Manual 7: Budget and Accounts Management of GPs in Orissa

7.1 Why budget and accounts management so important ?-

Preparation of Budget and Maintenance of Accounts in a methodical manner as prescribed under the concerned laws and as directed by competent authorities from time to time are the key to successful management of Panchayat finances. Any serious deviation from the mandatory norms may result in reduction or even cessation of flow of funds, legal complications, public hue and cry over scams and scandals and above all disruption of the delivery mechanism run by the PRIs for the people at grassroots level. Besides it is worth noting that the annual accounts of PRIs of Orissa are not only audited by Examiner of Local Fund appointed by the State Government but also routinely subject to test check by the Comptroller and Auditor General of India. Serious instances of lapses and deviations in the system of book-keeping if noticed by the C&AG may discredit the State of Orissa in the estimation of Govt of India and thereby hamper the smooth flow of funds for its PRIs from Centre and other external sources.

7.2 Test-Check Audit of Orissa's PRIs by C&AG – A forewarning-

As usual, a test-check audit of 20 per cent of GPs and PSs in a State is entrusted to the C&AG of India under Section 20 (1) of the C&AG's (DPC) Act, 1971 in addition to providing of TGS (Technical Guidance and Supervision) to the Examiner, Local Fund Accounts of the State. In pursuance of the said provision the test-check of the accounts of 23 ZPs, 161 PSs and 1042 GPs of Orissa for the year 2005-06 was held by C&AG during 2006-07. The important audit findings of the C&AG, relating to the PRIs in general and Grama Panchayats in particular are summarized as follows-

- **Unutilisation of Funds:** On test check it was found that an amount of 15.45 crore remained unutilized by 257 GPs at the end of the year 2005-06. Poor utilization of funds indicated defective planning and inadequate monitoring depriving thereby the beneficiaries from receiving intended benefits from the schemes.

- **Non-preparation of Budgets:** The Test check of 138 PRIs (8 ZPs, 29 PS and 101 GPs) revealed that none of the PRIs has prepared the budget estimates.

- **Non-preparation of Annual Accounts:** Soon after the closure of the financial year, the annual accounts of ZPs and GPs should be prepared showing total receipts and payments during the year under different heads with opening and closing balances.
Scrutiny of records of 8 ZPs, 29 PSs and 102 GPs revealed that the annual receipt and payment accounts were not prepared by any of the units. Due to non-maintenance of accounts, the actual position of income and expenditure could not be verified and the accounts presenting true and fair view could not be ascertained.

- **Absence of Provision for Certification by Examiner of LFA:**

The State Government has not made any provisions in the State Acts/Rules for certification of accounts for the PRIs by the Examiner of Local Fund Audit.

- **Deficiency in maintenance of Cash Book:** Test check of records of 16 PRIs (one ZP, five PSs and ten GPs) revealed that the maintenance of Cash Books were deficient in many ways. Some of the important deficiencies are as under:
  - Cash Books are not maintained for months together.
  - Physical verification of cash is not conducted.
  - Heavy cash balances in excess of the prescribed limits and without immediate liability were retained.
  - Consolidated Cash Book is not maintained in cases where more than one Cash Books are in operation.
  - Monthly analysis of closing cash balances is not prepared.
  - Expenditures against which funds are not available are un-authorizedly accounted for in the Cash Book.
  - Interest earned in the Bank Pass Book is not regularly accounted in the Cash Book.

- **Non-adherence to accounts procedure prescribed by C&AG:** With a view to adopting uniform procedure for maintenance of accounts of PRIs, the Government issued instructions (April 2004) to maintain accounts in the formats prescribed by the C&AG of India, such as Annual receipt and payments accounts, Capital expenditure accounts, Statement of receivable and payables, Register for monthly receipts and payments, Monthly reconciliation statement, Accounts of movable and immovable property, Stock accounts, etc. In addition to above, the C&AG also prescribed formats for creation of Database on Finances of PRIs. Records of test checked PRIs revealed that the said formats on accounts and the Database on Finances were not adopted. In the absence of the above, uniform accounts procedure is not maintained and due to this financial and physical progress of the PRIs could not be ascertained.

