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GP Financial Management Capacity and PRI Financial Management Reform Efforts in West Bengal

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**International Studies Program
Working Paper 11-16
June 2011**

**GP Financial Management Capacity
and PRI Financial Management Reform
Efforts in West Bengal**

**Katherine Willoughby
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GP Financial Management Capacity and PRI Financial Management Reform Efforts in West Bengal

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GP Financial Management Capacity and PRI Financial Management Reform Efforts in West Bengal

Introduction

The State of West Bengal Annual Financial Statement of 2009-2010 (March 2009) among other remedies to its public financial management system, calls for “decentralization with accountability.” In addition to an expanded welfare system and the promotion of self-reliance at the local level, the state is improving livelihoods through significantly enhanced funding to local governments across the State. Decentralization should move “through the Panchayats to the level of villages in rural areas, and through the municipalities to the level of wards in urban areas, and also by involving the local common people for upholding the concern for accountability” (West Bengal Annual Financial Statement, 2009-2010, pp. 10-11). In fact, the Government of West Bengal (GOWB) has a strong interest in increasing the service delivery to constituents and has encouraged development in the area of financial management by providing incentives, training, computerization and the dissemination of good practice information for the rural local governments (PRIs) in order to advance such delivery. In particular, strengthening budgeting and financial management at the level of government in which program and service delivery is most directly felt is an effort to build capacity to generate effective results, alleviate poverty and enhance the well being of local communities (GOWB, 2009).

As noted in Task I of this report, the scope of the current effort is not to conduct a full updating and analysis of the budgeting and financial management situation of all GPs in West Bengal. Instead, case studies of nine gram panchayats (GPs), two blocks, and one district are used to provide up-to-date information on the budgeting and financial practices of the PRIs in West Bengal, with a focus on the GPs. Task II is the second of this three part research effort and provides a detailed assessment of the current state of budgeting and financial management capacity of the GOWB PRIs, an assessment of PRI financial management reforms, and focused attention to the capacity of the GPs to manage budgets and fiscal flow. Results from this work support development of a new grant program; Task II highlights budgeting and financial management issues relevant to creating an efficient flow of funds in such a program, given the capacity of the GPs and PRI as assessed. Also, benchmarks that might be considered in a new grant program are provided. Information presented in this report is complementary to information presented in the reports for Tasks I and III, with some overlap among the three reports.

The first section of the Task II report assesses the chief characteristics, including strengths and weaknesses of the current budgeting and financial management system of the GPs. This part accommodates the recent *Fiduciary Risk Assessment for Support to the SRD Cell in West Bengal* (2009) prepared by PriceWaterhouseCoopers for the Department for International Development, UK (DFID) to the assessment of budget and financial management practices in West Bengal’s GPs as witnessed in site visits in July and September, 2009 as well as presented in relevant and referenced documents. This

section utilizes the *Fiduciary Risk Assessment* report so noted above, recognized best practices for budgeting and financial management, and documentation and interviews of government officials from the Central Government of India (GOI), West Bengal (GOWB), and the local governments (nine GPs, two blocks and one district) included in team site visits in July and September, 2009. A second section of the Task II report provides an assessment of the financial management reforms underway (or planned) at the PRI level. This section required review of several documents, including DFID and GOWB reports, and analysis of current computerization, audit and evaluation policies and protocols supported and conducted in West Bengal and as observed in the GPs visited. The final section of the Task II report provides additional reforms and training that might be considered to advance budgeting and financial systems in West Bengal and specific to efforts by the GPs, paying attention to best practices from India and the region as well as worldwide best practice experiences.²

Section I: Budget and Financial Management Assessment

This section provides an overview of the chief characteristics, strengths and weaknesses and risks of financial management systems and capacities at the GP level, including an update to the fiduciary risk profile previously conducted and mitigation measures in place. Data supporting this section includes document review of DFID and World Bank reports, past studies and research of PRI and GPs and budgeting and financial management in West Bengal, and consultations and interviews with relevant government officials and staff of India's Central Government, the GOWB and those from the GPs, blocks and district visited in July and September, 2009, as indicated below in Table 1.

Best practices in public budgeting and financial management are termed "good practice principles" (GPPs) here and are used below as metrics to assess current capacity in West Bengal's PRI and GPs. While there does not exist a universally agreed upon list of best practices in public budgeting and financial management, there are generally accepted "best practices" that can be used to measure economy and effectiveness of action across all phases of a public budgeting process. The previously conducted *Fiduciary Risk Assessment for Support to the Strengthening Rural Decentralization Cell in West Bengal* (PriceWaterhouseCoopers, 2009 and henceforth referred to as the FRA) defines fiduciary risk as "the risk that expenditure may not be properly and timely accounted for; funds may not be spent to the extent and for the purpose authorized; and use of funds may not achieve value for money." The framework used in the FRA outlined eight GPPs and 15 related benchmarks.³ This report attenuates the framework as noted in Table 2 to include five GPPs and various metrics associated with each best practice; FRA benchmarks are

² Several caveats to the Task II draft report include: (1) documentation for 2008 in the form of budget, administrative, self-evaluation and audit reports for the PRI was unavailable by November 1, 2009; (2) this report assesses information resulting from site visits to five GPs that do not manage SRD funds and four GPs evidencing experience with the SRD grant management; and, (3) material directly quoted from those interviewed in the GPs is noted accordingly, although neither GPs nor those interviewed are identified in this report.

³ Risk ratings assigned by the FRA included A-Low; B-Moderate; C-Substantial; and D-High. Benchmarks were also assessed as realizing an upward, downward or no change status of trajectory.

associated with these metrics and are so indicated in the final column. Both frameworks span budgeting at every phase and a comprehensive system of financial management. Each framework incorporates measures related to the concept of effective results or the achievement of value for money. In the following section, each GPP is defined, FRA results are presented, an update from relevant document review is provided and additional data resulting from GP site visit interviews are presented.

Table 1: PRI Site Visits

District Visited	District Includes	Block Visited	Block includes	GP visited	Date Visited
Burdwan	31 Blocks 277 GPs	Gasli II	9 GPs	Masjidpur	07/08/09
Burdwan		Kanksa	7 GPs	Molandighi	07/08/09
Burdwan		Raina I	8 GPs	Shyamsundar	07/09/09
Howrah	14 Blocks 157 GPs	Amta II	14 GPs	Thalia	07/10/09
Howrah		Domjur		Bankra III	07/10/09
Murshidabad	26 Blocks 254 GPs	Kandi	10 GPs	Jasohari Anukha	09/08/09
Murshidabad		Raghunathganj	14 GPs	Jamuar	09/08/09
Murshidabad		Raghunathganj		Sammatinagar	09/09/09
Murshidabad		Raghunathganj		Jotkamal	09/09/09

Sources: West Bengal Panchayat and Rural Development Department

(<http://www.wbprd.gov.in/html/panchayat/dist.htm>)

Table 2: Fiduciary Risk Assessment of West Bengal Gram Panchayats Best Practices and Benchmarks

Budget and Financial Management Principles	Metrics for Achieving Budget and Financial Management Principles	FRA Benchmarks Addressed
1) Long Term, Broad Budget Goals are Developed Collaboratively and Based on Financial and Performance Data	<ul style="list-style-type: none"> Evaluate community needs, priorities, challenges and opportunities Assess Central and State government funding, sector and scheme goals Citizens participate in the development of budget goals and objectives Information about current year budget performance (measures and audits) informs establishment of future budget goals Develop broad budget goals 	Information from performance and financial audits feeds into future budget goals; budget allocations consistent with overall expenditure plans; development of budget goals and objectives is transparent

Table 2: Fiduciary Risk Assessment of West Bengal Gram Panchayats Best Practices and Benchmarks (continued)

Budget and Financial Management Principles	Metrics for Achieving Budget and Financial Management Principles	FRA Benchmarks Addressed
2) Government Capacity Supports Goal Achievement	<ul style="list-style-type: none"> • Law regarding budget development, execution, auditing and reporting protocols, process and relationships exists and is operational • A comprehensive fund structure is established and operational • Accounting policies and account code scheme are published and applied • Budget goals coincide with Central, State funding, sector and scheme goals 	Rules govern the process; an account structure exists, and; all activities are included in the budget
3) Budget Process is Timely, Efficient and Effective	<ul style="list-style-type: none"> • Budget calendar exists; fiscal year is established • Citizens have adequate input into budget development • Budget is passed on time and before the start of the fiscal year • Budget allocations are consistent with broad goals established by the Central and State governments, sectors and schemes • Budget requires a focus on performance and value for investment • Organizational structure and human capital exists to manage budget process and financial management system 	Budget supports sector and scheme goals; budget development is transparent; human capital sufficient to support budget and financial management information system
4) Budget Execution Supports Control, Accuracy and Flexibility	<ul style="list-style-type: none"> • Periodic expenditure reporting indicates consistency with the budget; there is little need for engaging accounting maneuvers to match budget to expenditures • In-year reporting of actual expenditures is conducted • Procurement process is transparent, competitive and supports value for money • Reconciliation of fiscal and bank records is carried out on a routine basis • Budget information and updates are available to the public 	Budget serves as reliable guide to actual spending; expenditure within year is controlled; expenditure reporting is timely and accurate; accounting maneuvers are kept to a minimum to avoid arrears; procurement supports value for money and transparency; corruption is kept to a minimum

Table 2: Fiduciary Risk Assessment of West Bengal Gram Panchayats Best Practices and Benchmarks (continued)

Budget and Financial Management Principles	Metrics for Achieving Budget and Financial Management Principles	FRA Benchmarks Addressed
5) Budgeting and Financial Management System Supports Fiscal Balance and Performance Value	<ul style="list-style-type: none"> • Government produces valid cost and performance data • Performance measures are reported periodically • Financial audits are conducted annually and in accordance with generally accepted accounting principles • Clean financial audits are routinely produced; audit qualifications are addressed in a timely fashion • Financial and performance reporting is timely; reports are available to the public • Corruption is exposed and penalties for malfeasance imposed 	Annual audits are submitted to parliament within the statutory period; effective independent scrutiny of government expenditure is supported; audit follow-up is conducted; governments are held accountable for financial malfeasance

GPP (1) Long Term, Broad Budget Goals are Developed Collaboratively and Based on Financial and Performance Data

Strategic planning is a cornerstone of effective budgeting and financial management. Successful strategic planning in government incorporates analysis of past practice, accurate forecasts of revenues and expenditures, and a survey of stakeholders' goals and objectives, needs, priorities, constraints and opportunities, all to formulate broad goals and objectives for future government action. This first GPP sets the stage for subsequent and effective flow of funds; government success in reaching this GPP is required in order to support best practices in future budget stages. Long term and broad budget goals should be developed collaboratively and based on financial and performance data. Metrics upon which to measure the conduct of this principle by GOWB GPs include evidence of the evaluation of community needs, priorities, challenges and opportunities; assessment of Central, State and other funding by sector and schemes; the coordination of community goals with the goals of sectors and schemes; evidence that past practice feeds into the goal development, and finally a requirement for reporting on goals and objectives that have been developed.

The FRA assessed fiduciary risk of SRD Cell as *Moderate* for the following relevant benchmark:

Budget allocations are broadly consistent with any medium term expenditure plans for the sector or for the overall budget, and indicated this benchmark as moving in a positive

direction in West Bengal's PRI. The report explains that while no medium term expenditure framework supports budget planning, State sectoral planning has a five year outlook and annual budgets are drawn from plans prepared annually that are "consistent with the objectives of the five-year plans." The push on the part of the State is for the panchayats to improve the participation of citizens – to promote participatory decentralization. Comprehensive district plans encompass panchayat plan allocations that link to spending plans of the departments. The FRA indicates some coordination problems among levels of government given fund transfers from department and state to the PRI for the execution of programs and schemes. According to the FRA (2009, p. 16), "the *Gram Sansad* budget forms the basis of the preparation of the final GP budget ensuring strong linkages with the perspective plans formulated by it."

The hierarchical scheme of the PRIs in West Bengal as presented in the Task I report confirms the upward movement of budget planning that can occur in West Bengal. The Task I report explains that, "development and reporting on budgeting priorities and expenditure outcomes are done from the GP level up to the block and then to the district...the GS and their GUS are active participants in setting budget priorities and carrying out projects in some GPs." This fourth tier of the PRI is accounted for in the GP Administration Rules of 2004, and The West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules of 2007 actually formalize this flow of budget development.

