire population of the state and bank accounts) portal to monitor individual beneficiaries of scholarships, pensions *etc.*

Following pictures depict systemic limitations that were present in the GP till 2011-12:

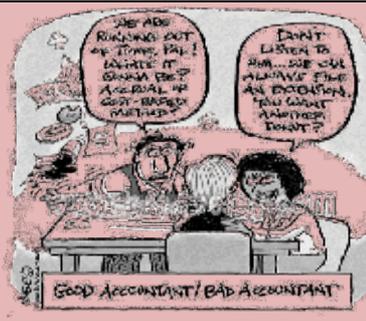


Fund received are not reconciled by them or any upper level authority as JPs or ZP. Books of accounts are in isolations not been consolidated

b. The major flaws in the previous audit system which often went unnoticed were

- Depreciation of assets not maintained.
- Some schemes never audited in past.
- Improper updates on: stale cheque, reversal entries and bank charges.

At Gram Panchayat level, secretaries are not having idea how to maintain book of accounts properly does not know what accrual is or cash based accounting.



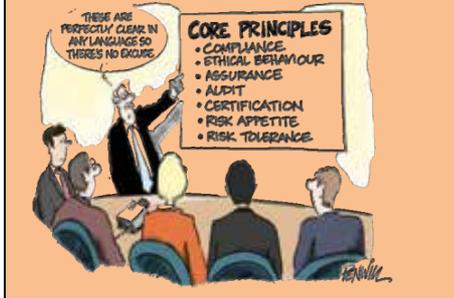
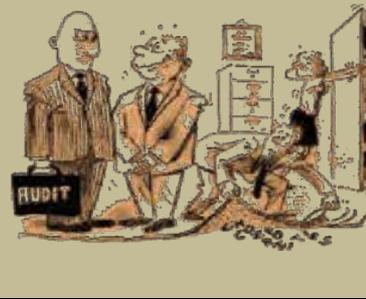
No systematic efforts were made to adopt robust discipline of audit and thus from year 2012-13 a robust CA audit system graduating to Concurrent Audit system has been adopted.

(there is no linkage of this point)



GP Secretaries have to maintain too many registers and book keeping is a laborious work

They are also not aware of other statutory compliances like TDS or VAT etc. GP Secretaries don't produce books of accounts during Auditor's visit



Funds are transferred from one scheme to other Scheme. Core Principles of accounting are not properly followed

Social Responsibility

Concurrent Audit by Chartered Accountants

Madhya Pradesh is the first State in the country where concurrent audit has started from the fiscal year 2012-13 in three-tier system of accounts to ensure an effective arrangement for accounting and audit. Guidelines for Thirteenth Finance Commission and Planning Commission regarding accounting and audit of local bodies have been effectively implemented in the State:

- Audit would cover the entire organisation, three levels of PRIs and other implementing agencies;
- Audit would also cover all consultancies or contracts that may be entered into by the implementing agencies; and
- Appointed agency provides hands on support to PRIs at all levels for effective bookkeeping of accounts.

However, in the first two years, a lot of efforts were into locating the different accounts maintained by a *panchayat*, which also resulted into tracking of accounts that had amounts unutilised for a long time. However, parallel efforts were made to do concurrent audits for exiting on going works by bringing discipline to track the allotments made by various departments of the Government and the approvals and incurred expenditure.

Systems in Operation till 2011-12

Earlier, the audit was conducted at the end of every year. *Zila panchayat* used to appoint different CA firms for the audit of various schemes and, for the MGNREGA, a separate CA firm was appointed for the whole district by Madhya Pradesh Employment Guarantee Council, Bhopal.

Experience with Existing Audit system in PRIs

Concurrent audit is done on a regular basis, which gives responsibility to maintain and do timely accounting with proper documentation. Normally, it was seen that the person responsible for maintenance of books of accounts had a lack of proper knowledge of accounting and other relevant applicable laws of them. Thus, a concurrent audit auditor helps them in proper and accurate maintenance of documents/records necessary as per the statutory requirements. This also

enables timely corrections through appropriate interventions. The efforts were able to track more than ₹74 crore that were lying for nearly a decade and also large drawls lying in bank accounts of pension funds.

It was felt that similar to organisation/institution which have both yearly audit and concurrent audits in system, concurrent audit is also needed in PRI's that helps to see that the funds released by State level to ZP, to JP and finally JP to GP are utilised as per its intended purpose, if there is no need of fund on GP or JP level (as seen by utilisation certificate (UC) or regular vouching of expenses), then funds can be debated in *gram sabha* for their other requirements, as most of the funds are untied.

Advantages/Benefits of Concurrent Audit in PRIs

Key advantages of concurrent audit are:

- Strong and financial/accounting management system at the Panchayat level is developed.
- The internal control is established by management of work efficiently.
- Gap between availability of funds and fund utilisation will be reduced.



Thus, a concurrent audit auditor helps them in proper and accurate maintenance of documents/records necessary as per the statutory requirements. This also enables timely corrections through appropriate interventions. The efforts were able to track more than ₹74 crore that were lying for nearly a decade and also large drawls lying in bank accounts of pension funds.

Thus, at State level it was decided to conduct three tier audit of *Panchayati Raj*. It was also decided to appoint CA firms with terms of reference incorporating the above objectives.

To conduct the concurrent audit the expected outcomes were to have:

1. Cash and bank balance
2. Documentation and correct posting with vouching (authenticated/approved vouchers)
3. Proper utilisation of funds
4. Checking omission and commission errors
5. Reconciliation of books of accounts including bank

Concurrent Audit: Way to Fiscal Discipline

1. Helps in establishment of sound internal accounting functions and effective internal controls.
2. Ensures that books of account, document and other requirements are kept and maintained according to various requirement and regulations, and ensures that books and accounts are made as per the guidelines.
3. Helps in ensuring that all necessary supporting documents, records and accounts are kept in respect of scheme expenditure. Clear linkages exist between books of account and reports presented to the district and head office. All transactions are accounted as per accounting standards.
4. Transactions are properly recorded, documented and vouched; irregularities are rectified and system and procedures are implemented.
5. Ensures that all funds are utilised in accordance with the guidelines, directives, Acts and Rules issued by the Govt. of India, State Government and funding agencies economically and efficiently and in a transparent manner; and helps in monitoring the expenditure and payment, and ensures that there is no diversion of funds for other purposes and there is no case of fraud, embezzlement, theft or loss.
6. Keeps a check on statutory compliance with regards to all legal compliances, payments and returns; and ensures that returns pertaining to various statutory payments are filed correctly and on time so as to avoid penal levies.
7. Shortens the time-interval between transactions and their examination by an independent



person and facilitates check against inherent loopholes in the system.

8. Helps in improving the efficiency, effectiveness and sense of accountability of employees, as they are aware that their work is under vigilance of a concurrent auditor.

Build the Base

The main purpose behind conducting a concurrent audit is to build the base by confining the below-mentioned flaws and diminish them in future:

- a. Error of omissions and commissions;
- b. Defalcation, theft, loss diversion of funds misappropriation of funds;
- c. Major financial irregularities;
- d. Procedural laps;
- e. Accounting issues;
- f. Noncompliance of statutory regulations;
- g. Documentation deficits; and
- h. Status of creation of assets and liabilities.

The Aftermath

Concurrent audit is a very beneficial instrument for an organisation to find the loopholes and discrepancies in the system in course of the conduct of transactions since it focuses on audit and checks while transactions are carried out and not after the execution of transactions as in case of statutory or financial audit. Concurrent audit improves the efficiency and effectiveness in employees, and improves the quality and reliability of books of account, which overall improves the performance of an organisation. ■