Under the circumstances, the PRIs including the GPs ought to keep in mind the imperative of making the budget and keeping the accounts in a proper and prescribed manner as a hallmark of their successful functioning.
[Source: Audit Report (Panchayati Raj Institutions), Orissa For the Year 2005-2006 by Comptroller and Auditor General of India]

7.3 Budget Estimate of GP-

7.3.1 As per **Section 98 (1) of Orissa GP Act 1964**, the Sarpanch shall first of all prepare the budget estimate showing the probable receipts and expenditures for the ensuing year and place it before the Gram Panchayat for consideration. However, the Rule 120(a) says that not Sarpanch, but Secretary of GP shall prepare annual budget estimate and supplementary and revised estimate and place such budget estimates before the GP after obtaining approval of the Sarpanch. The GP has the power to modify it as they considered necessary. Then the GP shall place the budget estimate in its original or modified form as the case may be before each of Palli Sabhas within Gram for their recommendation. The Section 6(6) of the Act enjoins upon the Palli Sabha to give its recommendation in its annual meeting to be held in February each year to the development works and programmes along with the budget estimate submitted by the

GP. The GP shall then submit the budget estimate along with the recommendation if any of the Palli Sabhas to the Gram Sasan for latter's approval.

7.3.2 As per **Section 98(2)** of Orissa GP Act 1968, if in course of the year the GP finds any necessary for alteration in the figures on receipts and payments mentioned in the budget, the Sarpanch shall frame a supplementary or revised budget and place it for consideration by GP. After modification if any is made by the GP, the supplementary or revised budget along with the modifications so made shall be placed before Gram Sasan for approval.

7.3.3 As per **Section 98(3)**, following the approval by the Gram Sasan the estimated budget or supplementary/revised budget along with the modifications if any brought by the Gram Sasan, shall be placed before Sub-Divisional Panchayat Officer for examination by the latter. The SDPO shall forward back the budget estimate together with his comments to Gram Panchayat, and the same shall be placed before the Gram sasan for consideration and finalisation with or without any modification. As per **Rule 122** the annual, the first supplementary or revised budget of a Gram Panchayat shall after being sanctioned by the Panchayat be placed before the Gram Sasan by 7th March, 7th August and 7th March respectively. As per **Rule 123** Gram Sasan shall approve the annual, first supplementary or revised and the second supplementary or revised budget of Gram Panchayat at its meetings on or before 21st March, 21st August and 21st March respectively with or without modification.

7.3.4 As per **Section 98 (4)** no expenditure in excess of the annual budget estimate shall be incurred by the GP except as required under the provisions of the Act and Rules.

7.3.5 As per **Section 98 (5)** the annual budget estimate or supplementary or revised budget estimate shall contain such particulars as may be prescribed under the Rules. However every annual budget estimate shall be made for a working balance as may be determined by the Collector from time to time. The **Rule 121** says that the working balance shall not be less than 4 percent of the estimated receipts of the year excluding the receipts from endowments and grants. Thus the income from grants shall not form a part of this working balance.

7.3.6 As per **Section 98(6**) a copy of the final budget shall be forwarded by the GP to Panchayat Samiti and to Zilla Parishad for re-compilation at their end.

7.4 Budget, when to take effect?

As per **Rule 124** the budget shall take effect from the date of approval by the Gram Sasan. As per **Rule 126** all allotments made in the budget shall lapse at the end of the year to which the budget relates. As per **Rule 125** if the budget and the first and second supplementary or revised budget are not approved by the Panchayat Samiti on or before the 21st March, 21st August and 21st March respectively, the budget and the revised budget as sanctioned by the Gram Panchayat shall, subject to the scriutiny by the Sub-Divisional Panchayat Officer become final. As per **Rule 127** if Gram Sasan fails to take a decision on the budget in a meeting convened for the purpose, the Grama Panchayat shall

the SDPO about this matter and the latter shall immediately convene a special meeting of Gram Sasan for the purpose. If in the special meeting the Grama Sasan still fails to take a decision the SDPO on the basis of the actuals of receipt and expendure of the previous year scrutinize such budget and certify the same to the GP, following which such budget shall become final.