The 2007 rules specify that the budget of GPs be prepared by their respective Gram Unnayan Samities (GUS or village development committee) and by the sectoral committees (Upa Samities) of the gram panchayat. To that effect, the GUSs "shall hold annual discussion on the programmes, schemes and works included in its perspective plan for five years for the purpose of preparation of an annual plan for the coming year..." (p. 32). According to these rules, the GUS hold as many "neighborhood level" meetings as possible to prepare GS budgets using the Form 34 below. Gram Sansad budgets are structured across seven sectors (i.e. agriculture, industry, livestock, health, education, infrastructure and miscellaneous) and submitted to the finance and planning committee of the GP, where sectoral ceilings are expected to be defined according to the budgetary rules. Once ceilings are determined, the GP sectoral committees (5) prioritize the project initiatives received from the GUSs to come in under these ceilings.

Form 34 [see rule 35(2)]							
Budget ofGram Sansad.....Gram Panchayat for the year.....							
Head of Account		Budget estimate of current year (.....year)		Budget estimate for the next year (.....year)		Remarks	
(1)		(2)		(3)		(4)	
A. Receipt from Gram Panchayat:							
(i) Programme fund							
(ii) Untied fund							
(iii) Own Source Revenue from GP.....etc.							
B. Local Contribution:							
Total:							
PAYMENTS							
Sources of resources for the works							
		Contribution from Community/Beneficiary/own resources			Anticipated receipt from GP (Govt. Grant/Untied fund/GP Own Source)	Grand Total (Rs.) (3+6)	Remarks
SI No.	Name of Sector	Contribution from community/beneficiary in cash (Rs.)	Voluntary Labour (No. of man days or hours)	Materials and Equipment			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Shiksha						
.	.						
.	.						
.	.						
8	Total						

According to these rules, budgets are developed “on the basis of the data generated from [GUS meetings] and on the basis of realistic assessment as far as practicable, of funds likely to be available in the following year....” (p. 32). The fiscal year and budget timeline below prescribed by the 2007 rules supports citizen involvement to accommodate neighborhood level objections, suggestions and revisions to the budget as prepared. According to budget rules, revenue estimates for the following fiscal year should be provided to GPs in mid-August. GPs and GUSs tend to fall back on using the

ten percent increase to previous year's resources allowed by the rules, "in the absence of any other reliable data" (Chapter XIII, Article 35 (2), p. 33)

Table 3: West Bengal Gram Panchayat Budget Schedule and Deadlines

Date	Budget Deadline
14 August	GS prepare budgets via GUS and submit Form 34 to GP
31 August	GP Pradhan prepares estimated receipts and payments
15 September	All Upa-Samiti (sectoral committees) of GP prepare Form 35 and submit to GP Pradhan
1 October	Executive Assistant draws up GP budget; standardizing format for each GS and showing fund apportioned to each under accounts on basis of approved plan
10 October	Artha O Parikalpana Upa-Samiti (Finance and Planning Committee) considers "outline budget"
30 October	GP adopts draft budget
5 November	Draft budget published/posted in not less than three prominent, public places and allows at least ten days for objections and suggestions
7 November	Draft budget to Panchayat Samiti
25 November	Panchayat Samiti sends view of draft budget to Gram Panchayat
Month of November	Draft budget placed in half-yearly meetings of all GS of GP; Objections and suggestions resolved in meeting of GS and recorded and collated by Pradhan
31 December	Draft budget placed in meeting of Gram Sabha; objections and suggestions in meeting of Gram Sabha recorded
31 January	GP considers objections and suggestions of GS and Gram Sabha and Panchayat Samiti; GP approves and adopts the budget
15 February	Budget published in all public places previously posted; budget forwarded to the Panchayat Samiti and to bank or banks where GP fund exists

Source: The West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007.

Results from site visits to the sample GPs indicates that the budget schedule detailed in Table 3 above is respected, in general terms and attempted in practice, though often compromised. Those interviewed at the GP level indicate the likelihood of delays in the preparation of GUS budgets (these budgets are hardly ever ready by August 14th as stipulated in the rules), however, and so this in turn exacerbates delay on the part of the GP sectoral committees in conducting their work. Delay on the part of this committee work is also associated with a lack of commitment among sectoral committee members to attend budget meetings, an issue emphasized by the SRD mobile trainers and other local representatives. Still, while the adoption of draft budgets may not be fully respectful of the deadlines provided in the budget schedule above, all GPs visited confirmed that they had their budgets reviewed by the Gram Sabha (GP local assembly of voters) and published by February 15th.

Site visits do confirm an upward flow of budget development that promotes a transparent and inclusive process, if successfully conducted. The FRA reports the "additional" nature of the process of budget formulation at the GP level, where the statements of

receipts and expenditures of the GUSs are the main building blocks of the panchayat's budget. This supports the first GPP, specifically the decentralization of decision making, collaborative goal setting and transparency. Those interviewed in the sample GPs indicated that:

- Invitations to budget meetings are made at the ward level (GUS). The invitation is circulated to villages to advertise the budget meeting and to ask citizens to attend. The invitation notice includes what will be discussed; a list of issues is presented.
- [The GP budget process relies] heavily on the GUS component of the system. Regarding the budget timeline, in September, the GUS (which has been working on budget development since July) assembles its budget and then all GUS send the budget up to the GP, where it is considered by the subcommittees. The GP subcommittees prioritize the budget using the GUS priorities that have been fed up the system. Generally, the maximum portion of the GP budget is allocated to the GUS priorities. Budget development occurs until December 31st of each year. The budget is passed each February. The GP does not get a document from the State regarding planning for expenditures, [but makes] expenditures forecasts based on the previous year.
- The situation analysis that leads to the identification of budget priorities at the GUS level is a highly participative process whereby a “budget facilitating team” aims to include the views of all local stakeholders. The facilitating team includes their views of the budgetary process in written comments that accompany the final version of the GP budget. Among other instruments, social maps at the GS level are drawn, where all households in the village are identified together with their more pressing developmental needs (from education for children to lack of sanitary facilities). The analysis is valid for a period of two years, after which the assessment starts anew.
- Project initiatives are ranked in order of priority, although such rankings can be adjusted. In some of the GPs visited, the sectoral committees meet every three months approximately to review progress on plan implementation. They can also call for special meetings with just 2-3 days notices, for example to decide on the supplementary action plan.

On the other hand, one GP indicated not applying the pro forma stipulated by the GP Accounts, Audit and Budget Rules of 2007. This GP does not appear to secure budgetary input from the GUS level. The GP explained that budget development for next year as last year's budget increased by about ten percent (though not necessarily across the board). Another GP indicated that its budgets “do not use ‘formal’ requests of the GUS; that the GUS system is just developing in the GP. The GUS does provide a list of priority projects and submits those to the GP. The GP subcommittees evaluate the projects and develop its own list of priorities.” At the time of the site visit, this GP claimed that the GUS submissions equaled about six times the available SFC grants this past year. As explained in Task I, GS jurisdictions can change during elections (due to alignment of GS to GPs); it can be difficult to secure GUS input – to meet as well as to suggest projects when close to or during elections.

In our second field visits to the district of Murshidabad, complaints were issued at various levels regarding the difficulty in ensuring the attendance of GP members to the meetings of the standing committees that consolidates GUS budgets. As a result, few GP were able to ensure the different budget phases were completed within the timeframe specified in the government regulations. More importantly, nearly a third of the Gram Sansads in Murshidabad District had not established their village development committees (GUS), which then prevented them and their populations from participating in the implementation of grant programs at that level.

Both Wallace (2009) in Task I and GOWB (2007) explain the restrictions placed on GPs by grant, scheme and sector funding and even in the mobilization of GP own source revenues. These “silos” of funding hinder discretion and compromise budget planning as well as a participatory process. Interviews with GPs indicates that this tier of the PRI tend to stick to the rules; yet, often budget information from above (i.e., schemes) often does not get to the GPs in a timely manner to support such planning. In essence, the GPs do more “programming” than budgeting due to the large share that grant programs (tied funds and associated guidelines) represent in their budgets. This situation can be exacerbated with the imposition of additional guidelines for GOI-sponsored grant programs at the district level (for instance in relation to BRGF use). These include restrictions in the use of funds to a certain sector and the determination of limits to the amount of resources that can be employed in some of them.⁴

In addition to the limits to the discretionary use of available funds at the GP level, there exist other potential instances for a breakup between the planning and budgeting system at the GP level. First, as discussed, we learned that not all GUS had been constituted in the Murshidabad District, a fact likely to be common in other districts of the country. If so, a certain share of the local population is left out of the budgetary process since they cannot convey their development priorities through the normal budgetary process. Among the reasons given for the delays in the formation of GUS, perhaps the most significant is the lack of incentives available to be a GUS member, both in terms of power and available resources. In the framework of the plans for the new grant, which will concentrate in the development of the institutional capacity of GPs, this may not be a significant implementation constraint, though continuation of such lack of incentive does compromise inclusiveness of development planning. In order to ensure all villages in the gram panchayat are able to fully participate in the determination of development priorities and the associated budgetary expenditures (including of course resources from the planned new grant), the constitution of all required GUS is a necessary requirement.

Second and perhaps more importantly, the role of the sectoral committees in processing GUS budgets and prioritizing project initiatives while applying specific program guidelines is a critical but complicated one. It does not seem that, as specified in the

⁴ During our visits to GPs in Murshidabad, the team had access to new regulations in the use of BRGF funds that limited the amounts to be spent in the Sohay Assistance program (aimed at especially destitute people) to a maximum of R.10,000 for the FY 2010-2011. Although the communication was signed by the district level authorities, we were not able to identify whether these guidelines originated at that level of administration, the state or central government levels.

budget rules, the finance and planning committees define sectoral expenditure ceilings for the committees. Anecdotal evidence from site visit interviews indicates that there is a disconnect at this juncture – specifically, the finance and planning committees assign resources to sectoral committees not necessarily in line with priorities as defined by development plans. It would seem that the funds are distributed through ad hoc internal political negotiations among the GP members rather than as a result of ascription to clear protocols. Considering that many of the conditional grants have a multiple sectoral dimension (for example, BRGF funds could be assigned to several of the sectoral committees), this could result in great annual volatility in sectoral allocations. But, the present report is not able to confirm this hypothesis on the basis of the available data. In addition, own source revenues are solely at the discretion of the finance and planning committee of the GP.⁵ Admittedly, own source revenue collections are small, and it makes sense to devote them to unexpected but necessary expenditures, given the paucity of other revenues available to GPs that are completely discretionary. However, as own source revenue collections increase in GPs in the future, these funds should make up part of the overall resource framework and be allocated to activities on the basis of the agreed local development priorities.

Addressing this risk to the planning-budgeting nexus may require a multi-pronged strategy. Such a strategy would involve linking a multi-year planning process to a medium term resource framework that protects agreed upon development priorities obtained through participatory processes from changes due to political volatility. This may also require that the traditionally used ten percent increase applied to grant revenue estimates be replaced with a conservative one that more closely aligns with actual revenues received in the past.

Results from site visits confirm that GP grant revenue estimates are inflated. These unrealistic and inflated revenue expectations may allow certain “politically sponsored” projects, perhaps not those reflective of development priorities, to be inserted in the budget. Then, when it is clear that revenues will not meet expenditures, cuts must be made. From experience in countries around the world, it is precisely the “politically sponsored” projects that prove to be more resilient to cuts and remain in the budget. Any results from a participatory process of budget planning are essentially ignored. Thus, projects identified as priorities through a community based approach face a greater risk of being cut from the budget. To assuage this potentially damaging behavior, that compromises transparency in budget development, a more conservative revenue estimate must be considered. For example, last year’s level of *actual* grant revenue received could be employed as the revenue estimate for next year’s budget, instead of increasing last year’s actual revenue by ten percent.

A participatory GP budget process is equally anchored in the attendance of citizens to budget meetings and to the GS and Gram Sabha meetings where the GP budget is presented to the citizenry. Local participation at these meetings varies greatly by GP,

⁵ The review of sample Forms 36 collected by the team confirmed that, as a general practice, the finance and planning committees of the GPs budget for these funds, which are not allocated to the sectoral committees.

depending on the information available to citizens, the structure of local economic interests and the leadership displayed by GP representatives. Low levels of citizen participation could jeopardize the accurate reflection of planning priorities in budget documents farther along the budget process. This is, however, a difficult issue to address. Collecting and processing information and participating actively at local budgetary meetings are costly activities for many citizens, especially poor ones. Enhancing transparency of the process as well as citizen participation should focus on ensuring that GPs are exposed frequently to protocols and best practices regarding the publication of budget documents and schedules, for posting and delivery of this information to citizens, as well as ways that citizens can access the documents and make their voices heard in terms of budget priorities.