7.5 Formats of the GP Budget-

7.5.1 As per **Rule 119 of the O.G.P. Rules 1968**, the budget estimate shall be prepared in **Form No. 25**, and as per **Rule 120(b)** the supplementary or revised estimates shall be prepared in **Form No.26**.

7.5.2 The Form 25 (Budget estimate of the GP) – The budget estimate of the GP shall be presented in Form 25. It is dealt with under Rules 119 and 127. There are two Broad Heads, Income and Expenditure to be shown against 3 columns (Actuals of previous year, Revised Estimate of the Current Year and Budget Estimate for the ensuing year). The Heads and Items common to both Income and Expenditure are Education, Medical and Public Health, Remunerative Enterprises, Adalti Panchayat and Extraordinary and Debt. Other heads and items specific to Income are General Taxation and Miscellaneous Receipts, Communications and Receipts from Property items, while other Heads and Items specific to Expenditure are Management and Public works. The Grand Total of Income is shown as Opening Balance and that of Expenditure as Closing Balance.

7.5.3 Form 26 (First/Second Budget for the year- receipt/payment)- As required under Rule 120, the Secretary of the GP shall prepare the supplementary or revised estimate in Form 26 and the heads and figures relating to item which requires alteration shall only be mentioned in the Form. The reasons for altering the figures in the original budget estimates shall be adequately explained. The Form 26 contains a total of six columns such as serial no., head of account, the year for which budget estimate is made, actuals of the first month of the current year, first/second estimate for the year and remarks. It is also called supplementary or revised budget estimate.

7.6 Conditions to be fulfilled by a GP Budget-

As per **Rule 123** the Gram Sasan while considering the budget for approval or revision should ensure that the budget fulfill the following conditions-

(i) The estimate of receipts is exhaustive and cautious, and provides for the collection of all loans and outstanding tax dues and the account is taken of all receipts from all sources;

(ii) The recommendation if any received from Government has been given due weight;

(iii) Provision has been made for transfer of all obligatory charges including functions, institutions, trusts and the like to Gram Panchayat and for moving the Government to transfer other developmental activities, bodies and institutions to Gram Panchayat;

(iv) Provision has been made for due discharge of all liabilities in respect of loans and other commitments;

(v) Varioations between the figures of the budget year and those of the previous year have been adequately explained;
(vi) Due account has been taken of contributions from people and institutions;
(vii) Due credit has been given to funds that may be available to the Panchayat as intimated by Panchayat Samiti at different stages.

7.7 Receipt side of the Budget:

- As per **Rule 129** all moneys received by the Sarpanch or Secretary or by any officer or servant of the Grama Panchayat authorized in this behalf shall be brought into account as soon as these are received. **Rule 130** says that no money so received without being brought into account shouldn't be spent for any purpose.

- As per **Rule 131** no person shall collect any fund for Grama Sasan without issuing a proper receipt for the money so collected.

- As per **Rule 132** a printed receipt in Form 27 shall be issued for collection of taxes on latrine, lighting, drainage, water, warrant, distraint and other fees or taxes as may be levied from time to time.

- As per **Rule 133** for collection of all demands including sale, auction, or lease or for any usufruct thereof or for any other demands the receipt in Form 5 shall be used.

- As per **Rule 135** the Tax Collector shall bring the register of daily collections and counterfoil of receipts with all sums collected by him daily to the Secretary.

- As per **Rule 136** the Secretary shall shall examine and check the collection register to be maintained in Form 28 and credit the sums received to Grama Fund, and shall sign the daily collection register and make corresponding entry in the cash book.

- As per **Rule 139** all cheques received from any source in payment of contribution , grant or loan shall be entered in the register of cheques.

7.8 Grants and Loans:

- As per **Rule 140** all accounts of grant-in-aid received shall be maintained in a register in form No.32. As per **rule 142** all accounts of loan received and utilized shall be maintained in a register in Form 33.

- Rule 141 defines what is called **Tied Grant distinguished from Untied Grant.** In cases where conditions are attached to the utilization of grant specifying the particular purpose or time-period in respect of utilisation of grant, the grant can be called a **Tied Grant.** It is the responsibility of Sarpanch to see that the money is well spent and the UC is furnished within the given date to the satisfaction of the authority sanctioning the grant. All grants other than the Tied Grant can be understood as **Untied Grant.**

7.9 Expenditure side:

- As per **Rule 143** All payments out of Grama Fund shall be made only after the bills are passed by Sarpanch or any person duly authorized for the purpose.

- As per **Rule 144** no expenditure shall be made without a budget provision and without the sanction of competent authorities supported by a resolution of Grama Panchayat to that effect.

- As per **Rule 145** all claims for payment from Grama Fund shall be presented to Secretary of GP and payments shall be made only after the passing of the bills by the Sarpanch.

- As per **Rule 146** all vouchers shall be numbered serially for each year and filed in the office of GP in a guard file.

- As per **Rule 147** no GP shall incur any expenditure in connection with a legal suit or proceedings without the previous sanction of Collector.

- As per **Rule 148(a)** no expenditure shall be made by any GP on account of donations to any individual or institution, any contribution for any purpose or creation of any scholarship without the previous sanction of Collector, or on account of any ceremonial or religious festivals, reception of important persons or propagation of any scheme of Central or State Government except those specifically allowed by the Director of Grama Panchayats and the Examiner of Local Accounts.

- As per **Rule 148(b)** the Grama Panchayat may incur expenditure rupees one hundred in each case for celebrating the Independence Day and the Republic Day.

- As per **Rule 148(c)** the application to a GP for financial aid shall be made in Form 34 and the GP shall issue the sanction order in Form 35. And as per **Rule 148(d)** the GP shall not make any further contribution unless the UC of the previous sanction is received.

- As per **Rule 149** at the time of making payment in cash or cheque the Secretary shall take stamped receipt if necessary from the payee and endorse the corresponding bill with the mention of amount in both figures and words. The said endorsement shall be dated and signed by Sarpanch and shall bear the number of the voucher as in the cash book.

7.10 Pay and Allowances:

As per **Rule 150** pay, leave salary and allowances shall not be paid before the first working day of the month in respect of any due relating to the previous month. The **Rule 151** says that pay, leave salary and allowances may be drawn for the day of a man's death. However, payment due to a deceased officer or a servant of the Panchayat shall not be made except on the production of an authority specified in the Indian Succession Act 1925, and payment may be made without the production of such authority to the extent of Rs.25/- under Resolution of the GP after conducting an enquiry into the right and title of the claimant. As per **Rule 152** acquittance for disbursement of any pay and allowance shall be made in Form 36 by the Secretary. However the disbursement can be made only after the obtaining of approval of Sarpanch.

7.11 Maintenance of Cash Book-

As per **Rule 153** (Cash Book and monthly accounts) all accounts and registers of a GP shall be normally maintained in Oriya. As required under **Rule 154** all receipts and payments of the GP shall be entered in the Cash Book in Form 37. The Form 37 has two broad heads, Recept and Payment. The Receipt Head covers such items as date, particulars of receipt, receipt number, amount of each item, and a total of the same is shown. The receipt head also contains Head of account in the budget, total amount withdrawn from Treasury to Postal Savings Bank etc.and date of remittance. The Expenditure Head covers such items as date, particulars of expenditure, receipt number, amount of each voucher, haed of account in the budget, amount remitted to Treasury/Postal savings Bank etc. and Date of Deposit. The Secretary of the GP shall record all transactions in the Cash Book on a daily basis. At the end of each day the

Secretary shall clearly mention an anlysis of closing balance, and the cash book shall be signed by both Secretary and Sarpanch on the same day.

7.12 Maintenance of Abstract Register-

As implied under **Rule 154** a register showing the monthly abstract of receipts and expenditures shall be maintained in Form 38. The Form has two broad heads, Receipts and Expenditure. The Receipt side shows the date-wise mention of every receipt under the budget head applicable and daily total of the said receipts. The Expenditure side mentions the date-wise expenditure on each head and daily total of the said amounts.