Finally, the usefulness of audit results and the GP self-evaluations for goal setting and budget development is probably the greatest lacking of the PRI in terms of reaching the first GPP and ensuring an adequate planning-budgeting link. The PRI are subjected to a three pronged auditing system that is focused primarily on compliance. External annual audits, locally produced quarterly audits and GP generated self-evaluations provide some similar and some different data upon which to gauge financial management malfeasance as well as policy progress. The processes and assessment of each of these systems is discussed in detail with consideration of the fifth GPP and in Section II later in this report. Still, in terms of the first GPP and specific to the risk of corruption, the FRA (2009) indicated disconnect between auditing and resolution, grading the fiduciary risk associated with SRD Cell on the benchmark, *Criticisms and recommendations made by the auditors are followed up*, as *C* or *Substantial*. The report cites “inadequate accountability mechanisms owing to the delay in follow up of audit comments” (p. 8). In this case, delay in the resolution of audit findings signals problems with the flow of information across budget phases, in addition to the corruption implications. The FRA also points to continuing problems with the conduct of internal audits, given human capital weaknesses and particularly that, “significant vacancies at Panchayat Accounts and Audit Officer (PAAO) [position] have led to delays in the process.” This situation continues in the PRI today and is considered in greater detail below regarding the fifth GPP.

Review of the GP self-evaluations reveals little to support that measures included in the self-evaluations are considered for budget development purposes. According to one GP visited, this tier fills out the self-evaluation report and submits it to the Panchayat Samitis (PS) which validates the reports on the basis of a sample set of questions. GPs are ranked *on the entire set of questions within the report* by other GPs in the PS. A system of validation is in place whereby GPs ranked in the bottom tier validate the self-evaluation results of those GPs with higher marks. In one instance, the validating GP even increased the marks of the self-evaluating GP! The PS then sends GP self-evaluations to the Zilla Parishad (ZP) and the ZP consolidates and digitizes the reports and sends it on to the State. The State Department of Information Systems keeps all rankings, as does the ZP. It is unclear whether citizens have access to this information, however. Site visit results indicate that general GP meetings are held in order to complete the self-evaluation forms. While the FRA pointed to a current and/or ongoing reform at the time of that report that

included State effort “to link budget allocations with verifiable physical indicators by implementing output and outcome budgets,” it is unclear that the GP self-evaluation has pushed this effort along. Most GPs acknowledged using the self-evaluation forms in the budget preparation meetings being held by the standing committees, but whether this self-assessment translated into a better identification of priorities and informed effectively budget preparation cannot be confirmed.

GPP (2) Government Capacity Supports Goal Achievement

The capacity of government to support goal achievement is determined by the existence and adequate implementation of a budget code that provides clear protocols regarding budget development, execution, auditing and financial reporting mechanisms. Additionally, a comprehensive fund structure together with a widely distributed and applied accounting code scheme is necessary for expedient and transparent disbursement of government funds. Good practice principles dictate that the budgeting and financial management structure established support a flow of funds that promotes the alignment of determined budget goals with development policy objectives at all levels of government.

The FRA assessed fiduciary risk of SRD Cell as *Moderate* for the following benchmarks that are relevant to this GPP:

- *A budget law specifying fiscal management responsibilities is in operation.*
- *Accounting policies and account code classifications are published and applied.*

The FRA reports that the national public financial management system (PFMS) is properly defined in the country’s Constitution, Accounts Code, and General Financial Rules, thus providing the foundation of the GOWB public financial management framework. Importantly, the Fiscal Responsibility and Management Act, a nation-wide attempt to reduce fiscal deficits across the country has not yet been adopted in West Bengal under the argument that such implementation would compromise the articulation of welfare policies of the State and would affect overall service delivery. The assessment attests that the GOWB has been regularly presenting to the Legislature its budget, comprising receipts and payment for the next financial year, and revised estimates for the current period. The Government of India Comptroller and Auditor General (GOI CAG) provides a list of codes for functions, programmes and activities of the panchayats as well as simplified PRI guidelines for preparation of receipts and payment accounts upon which the PRI bases its accounting structures. These documents are available in the Task II Appendix A.

The FRA reports that PFMS of West Bengal panchayats is covered under the GP Accounts, Audit and Budget Rules of 2007. The assessment graded recognition of and adherence to these rules by the GPs as good, although acknowledged that the FRA report team visited a limited number of GPs and can only convey a general evaluation. Specifically, the report assesses the fiduciary risk of SRD Cell regarding the benchmark

that accounting policies and account code classifications are published and applied to be *Moderate*. The FRA is positive about computerization of the financial management system (to be addressed in greater detail below regarding the third GPP that assesses organizational capital to sustain an efficient budget process) yet emphasizes that the budget rules accommodate double entry system of accounting in the GPs, “irrespective of whether accounts are manually maintained or computerized” (p. 6).

Except for one of the nine GPs visited during the site visits, the panchayats declared knowledge and use of the 2007 accounting rules – and illustrated attempts to follow closely the protocols determined for budget formulation and reporting during execution and audit phases. Those interviewed indicated dutifully preparing budgetary Forms 34, 35 and 36 as required, and produced these forms when requested at site visits. There seems to be clarity that Forms 34 and 35 reflect the budgets of the GSs and each of the GP standing committees respectively, whereas Form 36 reflects the consolidated GP budget. Most GPs conceded that, in the absence of revenue estimates being provided from state and central government schemes, the rules allow for an across-the-board ten percent increase in resources to be assumed every year, as noted earlier regarding the first GPP⁶. The ten percent rule, although widely applied by all levels of rural government visited, is only explicitly mentioned regarding GUS budget preparation (Chapter XIII, Article 35 (2) of the GP Accounts, Audit and Budget Rules 2007). Site visit results indicate, however, that in practice, the ten percent rule is applied to last year’s actual grant funds. Results also indicate that budget estimates of own source revenues at any level of local government for the next budget year are calculated using a lower rate. When used as the base budget, this is the resource framework for budget development of the GP. Still, one of nine GPs visited indicated not using the set of pro forma prescribed in the 2007 rules. This particular GP also exhibited difficulty in using the GPMS. And, budgeting in this GP does not appear to use inputs from the GUS level up.

According to the PRDD, the PRI accounting structure and system has been developed to meet the following goals:

- ✓ improve financial management of the PRIs;
- ✓ strengthen management information systems for monitoring the fund management and administrative functioning of the three tier Panchayat system;
- ✓ strengthen compliance machinery;
- ✓ support ease of access to financial information and budgetary execution; and
- ✓ standardize through the use of GOI CAG guidelines to format budget and accounting formats used in each tier of the PRI.

Thus far, budget rules support the accounting structures and double entry accounting systems in the ZP and PS (2003) and in the GPs (2007). Further, according to the PRDD,

⁶ One GP in Murshidabad regularly assumes a 25 percent increase in grant funds over last year’s actual revenues, even though the estimate is recognized as unrealistic. This was denoted as “tradition”. The GP indicated that budget development is based on the hope that as cuts are inevitably necessary, given such unrealistic revenue estimates, that the PS will provide revenues to the unfunded projects.

during 2007-2008, all PRIs “have adopted by-laws for imposition of tax and non-tax revenue as a result of accounting structure and system implementation and the collection of own revenue has increased three times between 2002-2003 to 2006-2007.” All of the GPs visited in September, 2009 had issued by-laws with a schedule of non-tax charges after the election of 2008 (revising the rates set by the previous council). These non-tax sources, especially business licenses and licensing of enlisted contractors, along with the homestead tax, are cited as the main drivers of own source revenue increases in all four of these GPs. The by-laws were issued based on state guidelines, prescribing maximum rates, and input from the local business community.

The FRA indicated a lower grade (C) for comprehensiveness of the budget compared to the establishment of the accounting system, using the benchmark, *All government activities are included in the budget*. But, the report recognizes an upward trajectory of change here. During our site visits, the PRDD illustrated a newly reformed fund transfer structure. This structure indicates that for Indira Awas Yojna (IAY), State Grants to PRIs (LBG), the 2nd SFC Grant, and the Backward Region Grant (BRGF) funds flow from state fund transfer (FT) accounts to ZPs FT accounts directly into designated bank accounts of the GPs. Beginning in April, 2009, the fund transfer system was modified to decrease timing and accounting problems of the GPs given a transfer mechanism that had been in place since August, 2007. The current system provides that “immediately after a certain amount under any programme is credited in the fund transfer account at the state, ZP or PS level, the State Bank of India is required to transfer the fund to the destination *within two days from the date of receipt of the fund transfer advice from the authority*” (GOWB, July 2009, slides 9-10). Accordingly, from the state level, funds flow from the state FT account to the FT accounts of the “Zilla Parishads, Mahakuma Parishad or to the Designated Bank Accounts of the DRDC/MRDC or of the District Panchayats and Rural Development Officer. Thereafter, funds transfer to the FT accounts of the Panchayat Samities and/or to the designated bank accounts of the GPs, as the case may be and depending upon the nature of the programme” (GOWB, July 2009, slides 9-10). The use of the FT account has been preserved solely at the district and block level as they are able to easily identify the source (scheme) of the deposits received at this transit account; this is a more difficult task at the GP level.

Site visit results indicate that the physical flow of funds from GOI and GOWB to the PRI varies depending on the fund. Generally, plan and non-plan grants from the GOWB and transfers to PS and ZP levels are through a local fund account. Funds related to CSS and other funds which flow to the PSs and ZPs from agencies are operated through specified banks accounts opened for separate schemes. Since GPs are not physically close to treasuries, they do not need to open a local fund account (that is held with the treasuries). GPs opened fund transfer accounts in 2007 but problems with that system (particularly timing issues and the notification of fund availability for the GP) resulted in the changes made effective in 2009, as mentioned above. The fund transfer accounts were closed and program-specific accounts were opened in GP banks of choice. A general fund is also kept in those banks for untied or other general funds.

Regarding specific funds whose experience may be relevant for the design of the any future grant, BRGF funds are transferred from the state to the ZP and from there are split into three portions: one for municipal corporations, one for the blocks and a third one transferred directly to GP accounts (see Table 4 below). Although blocks would be entitled to pass on part of their share to the GPs, the only PS interviewed denied devolving their share of funds to GPs. In the case of SRD funds, these are transferred directly from districts to GPs, bypassing the block level, although small amounts of SRD funds are allocated for planning purposes at the PS level. Only SRD and NRHM funds are mandated to be passed on by GPs to the GUS level; for BRDF fund this is a voluntary option that is hardly ever exercised on the basis of the GPs visited.

Table 4: Flow of Funds for Selected Funds/Schemes

Indira Awas Yojna	State FT Account > FT Accounts of ZPs > Designated Bank Accounts of GPs
State Government Grants to PRI	State FT Account > FT Account of ZP > LF Accounts of the ZP, PS and Designated Bank Accounts of GPs
State Finance Commission	State FT Account > FT Account of ZP > LF Accounts of the ZP, State FT Account > FT Account of ZP > FT Accounts of the PS > LF account of the PS State FT Account > FT Account of ZP > Designated Bank Accounts of GPs
Backward Region Grant Fund	State FT Account > FT Account of ZP > Designated Bank Accounts of the ZP, State FT Account > FT Account of ZP > FT Accounts of the PS > Designated Bank Accounts of the PS State FT Account > FT Account of ZP > Designated Bank Accounts of GPs
Central Finance Commission	State FT Account > FT Account of ZP > LF Accounts of the ZP, State FT Account > FT Account of ZP > FT Accounts of the PS > LF account of the PS State FT Account > FT Account of ZP > Designated Bank Accounts of GPs
Indira Gandhi National Old Age Pension Scheme	State FT Account > Designated Bank Account of the DPRDOs > Designated Bank Account of the GPs

Source: Notification 1406-PN/O/II/3B-5/2005, Government of West Bengal

Once funds are transferred by PRDD to the ZP FT account, the latter also receive communication stating the amounts to be transferred to a) the Local Funds (LF) Account of the ZP (ZP Share); b) the LF Accounts of the PS (Panchayat Samity share); or c) the Designated Bank Accounts of each individual GP. Representatives from the only district administration visited (Murshidabad) acknowledged *long delays* between the disbursement of funds from the state into the district's FT account and their eventual transfer to PSs and GPs. Almost six months passed between these two events, although it was indicated that these delays have been shortened significantly recently.

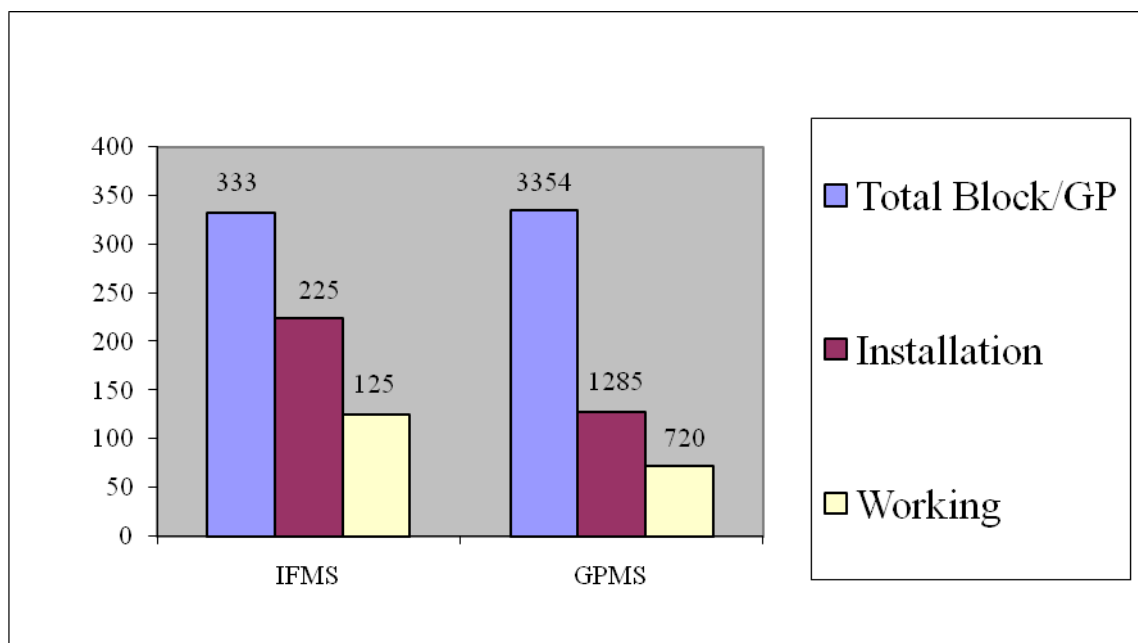
District-wide utilization rules apply to some of the grants for the GPs and are behind some of the observed delays in the transfers of funds. Such rules require an overall level of use of funds across GPs prior to the disbursement of the following tranche. This obviously penalizes those GPs with better execution rates and poses severe constraints to their financial management. Any future grant should address this inefficiency of fund flow.

The GUS can operate its own bank account, and this account can be jointly operated by a secretary and the president, the sole elected member of a GP.⁷ GP council members are not employees of the GUS, however. There are rules regarding the representation of the council members – that is, if there are more than 1,200 voters, then there are two council members who represent the GS and the older member will become the president. It was indicated at a site visit to one GP that GUS presidents are now demanding that they be paid for their work, as they are responsible for development in their area.

Money from the GP goes to the GUS bank account and then the GUS president and secretary jointly manage the funds. The secretary maintains the cash book; the president will keep all banking documents. At the beginning of the year, GPs give GUS a check as an advance for the projects to be implemented during the year. The GUS will call a meeting and discuss the scheme and then start the development work for the project or activity. If there is any balance left after project completion, the GUS gives a check to the GP for the remaining balance in the course of monthly reviews of project progress.

The PRDD indicated to the team in July, 2009 that use of the financial information management system and accounting structure is good, certainly at the upper tiers. According to the Department, within the PRI, from 2006-2007, all ZPs used the IFMS for their accounting (see Chart 1 below). At the time of its report, the FRA estimated the GPMS to be running adequately in 350 to 400 GPs. At the time of the site visit in July, 2009 with PRDD, it was indicated that the GPMS to be working in ~720 GPs, with regular updates, 500 with lagged updates and 800 GPs have abandoned the system.

⁷ Except for those larger, two-seat Gram Sansads.

Chart 1: Status of IFMS & GPMS in West Bengal PRIs

Source: GOWB, PRDD *Financial Management of PRIs in West Bengal*, July, 2009.

The account structure and financial management system supports the following outputs:

- voucher generation
- preparation of cash books
- cheque issue register
- subsidiary cash books
- ledgers
- cash analysis
- receipts and payments accounts

The two software systems – SARAL IFMS (ZP and PS) and the GPMS (GP) have the functionalities of single point entry and standardized head of accounts and final accounts. The PRDD indicated to the team in July, 2009 that “rules have been revised for the acceptance of computer generated outputs to be legally accepted.” The GOI CAG simplified accounting code guidelines envision the PRI system to be web-based with accounting data available online in a centralized system, but this is not currently evidenced.

Site visits to GPs indicate the ability to maintain accounts using pro forma prescribed in the 2007 rules; GPs presented example general cash books (Form 1) and general ledgers (Form 21); monthly statements of fund position (Form 26) and/or statements of receipts and payments (Form 27) were received from some or all of GPs visited as well. In addition to support for double entry accounting, the system allows for the generation of

data and documentation from which various financial ratios can be calculated, examined and reported. The PRDD provided fund utilization, accumulation, transfer efficiency, compliance and other ratios that can now be generated for the GPs given this standardization. An example of using inputs of receipts and payments accounts for ratio calculation and financial analysis is provided in the Task II Appendix A.

All of the GPs visited by the team had implemented the GPMS, if only temporarily, although the implementation date varied (from 2007 to April 2009) as well as level of implementation success. Capacity levels are illustrated in the comments from five GPs visited below:

- The GP has the GPMS system and had been using it. However, they developed hardware problems about two or three months ago and have not dealt with the hardware problems, so they are running a manual system now.
- Regarding the computer system, the secretary is not confident about using the system, but his assistant is. This GP was able to print out Form 27 and a monthly statement, as well as itemized revenue sources. The younger officers say that the GPMS system is now being utilized “fully.” The system was not fully operationalized for the 2008-09 year, but the budget and expenditure/revenue system is computerized for 2009-10.
- The GP has no manual accounts and has been using the GPMS since last year.
- The GP has the GPMS software and has been using it for the last year. Two individuals were trained on the system and are confident in it.
- The GPMS was installed last December, 2008 and the GP has been using the system since April, 2009. This GP has Internet connection. Some of the staff received three days of training at the PS level and another two days of training at the ZP level, for a total of five days of training. The GPMS has reduced GP work effort. They are able to submit a report to the PS level in both hard and soft copy. They backup data daily on a CD and a pin drive.

Site visits confirmed a differential application of the computerized financial management system to accounting practice in the GPs. And, the system is not currently web-based. The governments fill out their revenue/expense information (generating forms via computer or manually and/or loading a pin drive) and send files to the PRDD, where data is input into a central data base. No individual PRI government can directly access the full data base.

Consideration of the current state of this GPP in GOWB PRI indicates that clear protocols exist regarding the budget process and accounting structure; flow of funds is supported through the FT system and is monitored and attenuated as necessary to advance efficiency of transfers by level of government. Still, fund transfers follow schemes and programs; the system does not necessarily accommodate the alignment of any local budget needs with the policy goals of such schemes and programs. The accounting structure and budgeting format has been advanced via computerization; the system at the GP level is more slowly taking hold. Across this tier of the PRI, use of the system ranges from no implementation of hardware/software to the existence of both, but

no use, to use and abandonment, to use in conjunction with manual accounting and reporting and finally to complete computerization of accounting and reporting with no manual bookkeeping. Some of the nine GPs visited had Internet access and two GPs presented budget and financial reports developed using Excel[®]. While Internet access at the GP level is slow, generally, this access is available at the PS tier of the PRI. Good practice principles dictate that the budgeting and financial management structure established supports a flow of funds that promotes the alignment of determined budget goals with development policy objectives at all levels of government. If it is assumed that the GPs visited represent the universe of these governments across the GOWB, this GPP is not currently practiced consistently throughout West Bengal's PRI and is often compromised.

GPP (3) Budget Process is Timely, Efficient and Effective

This GPP requires that the foundation of the budget process is established and the budget schedule is adhered to, that the budget process is able to support sector and scheme goal attainment, that the process is transparent, that accounting for allocations aligns with established goals and objectives and that there is consideration of the value of investment. The process must illustrate sufficient human and organizational capital to manage the allocation process and management of the flow of revenues and expenditures.

The FRA recognized *Substantial* fiduciary risk (grade of C) associated with the ability of local level government in West Bengal to adhere to the budget preparation and allocation schedule as provided by budget law and in the budget calendar. According to the report (p. 16), the GOI CAG Audit PRIs of 2005-2006, 49 GPs had not prepared, approved and adopted the budget for the year 2004-2005; these GPS spent Rs. 11.21 crore, technically without any budget allocation during the year. Review of the 2004 and 2007 PRI audit of 2006-2007,⁸ indicates the data presented in Table 5 that show the number of governments by tier that incurred expenditures without a budget allocation. Overall, the PRI exhibit an upward trajectory on this measure in terms of a reduction in the number of governments spending without an allocation and in the amount of rupees spent without authorization. The PS indicates a more positive trajectory regarding this metric, however. The more recent audit indicates just one PS spending Rs. 2.73 crore in 2005-2006 without budgeting (FRA, p. 24) compared to 15 PS spending 47.61 crore without budgeting in 2003-2004. No ZPs were noted as spending without budgeting in the 2003 or 2004 audits by the GOWB or in 2005 as noted by the FRA report; in 2006, just one incurred expenditure of Rs. 80.76 expenditure without preparing a budget estimate.

⁸ Data presented here from the 2004, 2005 and 2007 audits of the PRI provided by the GOWB, online (2004 and 2005) and in hard copy (2007). The 2006 audit was unavailable at the time of this report.

Table 5: Incurred Expenditures without Budget Allocation, by Audit Year and PRI Tier

Audit for Year:	# of GPs/Rs. crore	# PS/Rs. crore	# ZP/Rs. crore
2002-03	Not Available	15/42.89	-----
2003-04	82/15.09	15/47.61	-----
2004-05	49/11.21 (FRA)	1/ 2.35	-----
2005-06	51/14.96	1/ 2.73	1/80.76
2006-07	Not Available	Not Available	Not Available

Source: GOWB, *Report of the Examiner of Local Accounts on the Panchayat Raj Institutions* for the Years Ending March 2004, 2005 and 2007.

As noted earlier, according to officials in the GPs visited, the protocol set for budgetary approval (presentation of the GUS budgets at local meetings; their eventual approval by GUS and the GP Custodian; approval and adoption of the budget for the next fiscal year by the GP council) is well known and respected. However, timelines used for budget formulation were somewhat inconsistent across GPs, with the process being initiated in September generally, but approval being scheduled anytime between February and April 1st, when the budget year starts. This report supports sustaining the FRA assessment of substantial fiduciary risk associated with the local level government adherence to protocols of budget law and calendar.

The FRA assigned a rating of B or *Moderate* to the fiduciary risk of SRD Cell regarding several other benchmarks that relate to this GPP, including:

- *Budget outturn shows a high level of consistency with the budget.*
- *Budget allocations are consistent with the overall budget.*
- *In-year reporting of actual expenditure.*

As noted in the Task I report, expenditure assignment in the GOWB “is more a devolution of expenditures than assignment of responsibilities to the PRIs. As a result, much of the PRI expenditure activity is focused on carrying out and reporting on prescribed central and state sponsored schemes.” How are PRI tiers able to accommodate the budget goals with expenditure, given the tight rein on scheme and programme funding? The FRA benchmark, *Budget outturn shows a high level of consistency with the budget*, was graded as B or *Moderate* in terms of fiduciary risk. The FRA found non-plan expenditure to be consistent with budget estimates, generally, at the department level, while expenditures in excess of budget provisions are rising at the lower tier, the GP. An update to Table 9 of the FRA (p. 19-20) indicates that this pattern continues. In fact, considering the available data, Table 6 indicates that the number of GPs exhibiting excess expenditure over budget more than doubles from 2004-2005 to 2005-2006. Data in Table 6 seems to indicate a perpetual problem – the number of GPs spending over budget also more than doubles from 2003-2004 to 2005-2006. However, when rate of change is examined – across years excess over budget in Rs. crore actually decreases from 2004-2005 to 2005-2006 for tiers GP and PS. That is, excess expenditures over budget increase by 282 percent in the GPs from 2003-2004 to 2004-2005 and then by 179

percent from 2004-2005 to 2006-2007. The rate of change across years for the PS declines dramatically from 230 percent to just 12 percent for the same years. It is only the ZP level that experiences an increase in the rate of change in excess over budget as measured in Rs. crore, from 15 to 75 percent, for the years of interest. Concurrently, the GOWB (2007) indicates that financial discipline of its GPs is not a major problem. According to this report, “from 2003 to 2005, 199 GPs indicate deficits all three years and only a handful had deficits larger than their opening balances” (GOWB, 2007).