7.13 Transaction with Banks and Treasury-

As required under **Rule 155**, a Bank Register shall be maintained in Form 39 if the GP has accounts with Treasury or Sub-Treasury or with a Bank other than the Postal savings Bank. The Form has a total of 8 columns showing date, opening balance, amount deposited, amount withdrawn, closing balance, intials of Sarpanch and remarks. In respect of funds of a Grama Panchayat all deposits made in a Postal Savings Bank, Govt Treasury or Sub-Treasury or any other Bank and all withdrawals from the accounts kept in these financial institutions shall be noted in Cash Book under the heading 'Bank'. No person associated with Bank shall be permitted to collect revenue from any person in Grama Sasan.

7.14 Care and caution to be observed in respect of Cash Book-

As per **Rule 156** Cash Book and Registers shall be strongly bound and pages shall be numbered and certified by Sarpanch before being brought into use. The Secretary is responsible for proper maintenance of cash book files, registers and all other records in the office of GP. As per Rule 157 all corrections and alterations in the accounts shall be neatly made in red ink and attested by the Sarpanch. Similarly all alterations and corrections in vouchers shall be duly authenticated by the payee. Erasures shall under no circumstances be permitted in registers, statements, vouchers or accounts of any kind.

7.15 Passing of accounts in monthly GP meeting-

As per **Rule 158** all accounts and statements upto the end of the previous month shall be placed and passed in the meeting of GP held in the current month. The GP may undertake necessary scrutiny before passing the accounts. A copy of the monthly account indicating the deposits and cash in hands of Sarpanch and Secretary and the advance paid shall be submitted to Panchayat Samiti and District Panchayat Officer. The Sarpanch shall after the passing of all the accounts by the GP certify to that effect on the body of the cash book. The Panchayat Extension Officer shall scrutinize the accounts of the GP every month and bring to the notice of the appropriate authorities any discrepancy, misappropriation or defalcation.

7.16 Annual Accounts-

As per **Rule 159** soon after the close of the financial year, but not later than the 30th April, the Annual Accounts of the GP showing total receipt and payment during the year on account of various items with opening and closing balance shall be prepared in Forms 40 and 41. As per **Rule 160**, the annual account together with the UC for all grants-in-aid

received during the year, shall with the prior approval of the GP be placed before Grama Sasan in a meeting convened for the purpose. After Grama Sasan accords its approval to the annual accounts so placed the Sarpanch shall certify on the body of the annual accounts and UCs to the effect that such accounts and/or certificates have been approved by the Grama Sasan. Then Sarpanch shall submit the certified accounts to the District Panchayat Officer by 31st May. A copy of the certified accounts shall be published on the notice board of the GP for general information.

7.17 Maintenance of Stock and Stores –

As required under **Rule 161** a stock account of receipt forms shall be kept in Form 42 in which all receipts and issues shall e posted. The Form 42 has a total of 11 columns namely, date of receipt, from whom received, number received (From and To), to whom issued, number issued (From and To), signature of recipient, balance(From and To) and remarks. As per **Rule 162** issues for the purpose of destruction shall also be recorded in the above register. If any complete book of unused forms is returned it shall be entered in the stock register as a receipt.

7.18 Stock Register for Tools and Plants –

As required under **Rule 163** a stock register of tools and plants shall be maintained in Form 43 for every GP. The said Form has a total of 14 columns, namely serial no., number of articles and cost of each, date of acquirement, particulars of purchase (file no. etc.), where being used, date and number of sanction, initials of officer-in-charge, number of articles disposed of and date of disposal of each, manner of disposal, number and date of order, if sold at what amount, number and date of receipt, initial of officer-in-charge and remarks. As per **Rule 164** all unserviceable tools and plants shall be disposed of with the sanctions of the Sarpanch by public auction. As per **Rule 165** all entries and their disposal shall be initialed by the Sarpanch or in his absence by a member of GP duly authorized by a Resolution of GP and shall be placed in the next meeting of the GP. As per **Rule 166** the stock shall be verified half yearly by the 10th of June and the 31st of December by a person chosen by the GP and the results of verification recorded in the Stock Book. Under no circumstances the Sarpanch shall himself undertake the half yearly stock verification.