Table 6: FRA Table 9 Update: Details relating to Excess Expenditure over Budget by PRI

Local Body	Number of Local Bodies			Excess over Budget (in Rs. Crore)		
	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
Gram Panchayat	340	723	1,559	7.30	27.89	77.93
Panchayat Samiti	24	27	27	1.69	5.57	~6.25
Zilla Parishad	5	2	5	9.44	10.85	19.04

Source: For years 2003-2004 and 2004-2005, see PriceWaterhouseCoopers for DFID, 2009, pp. 19-20; for year 2005-2006, see Government of West Bengal and Government of India, Comptroller and Auditor General of India (2008), *Report of the Examiner of Local Accounts on the Panchayat Raj Institutions for the year ending 31 March, 2007*, Appendices IV, V, and VI, pp. 82-86. Rs. Lakh converted to Rs. Crore in 2005-2006 and Rs. Crore for PS in 2005-2006 splits excess expenditure over budget for 27th PS as audit report indicates that excess expenditure was made across the years 2004-2005 or 2005-2006 (see p. 85 of 2007 Audit Report).

Human capital support for the financial management information system, accounting practice and budgeting processes is necessary for successful budgeting results. The FRA recognized a number of considered or ongoing budgeting and financial management reforms in the PRI. For example, the introduction of new posts for accounts officer has been an effort to support the internal audit function of the PRI. A new post of Junior Accounts Clerk has been sanctioned at ZP level to address the large number of vacancies at the Samiti Audits and Accounts Officer (SAAO) level and consequently reduce delays in undertaking internal audits. Recruitment is planned through Public Service Commission (PSC) of West Bengal. There has been one internal auditor position per West Bengal's PS tier in the PRI. Results from site visits in July 2009, indicate that approximately 60 to 65 of the 341 positions were vacant. Still, the introduction of a new cadre of Executive Assistants to the GP level is an effort to serve dual purposes advancing the verification of all transactions entered by a countersign and ensuring transparency from the PS level of the PRI. In a briefing session with PRDD prior to the field visits, it was reported that “several posts have been created at all PRI levels for better fiscal discipline,” arguably reflecting the creation of Junior Account Clerks at the ZP level and the Executive Assistants at the GP level. Also, site visits yielded meetings with the Executive Assistants in seven out of the nine GPs; it is unclear if this sample is representative of the rest of the GPs in West Bengal. GP Executive Assistants and Custodians have responsibility of the GP bank account; payments and the cash book have

to be signed off by the GP Secretary, Custodian (Pradhan) and the Executive Assistant. Banking protocols are presented in the West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget) Rules, 2007.

Other human capital needs regard training and development. The computerized financial management system at the GP level (GPMS) is supported in the PRI by two software developers and two data analysts and about 33 trainers allocated across the state. The trainers support GP administrator and staff understanding about the computerization of the data – the format of data, categorization of revenues and expenditures, the physical process of inputting revenue and expenditure information and sending the files to the PRDD. Just as GPs indicated a range of success in terms of implementing the GPMS, information technology support to GPs is eclectic – one field IT officer in a GP claimed feeling unable to meet the needs of the GP as there “are too many demands.”

On the other hand, in another GP, the Executive Assistant works on the GPMS and it is operated by his assistant. If there is a problem, they inform the State Department and two people are available, intermittently, to help. A technical assistant from the state oversees 40 GPs, so it is not possible to get help quickly, however. Two employees in this GP have formal training in the use of GPMS; they received their initial training for three days at the ZP level. This GP also prepares an Excel[®]-based budget in which budget tables are input, stored and can be printed from the computer; the budget is prepared using the new accounting codes and budgeting rules and data is backed up daily on a pin drive.

One GP visited illustrated well the problem with weak human capital support to government administration. The Executive Secretary had been out sick for three weeks and held the key to one cabinet that contained the executed budget (Form 27). No one else in the office seemed to have access to that particular cabinet. Our SRD colleagues noted that provisions are in place for handing over power in the case of an absence but that process appears not to have been used in this GP

Tax collection offers another area of potential support to advance financial management in the PRI. The GPs visited exhibited differential use of the tax collector. That is, one GP indicated that the tax collector sits in the GP office twice a week, visiting other areas the rest of the week. The tax collections for this year (2008-2009) in this GP are strong, in part because of collection of arrears in property tax. Collectors in other GPs may sit in the GP office just one day a week. The collector in this GP observes if new buildings have been built and makes a note and informs owners of a responsibility to pay the tax. The elected officials also do some “foot work” in finding new properties and will quiz owners of new buildings as well, telling them to go check with the tax collector about paying this tax. Those who do not submit their self assessment and who do not pay the tax do not get any sort of relief or support from the GP. That is, property owners must pay this tax first in order to get services from the GP. The assessment list is published on billboards so that everyone can examine the list and consider objections.

At another GP, own source revenue is largely driven from the property tax, but tax collection rates are low (estimated at 47 percent of assessment). Officials there claimed

that this is due to a lack of awareness (which the GP is trying to change) and the large level of agriculture employees (who are not interested in paying the property tax). The GP is trying to increase awareness and thereby hopes to increase revenue.

In terms of a measurement focus of budgeting and financial management in the PRI, and specifically, value for investment, the FRA reported that the PRDD had initiated an output and outcome budgeting orientation to better link budget allocations with verifiable physical indicators. There would seem to be good foundations in place for such a budgetary reform. Some state programmes currently implemented already collect relevant output and outcome indicators in order to measure scheme performance. The Annual Administrative Report (2007-2008) shows that initiatives such as the Prime Minister's Rural Roads Program (PMGSY), implemented by the state with the assistance of the ZP and PS, define both clear output indicators (e.g. habitations to be connected with rural roads and length of roads constructed) and targets. The conditional nature of this grant and its very specific focus, coupled with the fact that it is designed and led by the national government undoubtedly assists in the definition of performance indicators and targets. However, even in those programs with wider objectives and of less a conditional nature regarding the use of funds, such as the BRGF, output measures are being used to assist performance audits.

Our interviews provided anecdotal evidence of additional performance indicators being collected through the implementation of several other schemes, but not utilized in the budget formulation or audit process. Arguably, some of the indicators collected may not contribute much in the way of critical budget allocation criteria, and may be more bureaucratic in nature. However this still attests to the fact that a certain inertia towards the use of performance indicators already exists at all levels of government and thus future plans to advance the implementation of outcome budgets (perhaps as part of the new administrative reform project) should be continually emphasized.

An important current initiative in support of an outcomes-based budgeting system in West Bengal GPs is the establishment of the self-evaluation schedule for this tier of the PRI. The self-evaluation requests GPs to provide information on a wide range of primarily output and some outcome indicators measuring service delivery at the GP level. These include indicators on road infrastructure, water and sanitation services, the maintenance of local assets such as parks of communal lands, and administrative processes (registration services, etc.) that are provided by the GPs. This self-assessment system is far from flawless, but, coupled with the physical inspections of scheme operations that are conducted by the GOI CAG, it provides a good basis for continuing to strengthen a results oriented budgeting process as well as a focus on value for investment.

GPP (4) Budget Execution Supports Control, Accuracy and Flexibility

This GPP requires that budget execution provide the control, accuracy and flexibility that has been established in budget law, accounting structure and financial management processes to realize budget reliability as a truthful guide to actual spending. Metrics to

assess this good practice principle include results from expenditure reporting for consistency (lack of gaps between revenues and expenditures), assessment of the procurement process, reconciliation of fiscal and bank records and the transparency of budget information to the public. PRI attention to this GPP means that corruption is kept to a minimum.

The FRA report found three applicable benchmarks regarding this GPP to be *Moderate* in fiduciary risk of the SRD Cell:

- *Reconciliation of fiscal and bank records is carried out on a routine basis.*
- *Appropriate use of competitive tendering rules and decision making is recorded and auditable.*
- *Systems operating to control virement, commitments and arrears.*

By all accounts, most GPs are routinely conducting reconciliation of fiscal and bank records. The FRA recognized that the banking system is prescribed by the GOI and the 2007 GP budget and accounting rules spell out requirements for bank reconciliation statement preparation on all bank accounts by the panchayats. This has not changed materially since the publication of the FRA, except for changes made to fund transfer protocols implemented in April, 2009 that were discussed earlier in this report when assessing the second GPP.

Table 7 below presents the difference in rupees between cash and pass books that remained unreconciled, by year and tier of the PRI. Any difference exhibited results from a government not conducting monthly reconciliation of balances in cash and pass books, as prescribed.

Table 7: Difference in Rupees between Cash and Pass Books that Remained Unreconciled, by Year and PRI Tier

Audit for Year:	# of GPs/Rs. lakh	# PS/Rs. crore	# ZP/Rs. crore
2001-02	Not Available	69/9.16	5/46.79
2002-03	86/13.49	Not Available	Not Available
2003-04	96/63.32	43/6.53	5/43.58
2004-05	Not Available	5/1.13	Not Available
2005-06	102/26.71	39/10.75	1/1.70
2006-07	Not Available	Not Available	Not Available

Source: GOWB, *Report of the Examiner of Local Accounts on the Panchayat Raj Institutions* for the Years Ending March 2004, 2005 and 2007.

The data indicate that no more than three percent of GPs are not reconciling as prescribed. As many as 20 percent of PS have not been conducting monthly reconciliation between cash and pass books; up to 27 percent (five) of ZPs are recognized

here, but by 2006, only one ZP indicates not conducting reconciliation of cash and pass books. This measure conforms to the assessment by the FDA regarding the fourth GPP.

According to Task I, “the physical flow of funds from central government and state to the PRI varies depending on the fund.” Sometimes a GP must apply for funding from higher levels, other times, funding is automatic. One GP explained that “the PRI and Health prepare their own budgets and then the window opens that they indicate activity that will be carried out by the GP.” GPs maintain separate bank accounts by scheme and one for own source revenue. GUS are able to maintain a separate bank account. Central government and state funds flow to GPs through the ZP (fund transfer or FT account) thus bypassing the PS level; ZP serve as “gatekeepers for schemes requiring district-wise utilization triggers” (Task I, Wallace, 2009). An assessment of receipts and payments from the GPs finds that consistency of recording of fund flow during budget execution can be compromised, however (Task I, Wallace, 2009).

Lack of consistency of financial records across GPs seems to be due to the different definition of accounting heads, left somewhat to the discretion of GPs once the GPMS software is installed. Officials are able to produce a specific level of detail in reporting using the compiled collection and expenditures report (CCER), a standard form available from the GPMS software but not a financial report requirement of GPs. Such accommodation by GPs makes it difficult to assess budget execution and accuracy state-wide. Task I assessment of expenditures for GPs (including site visits and a wider sample of GPs for which financial data was obtained from the PRDD), using Form 27 and the CCER when available, confirms that most expenditure is made on non-discretionary schemes.

Regarding fund flow and recording during execution, the disbursement of the first installment is based on the GPs work plans. Subsequent installments are disbursed upon receipt of utilization certificates from the earlier installments. The fund flow is state to ZP to the GP bank account and the GP will then access the money. The state does not send 100 percent of the allocation for all state sponsored schemes. And, the GP Executive Assistant and Custodian have responsibility for management of the GP bank account, per the 2007 budget and accounting rules. The Task I report explains that some grants require that the GP present a certification of utilization (CU). In this case, funds are sent to the ZP, the ZP reviews the CU and may or may not send funds down to the lower PRI tier.

Transparency of the management of funds in GPs is addressed in a number of ways. Checks and balances are founded on the 2007 budget and accounting rules that prescribe the role of the GP Secretary, Custodian (Pradhan) and Executive Assistant. Purchases and payments require authorization and payments that include roles for all three officials. Cash reimbursements are limited to 500 rupees, for payments of 500 to 1,999 rupees, payment can be made by check and for those payments over 2,000 rupees an account payee check must be used. Payments orders are prepared and initialed by the Executive Assistant, and presented to the Custodian for his signature. The cash book must be signed off by the Secretary and the Custodian. Officials in one GP noted that payments to

vendors are sometimes delayed. Site visit results indicate that GPs are using cash basis of accounting with the hope to advance to accrual accounting in the next six to 12 years.

The GP Secretary also works with the GUS president to manage the funds of the GUS bank account – the secretary of the GUS maintains the cash book, and the president and the secretary of the GUS jointly operate the bank account, in a system that mirrors that at the GP level. The GUS receives checks from the GP for planned projects. GUS expenditures appear in the GP budget as advances to the GUS. The GUS maintains a cash book (Form 29) to record expenditures. A final adjustment to the GP is in the form of the expenditure booked in detail at the GP level. GPs may advance funds to the GUS prior to receipt of funding – once money is received from the scheme, programme or grant, the GP fund is replenished.

Officials in the GPs visited explained how accounting for spending by the GUS is conducted. The devolution of funds to the GUS is not set by formula but rather is determined by the demands of the GUS. The GP receives actions plans and budgets from the GUS and compiles these together. The priorities of the GUS are consolidated and, depending upon the availability of funding, “they implement the budgets, *as soon as possible*.” The GP standing finance committee, chaired by the Pradhan, is made up of selected representatives from five subcommittees and members of the GP council who represent the GUS. This committee deliberates about the GUS budgets. There are funding guidelines; different GUS get funding for directed activities and if their planned activities and projects match the guidelines, then they get funding. The same amount of money is not allocated across every GUS. There are guidelines for schemes and GUS must follow these guidelines to secure funding. Each GUS decides what scheme or schemes fit with their needs.

Generally, expenditures at the GUS level are made in two ways, either by incurring expenses to self help groups or for the beneficiary group. People from the GUS form the beneficiary group and become “employees” of the GUS. The GUS president and GUS secretary manage this work and the finances for employment and projects. To insure that GUS spending follows guidelines and budget plans, the GP inspects projects and activities. GP officials – probably the secretary – visit work sites and when a project is completed, make sure that the adjustment to GP books is made. At one GP it was mentioned that “an adjustment or accounting for this must occur every six months; but money may flow across fiscal years.” Often, however, the GUS does not have the capacity to complete the work/project. Officials talked of NGO funding and support that might coincide with that of the GUS, but this is not necessarily the case. Finally, this GP indicated that fund flows from the central and state governments were short the last six months necessitating that the GP bridge funding for programs and projects out of its own funds.

Slow advance of the GPMS across GPs in West Bengal helps advance double-entry bookkeeping, the generation of financial reports, and the aggregation of revenues and expenditures in the PRI and up to the state level. The computerized financial management information system is operational in all ZPs and all but 22 PS. It was noted earlier that

computerization of budgeting and financial management at the GP level is slow yet growing; approximately 36 percent of GPs are using the GPMS, alone, or in addition to the maintenance of manual records, and with or without lagged updates.

Exposure of budget information from the GP to the public is provided in several manners and also advances transparency. Form 27 can be printed in the local language using the GPMS system (or manually prepared) and posted periodically. Both Form 27 and a list of beneficiaries are included in the Public Information Statement that GPs are required to publish according to the Right to Information (RTI) Act. This list offers information on beneficiaries and projects funded; who received housing support and the like. The GPs visited indicated that the budget is posted by object of expenditure, is printed annually and distributed to GP citizens – in meetings or presented directly door-to-door. Most of the GPs post information about public program beneficiaries by painting the information on the wall outside the government office. Some display budget data on blackboards placed at the office and “in the field” or GP center. Data presented on blackboards can easily be updated, monthly or even daily.

The FRA scored the GPP, “Government carries out procurement in line with principles of value for money and transparency,” and measured by the benchmark, *Appropriate use of competitive tendering rules and decision making is recorded and auditable* as *Moderate* (B) in fiduciary risk of the SRD Cell. The report outlined the GP accounting and budgeting rules of 2007 regarding procurement of materials and movable properties, that remains relevant, though unchanged at the time of this report. Current examination of the GOWB audits of the PRI in 2004, 2005 and 2007 regarding procurement problems is presented in Table 7 below:

If we accept these audit results as both reliable and valid, this supports the *Moderate* score on fiduciary risk related to procurement presented by the FDA. In the end, accounting malfeasance in the PRI exists, although most problems seem to be presented by the two top tiers of the PRI, regardless that the lower tier and GUS undoubtedly suffer any consequences from idle or damaged work sites, infrastructure and projects that may result from the malfeasance.

GPP (5) Budgeting and Financial Management System Supports Fiscal Balance and Performance Value

This GPP requires that periodic, timely and accurate assessments are conducted that measure government adherence to the spending plan, the routine production of clean financial audits, and that financial malfeasance is kept to a minimum, exposed and penalties imposed. Adherence to these practices also involves the production of valid cost and performance data, and the development and reporting of performance measures.

In terms of financial reporting by the GPs, the 2007 accounting rules require the preparation of monthly reports on the fund position using Form 26. Such monthly reports must be tabled at the GP meeting and a copy sent to the block the first week of each

month. In addition, half-yearly and yearly statements of receipts and payments must be also prepared using Form 27. Once approved at the GP meeting, both statements must be published in the gram panchayat's notice board, so ensuring dissemination to the public. Copies of the annual statement are to be sent to the executive officer of the block.

The FRA found somewhat conflicting results regarding adherence to this GPP. That is, the report found the benchmarks, *Audited annual accounts are submitted to parliament within the statutory period* and *Government accounts are independently audited as Moderate (B) in fiduciary risk of SRD Cell* and remaining status quo in terms of trajectory. On the other hand, the FRA determined that fiduciary risk associated with the following three benchmarks is *Substantial (C)* but on an upward trajectory:

- *Effective action taken to identify and eliminate corruption.*
- *Government agencies are held to account for mismanagement.*
- *Criticism and recommendations made by the auditors are followed up.*

Task II site visits and document review concurs with much of the assessments of the FRA in this area. The PRI are subjected to several oversight components – (1) the annual (ZP and GP) or bi-annual (PS) financial audits are conducted by the Examiner of Local Accounts (ELA); (2) quarterly internal audits conducted on PS and ZP by the Samiti Accounts and Audit Officer (SAAO) and the Parishad/Regional Accounts and Audit Officer (PRAAO), respectively and monthly and quarterly internal audits of GPs conducted by the Panchayat Accounts and Audit Officer (PAAO); and (3) the GP self-evaluation performance audit. The ELA is a joint office, an arm of the GOI CAG that is located within the PRDD of West Bengal. States in India follow the Technical Guidance System (TGS) for financial auditing. Three states, including West Bengal, use the ELA model which maintains the independence of the auditor, but strengthens trust between the state and central governments for oversight of the PRI. The GOI CAG serves a dual function within the TGS and ELA, in this case.

Probably one of the biggest setbacks to auditing local governments in West Bengal regards timeliness, given sheer numbers of governments necessary to visit and assess. In terms of the annual financial audit, this process has been a two year or 18 month process, but the ELA is trying to reduce the turnaround. This year, they are trying to cut down the number of months for production to 17 – from field visits, data gathering and verification, and consolidation of all audits to the submission of the audit report to the state legislature. Currently, the GOI CAG and ELA conducts the external, field audits for all West Bengal GPs, for about 50-60 percent of PS per year or 100 percent over a two year period, and for 100 percent of ZPs.

The role of the audit officers is to collect data from the local governments and to conduct account certification. The analyses are twofold – a joint physical inspection of scheme operations/infrastructure along with financial data gathering. This is a type of social audit that provides an awareness of the “people element” of local government operations. They investigate whether governments are following scheme requirements. Scheme guidelines have performance indicators. For the physical inspections, they investigate a

Table 8: GOWB Overview of Audit Problems with Procurement in PRI, 2004, 2005 and 2007

Audit Report	Execution of Works and Procurement of Supplies
Report of the Examiner of Local Accounts on PRIs for the year ended 31 March 2004	<ol style="list-style-type: none"> 1. PS - Inadequate planning and failure to mobilise resources, expenditure on construction of a community hall 2. PS - Failure to take appropriate action for allotment of shops in a market complex resulting in idle expenditure 3. PS – Incurred wasteful expenditure under Employment Assurance Scheme (EAS) on 116 works that were abandoned 4. 2 PS – engaged contractors for execution of works instead of executing them departmentally. This led to loss of generation of employment for the rural poor. 5. ZP - spent under the same scheme above by engaging contractors for execution of works and deprived the rural poor of employment. 6. ZP - work not completed on hospital ward due to paucity of funds and the building, partially constructed could not be utilised due to defects in the construction. 7. ZP - unauthorisedly purchased two flats outside its functional area, in disregard of guidelines for utilisation of 10th and 11th Finance Commission Funds. The flats also remained unutilised resulting in blockage of funds in the idle assets.
Report of the Examiner of Local Accounts on PRIs for the year ending 31 March 2005	<ol style="list-style-type: none"> 1. PS - defective planning, budgeting, implementation and monitoring mechanism, construction of an auditorium turned unproductive 2. PS - improper planning and commencing execution of work of construction of bus terminus without ascertaining regular flow of funds resulted in unproductive expenditure 3. PS - incurred infructuous and irregular expenditure of out of SGRY funds on two wooden bridges, washed away by river within the year of their constructions i.e., 2002-03 and 2003-04 respectively, while SGRY programme guidelines did not permit any such expenditure on bridges. 4. PS - erratic planning and non-identification of clear sources of funds before starting construction of a bridge remained incomplete and turning the investment unproductive 5. ZP - inadequate planning, monitoring and internal controls, resulting in a serious anomaly in tender estimate, a road work remained abandoned 6. ZP - engagement of contractors in violation of programme guidelines 7. ZP - unauthorized use of costlier material in road works 8. ZP - selected 281 beneficiaries not belonging to required category 9. ZP – problems with procurement rate on road work 10. ZP – poor management of inventory
Report of the Examiner of Local Accounts on PRIs for the year ended 31 March 2007	<ol style="list-style-type: none"> 1. ZP – underutilized Rural Infrastructure Development Fund 2. ZP – execution of road work suspended because of paucity of fund. Executed works damaged. 3. ZP – improper diversion of grant funds 4. ZP – paid for work abandoned and balance laid idle 5. GP – excess payment made to contractors

Source: GOWB and GOI CAG, *Report of the Examiner of Local Accounts on PRIs for the years ending 2004, 2005 and 2007*. The 2006 Audit Report was unavailable at the time of this study.

sample, ten percent of scheme activity. That is, they cover all schemes, and sample the activities conducted in those schemes for performance. The audit template asks for financial data as well as output data; auditors use basic records of the local governments to generate output measures. Muster rolls and other GP records are used to complete data collection.

Approximately 45 auditors are tasked to travel to all GP every year and conduct a two day site visit, then return to the office and continue with data verification and write-up. A quarterly program is developed that schedules auditors for field visits. Auditors compile their data based on the office's local audit template/survey – plugging in the data on the form. After they have secured as complete a report as possible, auditors rate the audit using two components – giving it a letter grade that is associated with a numerical scale from 0-2 (D-F) to 9-10 (A). Scoring of audits is conducted internally. The audit is rated regarding whether the auditor has done a good job collecting information. That is, that the auditor got all the information and data requested by the template and the data is verifiable and complete. The audit is also rated according to the number and severity of issues uncovered by the audit, specifically information indicating local government adherence to scheme funding requirements. So, a rating of A, for instance, would indicate that the auditor was very thorough in terms of collecting data and the quality of the data and the auditor uncovered significant issues. At the end of the audit process, a consolidated audit report is presented to a standing committee of the State Assembly. This committee holds hearings open to all stakeholders; the committee considers what it can, whatever are the biggest issues that have surfaced from the audits.

Our site visits reveal that monthly and quarterly audits are compromised similarly, given shortages in the employment of auditors at the upper tiers of the PRI. And, the usefulness of the computerization of bookkeeping via the GPMS is compromised in terms of timely reporting and auditing for several reasons: (1) in the 36 percent of GPs in which the system exists and is used, there can be long waits for training and technical support; (2) approximately 24 percent of GPs have abandoned the GPMS; and (3) the remaining 40 percent of GPs have not yet implemented the GPMS. This lack of standardization in data collection, maintenance and reporting does compromise its consistency.

On the other hand, consideration of program performance and value for investment has progressed in the PRI with the implementation of a score based self-evaluation process that covers GPs, PS and ZP. A database has been developed for PRIs across the state for a performance audit approach and incentive grants are awarded to best performing panchayats based on validated scores from the instrument. This recently introduced annual self-assessment system has as one of its main objectives to increase awareness at the panchayat level of the need to deliver adequate levels of quality services to their jurisdictions. Additionally, it is expected that the process would allow identifying areas for priority action and improvement, including gaps in basic social and economic infrastructure, so as to facilitate strategic development planning and poverty reduction. The process institutes additional financial assistance in the form of grants for best performing GPs but this might produce a perverse incentive in a self-assessment mechanism and is an area for further study. It is, however, expected that the introduction

of a Citizen's Report Card and Charter will help validate the self-assessments by obtaining the perceptions of citizens as to the coverage and quality of the services received from their GPs (GOWB, 2009).

The self-assessment requires answering a series of over 50 questions considering 21 different topics that are organized into two major blocks, (1) Institutional Functioning and Good Governance; and (2) Mobilization of Revenue and Utilization. Importantly, areas covered in the functioning and governance block include service delivery, participatory planning, transparency and budgetary processes, as well as facilities and infrastructure available to GPs. The second block of questions, on resource mobilization and expenditures, considers budgetary aspects, accounting and audit protocols and natural resource mobilization. Completion of the self-evaluations requires attention to hundreds of data points – one question alone has as many as 72 individual data points for local officials to consider. The sheer length of this annual assessment hinders the data's reliability. Questions included in the self-assessment are frequently double barreled and open ended, calling into question the validity of the instrument itself. A more reasonable survey that focuses on GP performance results in the top three to five priority areas might produce better, more useful data from which to judge individual and overall GP progress.

The Annual Administrative Report 2007-2008 states that 87 percent of GPs and PS, and 80 percent of ZPs presented their self-assessments in 2007-2008 for the period 2006-2007, certainly high completion rates for this first year of implementation. The PRDD states however that the absence of 401 GPs and 42 PSs, perhaps those with lower capacity, and development of indicators may be bias results. In particular, coverage is quite uneven by ZP and it is expected that a majority of the missing GPs will be among those with lower levels of critical development indicators and capacity. The PRDD also echoes the fact that self-assessments are often made on the basis of some local officials' knowledge and not on documentary evidence, so the strengthening of local databases is laid out as a critical strategy for future improvement, as well as the implementation of the citizens' report card as mentioned above. Again, the sheer volume of measures collected and the fact that this report is developed annually compromises the reliability of these assessments.

Table 9 illustrates the schedule of accountability specific to GPs with a focus on Forms 26 and 27 and including internal, quarterly audits, the annual audit conducted by the ELA and the annual GP self-assessment. The financial reporting requirements imposed upon the GPs do not seem excessive, in principle. Still, much assumes continued implementation of the GPMS system with little problems to all GPs. If such implementation is defined as an eligibility requirement for the new grant, Forms 26 and 27 should be able to be produced easily using the GPMS software. The demands on the GP administrative staff, however, will remain a constraint unless the very cumbersome system of registers is simplified. One of the GPs visited confirmed that they maintain 52 different registers. The 2007 budget and accounting rules explicitly require 14 of those, with the rest probably demanded by the different grant programs being implemented at the local level. Simplifying these registry procedures would go a long way in facilitating staff availability for timely and accurate financial reporting.

Table 9: GP Accountability and Audit Schedule by Month

Month	Audit Schedule
<i>April</i>	Form 26: Fund Position
<i>May</i>	Form 26: Fund Position
<i>June</i>	Form 26: Fund Position Fourth Quarter Internal Audit (January-February-March/ Annual)
<i>July</i>	Form 26: Fund Position
<i>August</i>	Form 26: Fund Position
<i>September</i>	Form 26: Fund Position Form 27: Statement of Receipts and Payments First Quarter Internal Audit (April-May-June)
<i>October</i>	Form 26: Fund Position
<i>November</i>	Form 26: Fund Position
<i>December</i>	Form 26: Fund Position Second Quarter Internal Audit (July-August-September) GP Self-Evaluation Report due to Block Development Officer
<i>January</i>	Form 26: Fund Position
<i>February</i>	Form 26: Fund Position
<i>March</i>	Form 26: Fund Position Form 27: Statement of Receipts and Payments Third Quarter Internal Audit (October-November-December) Annual Audit Report of ELA on PRIs for Year-2

Related to the FRA benchmark, *Effective action taken to identify and eliminate corruption* that was rated as a *Substantial* fiduciary risk of SRD Cell but on an upward trajectory, that report examined the most recent (2008) Transparency International Centre for Media Studies survey of Corruption in India (specifically, below poverty line population) which placed West Bengal “in the moderately corrupt category – the best possible grade – on a scale of alarming, very high, high and moderate. Media scan of the media in the last year did not reveal any major corruption scandal. An update to the Transparency International Centre for Media Studies survey of Corruption in India has not been conducted and thus, these results remain relevant.

In terms of the existence of accounting data and audit reports to foster transparency that relate to the above, the GOWB, through its website does provide an extensive array of data. Monthly progress reports for grants, schemes and other funding and expenditure are provided for the following:

- SGSY (Swarnjayanti Gram Swarozgar Yojana)
- NREGA (National Rural Employment Guarantee Programme)
- PMGSY (Pradhan Mantri Gram Sadak Yojana)
- Rural Housing (IAY – New Construction and Up gradation)
- Social Security Schemes
- Total Sanitation Campaign

And, the E-Compendium facility accessible from the PRDD website provides the ability to search law, rule and/or order specifications. Still, this information technology is unpredictable – often, years are presented, but data accessibility is compromised – searches of specific reports may lead to pages under construction, unusable or nonexistent. At the very least, these results call for sweeping review of the PRDD web presence and its data and reporting abilities.

In terms of grievance procedures, the FRA recognized the availability of the West Bengal Vigilance and Monitoring Commission, which remains relevant today. Our site visits found little discussion of the grievance protocol. For example, in one GP, there was some discussion of the grievance process for constituents who want to lodge complaints regarding service delivery or corruption. The PRDD website explains the process for reporting of grievances, though GP officials indicated that there is not much detail in terms of guaranteed timeliness of follow up. And, there does not seem to be a concept of whistleblower protection (although in the GPs we visited, we were told that the individual filing a complaint can do so anonymously).

Section II: PRI Current and Planned Reforms

This section reviews some of the current and planned reforms of the GOWB regarding PRIs and their budgeting and financial management capacity. To start, the FRA reported that the PRDD had initiated the implementation of *an outcomes-based budgeting system* to better link budgetary allocations with verifiable physical indicators. There would seem to be good foundations in place for such a budgetary reform. Some of the state programs currently implemented already collect relevant output and outcome indicators in order to measure the schemes' performance. As noted earlier, the Annual Administrative Report (2007-2008) shows that initiatives such as the Prime Minister's Rural Roads Program (PMGSY), implemented by GOWB with the assistance of the ZP and PS, define both clear output indicators and targets. The conditional nature of this grant and its very specific focus, coupled with the fact that it is designed and led by the national government undoubtedly assists in the definition of performance indicators and targets. However, even in those programs with wider objectives and less of a conditional nature in the use of funds, such as the BRGF, output measures are being used to assist performance audits.

Still, our site visits uncovered only anecdotal evidence of additional performance indicators being collected through the implementation of several other schemes but not utilized in the budget formulation or audit process. Some indicators collected may not contribute much in the way of critical budget allocation criteria, and may be more bureaucratic in nature. However the GOWB will need to continue to improve and push a performance orientation and focus on the PRI through acknowledgement of current PRI effort and sustained support on the part of high level government.

The FRA did discuss the recently *introduced annual self-assessment of the PRI* by the GOWB that has as one of its main objectives to increase awareness at the panchayat level

on the need to deliver adequate levels of quality services to their jurisdictions. The self-evaluation may be the single most important current initiative to assist the implementation of a results oriented budgeting system in West Bengal. This document requests GPs to provide information of a wide range of mostly output indicators on the basis of the services being delivered at the GP level. Our assessment supports the development of this process to promote an outcomes-based budgeting system, yet the instrument currently in use needs reassessment to improve the evaluation's reliability and validity.

Related to this, the FRA found auditing and the reduction and exposure of corruption to be a *Substantial* fiduciary risk of the SRD Cell and our findings here would maintain that rating. Both the FRA and this report recognize the importance of implementing the self-evaluation component to the auditing of the PRI; an important outcome from such an instrument is a focus on performance. However, there are a number of ways in which the audit rating system for the external audit as well as the measurement component of the self-evaluation can be improved and coordinated. Better coordination between the external auditing functioning with that of the self-evaluation could dramatically enhance the performance of both assessments. That is, a substantial number of measures and amount data are collected through both assessments. A collaborative effort might cull the number of measures and data requirements to (1) support more relevant and valid measures of performance *outcome* (rather than straight output measures); and (2) reduce the amount of time necessary to compile data for more timely report generation and transparency. Such reforms could then improve human capital capacity and support greater efficiency of the process of auditing in GOWB generally as well as the performance of GPs, specifically.

The FRA also discussed *financial management reforms* undertaken in GOWB. This report finds that the state continues to roll out the SARAS-IFMS (for ZPs and PSs) and the GPMS (for GPs) computerized financial management systems. Full coverage of ZPs has been achieved and work continues to ensure all PSs have migrated into the system. This report finds wide variability as to the perceived current coverage of GPMS, with estimates ranging from 1,200 (FRA 2009) to 1,800 (GOWB, 2009) to 700+ (PRDD, July 2009). As it would be expected in such an ambitious program the share of GPs effectively using the system seems to be well below any general coverage estimate. PRDD reports that 634 GPs had achieved acceptable implementation levels in February 2009 and then in more than 700 by our July 2009 site visits. Even within the very limited sample of GPs visited by the team we found examples of a wide range of applicability and functionality – adequate implementation of the computerized system, examples of manual upkeep of budgetary and account forms only and even a GP where no financial documents could be accessed given that the one person with that management responsibility was “out sick.”

The FRA mentioned the *introduction of the West Bengal Panchayat (Gram Panchayat Accounts, Audit and Budget Rules of 2007* as a reform successful in presenting the concept of double entry bookkeeping to the GPs. A double entry system of bookkeeping was introduced in ZPs and PSs in 2003-2004 and in GPs during the 2008-2009 fiscal year. Although progress in the implementation of this system is considered as acceptable

by the PRDD, the department also reports implementation success is also conditioned by the coverage achievable with the computerization of accounting through GPMS, as double entry bookkeeping is greatly facilitated by the use of a software platform. In terms of the personnel required to manage such an accounting system, the PRDD reports that new positions for accounts clerks have been created at the Panchayat Samiti level.

The team had no access to a detailed implementation plan for GPMS that described a sequence for its complete geographical roll out or the sequential addition of functionalities down the line, but PRDD aims to achieve full GPMS coverage by 2011-2012. Although the conclusions are preliminary, the PRDD has observed efficiency gains in accounting operations (both in terms of time required for and accuracy of bookkeeping) in those GPs where the system is fully functioning.

The FRA pointed to the *electronic fund transfer reform* effort by the GOWB and Task II reports on this as well. As indicated by PRDD, the recently introduced electronic fund transfer mechanism is still a work in progress and conversations are underway with the RBI and other financial institutions where GPs may keep accounts to assist adequate implementation. In addition to the regular publication of released funds in the PRDD website, PRDD expects to implement a communication system in the near future whereby all relevant individuals would get fund release communication via SMS. The system was to be up and running in March 2009, but to date this team has no confirmation of current implementation.

The FRA recognized *capacity building initiatives regarding human capital and information technology* to advance budgeting and accounting reforms in the PRI generally. Certainly, the capacity building efforts associated to the implementation of the system and for the general activities of the panchayats have received explicit attention in government documents (PRDD 2009 Roadmap, for example). The FRA reports that extension training centers have been set up in five districts to assist GPs in the implementation of financial regulations and computerized systems, and the PRDD announces in its Roadmap for Panchayats (GOWB, 2009) that effort are underway to establish Training Cells in each district. From the GPs visited, it would seem that the human resources assigned to the technical support task are insufficient, in line with the general assessment of current capacity building efforts conducted by PRDD in 2009. One GP explained the technical assistance they receive must be shared with 40 other GPs. Ad hoc support has been provided to other GPs either from the PS and the ZP, although the formal training of officials occurs at the district level (for PS officials) and ETC centers for GPs staff. The PRDD reports substantial improvements in training infrastructure and the development of manuals for the training of officials, so efforts seem to be placed in activity implementation and the assignment of additional human resources to the training task. Despite these self-acknowledged shortages, the PRDD reports that training on basic computer operations, accounting principles and accounting software was delivered to some 3,000 GP employees to date. Formal training modules are traditionally followed by on-the-job activity support (“handholding”). IT needs span to the department and even the GOI itself. The PRDD website requires some consideration to facilitate better accessibility to data and reports. Consistency of posting reports is problematic at the

central level as well – to date, a copy of the 2006 audit report of West Bengal PRIs is unavailable on the IOG CAG website.

The team confirmed progress towards the creation of new posts for accounts officers, as well as the creation of Executive Assistants at the GP level. In addition, we held meetings with mobile trainers, “teams of properly oriented retired persons” with experience in local financial management to assist functionaries “in selected GPs of the more backward districts” and GPs that show sub-par performance (GOWB, 2009, p. 127). The GPs visited in Murshidabad valued highly the support obtained from mobile trainers and considered it a worthy initiative.

A more significant challenge to future grant development is the number of unfulfilled vacancies throughout the PS and ZP levels of internal auditing officers. In addition, the limited number of tax collectors at the GP level may hinder efforts to increase own source revenue collection, while the relatively low level of administrative capacity throughout the GP level poses a threat to the quick absorption of computing, budgeting, accounting and auditing reforms. Adequate staffing of local governments is a long term financial challenge, and understandably, progress may have to be slow in this area. Finally, the needs at the GP level for IT support as GPMS implementation progresses are likely to increase and should be an area of focus for the GOWB going forward in terms of addressing overall PRI capacity.

Section III: Additional Budgeting and Financial Reforms for Consideration of Grant Development

Concerns raised at the department level during site visits for this report addressed the following:

1. *The amount of funds at the GP level.* It remains small although it has grown due to increased grant activity and increases in own source revenue. Still, how large “should” it be? Reports from Task I and III address this issue.
2. *Capacity of GPs to absorb funds.* Across the GPPs addressed in the Task II report, some things are better, some things remain the same and some aspects remain compromised. Continual rollout of the GPMS and the GP budget, accounting and audit rules of 2007, with sufficient and consistent training on the system is necessary and must be a high priority; the new accounting system and flow of funds needs some time to function in order to realize success; the continued delays in fund transfers remains problematic and compromises this flow of funds; human capital needs regarding the work of tax collectors in GPs and auditors throughout the PRI needs to be addressed; and better coordination of the data collected and measurement itself across the audits – particularly between the self-evaluation, the internal (annual) audit and the external audit is worth further investigation. The Task III report discusses extensively the fund absorption capabilities of GPs and concludes that, in principle, an annual grant in

the amount of \$1-\$2 per capita should not be an excessive administrative burden on eligible GPs.

3. *Capacity to better utilize funds, improve service delivery and improve financial management.* The GOWB has done a substantial amount of work to train local officials (via regional training centers) in the basics of management of their governments. The key to the successful implementation of the new grant will be continuing to improve the training capacity that supports all GPs, regardless of eligibility for these new funds. The new grant should be injected across GPs in some sort of stepped or incremental manner in which GPs are determined as eligible given their adherence to GPPs as well as their realization of various budget, fiscal and performance metrics that are so noted.

The analysis contained in this report presents the foundation for a set of initial criteria and reform requisites that could assist future grant development and implementation for success. It is clear that any new grant must establish “eligibility” requirements for access to grant funds, that is, necessary conditions without which the local foundations for financial management may not be prepared to assume the successful implementation of the new grant. In addition, it is also possible to identify performance criteria that may allow “graduation” of GPs (depending on the ultimate design of the grant) to larger grant amounts or greater discretion in the use of funds granted. Finally, reforms suggested include those to the financial management system that should be in place by the time the grant program expires. These reforms should be sequenced during the implementation of the grant and are important elements to ensure the sustainability of the program beyond the World Bank’s committed assistance.

Possible “Eligibility Requirements” for the Grant

1. Qualifying GP must indicate that all GUS have been constituted at the GS level of the GP, especially if encouraging GS level participation is an objective of the new grant.
2. Qualifying GP must indicate that GPMS software is operational and in use; financial reports have been prepared using the GPMS in the previous budget year.
3. Ensure by laws are issued regarding the schedule of non-tax charges to improve own revenue collection capacity and, with it, discretionary powers of GPs.
4. Qualifying GP must reside in block in which vacancies of internal audit positions at the PAAOs have been filled.
5. Qualifying GP must indicate the existence of Executive Assistant.
6. Qualifying GP must indicate that budget in the last fiscal year was finalized and published within the defined timeframe of 2007 budget, accounting and audit rules.
7. Qualifying GP must indicate that the budget is published and widely shared with the local population in a timely manner.

Possible “Graduation” Criteria for a GP Receiving New Grant Funds

1. Timely submission of financial reports to upper levels of government, including monthly Form 26 and biannual Form 27.
2. No expenditures made without budgetary allocation for the grant year.
3. No excess expenditure over budget for the grant year.
4. No unreconciled differences between cash and pass books for the grant year.
5. Clear alignment to West Bengal’s standard chart of accounts in financial reporting.
6. Evidence, from the internal audit report produced in June, that issues raised in the self-evaluation in the previous December have been properly addressed in current budget, by virtue of data review at the point of the fourth (annual) internal audit (see Appendix B to Task II report).
7. GP indicates timely and responsive procurement administration, by virtue of reporting through the annual internal audit process currently conducted, as well as through adherence to any future procurement manual produced.

Reforms Necessary for Grant Sustainability

1. Implement a three to five year planning process that encompasses a medium-term expenditure framework.
2. Establish incentives to ensure the attendance of GP sectoral committee members to the budget meetings.
3. Facilitate the preparation of sectoral expenditure ceilings from the finance and planning committee to the sectoral GP committees to ensure alignment of allocations of at least untied funds with development priorities. This would include the ability to prioritize allocation of funds across schemes that allow for multi sectoral application (BRGF) along such priorities.
4. Ensure own revenues enter the resource framework for planning and budgeting processes as well as the other available resources.
5. Explicitly replace the rule of a ten percent increase in resources that is applied by GPs currently to grant funds for budget preparation with a more conservative rate; consider application of a rate that reflects actual grant revenues from the previous budget year.
6. Introduce accrual accounting in participating GPs by the end of the grant support period.
7. Afford greater standardization of registers at the GP level with a view towards simplification in order to reduce the administrative burden of local governments.
8. Continue to evaluate the annual self-assessment and the annual internal audit conducted in June for fewer, more reliable measures of performance.
9. Continue to evaluate the annual self-assessment and the annual external audit for fewer, more reliable measures of performance.
10. Increase the number of IT support specialists and trainers at the upper PRI and state levels to ensure proper response to GPMS implementation problems at the GP level.

11. Evaluate the tax collector role and capacity; strengthening this position can help strengthen the fiscal and management capacities of the GPs.

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APPENDICES

APPENDIX A

See attached Government of India, CAG *List of codes for functions, programmes & activities of Panchayats.*

See attached Government of India CAG, Panchayati Raj Institutions Guidelines for Preparation of Receipts & Payment Accounts

See below as presented by the GOWB PRDD July, 2009

Codification of Account Heads: 9 Digit Account Code

1st Digit - Mode:	1- Receipt	2- Payment		
2nd Digit - Nature:	1- Revenue	2- Capital	3- Receivable	4- Payable
	5- Loan	6- Advance
3rd Digit - Type:	1- Non-Plan	2- Plan	3- Own	4- Others
4th – 5th Digits – Department:	01-P & RD	02- ZP	03- PS	04- Agriculture
6th – 7th Digits - Scheme:	01- GIA	02- BMS	03- RPWS	04- PMGY

8th – 9th Digits -Description:	Account Code Description			

Description of Account Codes:

Broad Group (General Ledger)	Description of Receipt Head	Receipt Accounts code	Description of Payment Head	Payment Accounts code	Receipts & Payments Group
Own Fund	Receipt-Own-ZP- Others-Sale of Tender Paper	113021001	Payment- Own-ZP- Others- Telephone Bill	213021001	Own Fund
	Receipt-Own-ZP- Others-Lease of Ferry Ghat	113021002			
12 FC Fund	Receipt-Plan- P&RD-12 th FC	122014500	Payment-Plan- P&RD-12 th FC	222014500	Plan Fund from P& RD Department
VAT Deduction from contractor	Receipt-Revenue- Non-Plan-ZP- Deduction from Contractor-VAT	111021607	Payment- Revenue-Non- Plan-ZP- Deduction from Contractor- VAT	211021607	Deduction from Contractor
Backward Region Grant Fund	Receipt-Capital- Plan-P&RD- BRGF	122016800	Receipt- Capital-Plan- P&RD-BRGF	222016800	GoI Sponsored Scheme

Financial Analysis Abilities/Output from Financial Management Information System

SI No	ZP Name	Fund Utilisation Ratio	Fund Transfer Efficiency Ratio	Efficiency Index for CSS Fund	Fund Accumulation Index	OWN fund To total Fund Ratio	Advance Adjustment Ratio	Statutory Obligation Compliance Ratio		Non-Plan exp to Plan exp ratio
								Suppliers	Employees	
1	Howrah	0.79	0.92	1.30	0.28	0.05	1.0	0.65	0.93	0.05
2	Bankura	0.68	0.80	1.01	-0.15	0.04	0.9	0.73	1.00	0.10
3	Purulia	0.68	0.69	1.97	0.32	0.01	0.1	0.88	1.09	1.03
4	North 24 Parganas	0.68	0.92	0.90	-0.04	0.08	*	0.03	*	0.08
5	Birbhum	0.68	*	1.11	0.35	0.05	1.0	0.83	*	0.47
6	Dakshin Dinajpur	0.74	0.89	*	0.23	0.01	0.0	1.70	1.00	0.03
7	Malda	0.62	0.87	1.07	0.10	0.18	*	*	*	
8	Cooch Behar	0.75	0.96	1.06	0.06	0.01	*	*	1.00	0.08
9	Jalpaiguri	0.68	0.86	1.48	0.36	0.07	0.1	0.78	0.95	0.16
10	Hooghly	0.84	0.96	1.01	0.03	0.01	0.6	0.46	0.94	0.07
11	Uttar Dinajpur	0.65	0.00	1.10	-0.02	0.02	*	0.98	0.99	0.05
12	Siliguri	0.74	0.93	0.95	-0.44	0.01	0.8	1.10	1.00	2.76
13	Budwan	0.64	0.98	1.07	-0.06	0.03	*	0.66	1.02	0.26
14	Paschim Medinipore	0.78	0.99	1.60	0.23	0.06	0.4	2.59	1.10	0.08
15	Purba Medinipore	0.74	1.00	1.15	0.29	0.01	0.9	0.30	1.06	0.03
16	Murshidabad	0.60	1.00	1.76	0.25	0.05	1.0	1.06	0.75	0.84
17	Nadia	0.72	0.97	0.96	-0.09	0.01	*	1.00	1.00	0.17
18	South 24 Parganas	0.73	0.98	1.15	0.31	0.04	*	0.58	0.89	0.15
					Accumulation of previous years' balance					
		Much Below average	Much Below average	Much Below average	Utilization not at a satisfactory rate		Much Below average	Much Below average	Poor result	
		Below average	Below average	Below average	Satisfactory utilization		Needs improvement	Needs improvement	Needs improvement	
		Above average	Above average	Above average	Improper accounting practices		Desired result	Desired result	Desired result	
		Improper accounting practices	Improper accounting practices	Improper accounting practices	Improper accounting practices		Improper accounting practices	Improper accounting practices	Improper accounting practices	

APPENDIX B

Review of Self Assessment Schedule for GPs and Relevant Information for Follow-up with Fourth Internal Audit (Annual)

A. Good Governance

- Questions 27-31 regarding the use of computers, GPMS and internet capabilities
- Questions 32-34 regarding Gram Unnayan Samitis numbers and bank accounts.
- Questions regarding the participation of members in the functioning of the GP 2 (a-d)
- Questions about the functioning of the Gram Unnayan Samiti and the transfer of funds to them:
 - What was the percentage of untied fund of Twelfth finance commission given to Gram Unnayan Samiti as advance in 2007-08 financial year
 - What was the percentage of untied fund of State finance commission given to Gram Unnayan Samiti as advance in 2007-08 financial year?
 - What was the percentage of total fund spent by Gram Unnayan Samiti? (Account of the advance fund have to be placed)
- Questions regarding each service delivery areas:
 - Consider choosing a sample of questions that will equate with area of focus for the new grant. Statistics produced by GP should be compared to state averages for benchmarking purposes and efficiency baseline definition.

B. Resource Mobilization & Its Utilisation

- Questions 14-15 regarding issues of by-laws of GP, regarding GP planning and budget and participatory process.
- Question 16 regarding own source revenue in last financial year, particularly per capita tax revenue and comparison of tax with non-tax revenue. Also, take advantage of information about Tax Collector from fourth internal audit (annual) as measure of collection efficiency.
- Question 18 regarding audit reporting and use.
- Question 19 regarding fund utilization, utilization certificates and report returns

The **Additional Questions for Baseline of SRD GPs** and for **SRD Coordinators** are helpful model regarding format and focus of additional questions that can be added to the self-assessment and reviewed at the time of the fourth internal audit in June for a new grant. The greater specificity regarding tax and non tax revenue; that concerning specific infrastructure projects, utilization certificates, beneficiaries of schemes, expenditures for repairs and construction and documents/reports available should be considered.