7.19 Loss of Property-

As per **Rule 167** whenever any loss of money, stores or oter property by embezzlement, theft, fire or otherwise is discovered, the Sarpanch or in his absence, the Secretary or any other Inspecting Officer shall forthwith report the facts to the Director of grama Panchayats and Examiner of Local Accounts, Panchayat Samiti, Sub-Collector, District Panchayat Officer and Collector. As per **Rule 168** the BDO on being informed about such loss shall fully investigate into the matter and submit a complete report to the Sub-Collector, Collector and Director of Grama Panchayats showing the total sum of money or the value of stores of other property lost, the manner of such loss and the steps taken by the Sarpanch to recover the money or property lost and punish the offender. The Sarpanch may take further action as he considers necessary for the purpose. As per **Rule 169** no money, stores or other property lost in any manner be written off from the accounts of Grama Fund except with the sanction of the Director of Grama Panchayats

and Examiner of Local Accounts. As per **Rule 170** the Examiner of Local Accounts on being reported about the above loss may order an audit to be made with a view to taking action under Local Fund Audit Act, 1948, and the Government may suo motu or on receipt of a complaint from any quarter about such loss direct a special audit of Grama Panchayat to be conducted.

7.20 Whose guidance the GP should seek in respect of audit and accounts-
As per Rule 196, in the matter of details connected with the maintenance of account and audit the Grama Panchayat shall be guided by the instructions of the Director of Grama Panchayats and the Examiner of Local Accounts.

Simplified System of Accounting for PRIs as Recommended by CAG

7.21 R**ationale behind intervention by the Centre in the sphere of local bodies**-
'Local Government' including self-government institutions in both rural and urban areas has remained an exclusive State subject under Entry 5 of List II of the 7th Schedule. This has traditionally been an area in the State domain and the Union as such refrained from enacting any law to create rights and liabilities relating to these subjects. However, by way of 73rd Constitutional Amendment the Centre outlined a scheme, which would be implemented by States by making laws or amending their own existing laws to bring them in conformity with the provisions of the amendment. With this amendment, Part-IX comprising Article 243 to 243O was inserted along with Schedule XI of the Constitution comprising twenty nine functions that were to be eventually devolved upon the PRIs by the states.

7.22 **Conformity legislations by the States and follow-up by C&AG -**
Accordingly, most states passed conformity legislation to enforce these provisions. In view of the large scale decentralization envisaged, the need to strengthen the existing accounting systems and procedures to reflect the wide range of functions to be performed by the Panchayats and to make the accounts amenable to computerization in a networked environment, the Eleventh Finance Commission made specific recommendations about strengthening the accountability framework in PRIs and Urban Local Bodies. As per the recommendations of the Eleventh Finance Commission, the Ministry of Finance (MOF) had issued guidelines for Utilization of Grants to Local bodies in June 2001. Para 6.4 of the MOF guidelines states that ***"C&AG shall be responsible for exercising proper control and supervision over the proper maintenance of accounts and their audit for all 3 tiers/levels of PRIs and ULBs."*** As per Para 6.5 of the aforesaid guidelines, the format for the preparation of budgets and maintenance of accounts for LBs shall be as prescribed by the C & AG. The C & AG would also prescribe standard formats for preparation of a central database on the finances of the LBs.

7.23 New Standards and Formats designed by C&AG-

As part of this mandate, a new theoretical framework for accounts management at the level of PRIs has been developed and prescribed by CAG. These serve to lay a strong foundation and set standards for the task of preparation and maintenance of accounts and their audit. In 2002, the CAG had prescribed *receipts and payments formats for PRIs on a*

modified cash basis, with a few statements on demand, collections and assets that address critical aspects on accruals appended to the accounts. The formats depict all activities listed in the Eleventh schedule to the Constitution and show funds transferred to local bodies under various programmes and schemes. The accounts and the budget formats were synchronised with and linked to the scheme of classification in Union and State Government accounts making it amenable to computerisation and building up a database for generation of All India level data and effective monitoring. The new system comprising only 16 formats is a relative simplification compared to the earlier one, which was very complex comprising nearly 50 formats.

7.24 Difference between the Old and New Systems:

The old format prescribed a 6-tier functional classification of transactions mirroring the pattern of the Central and State Government accounts and comprised the following: Sector (Group of functions), Major Heads (functions), Minor Head (Programme), Sub-Head (Scheme), Detailed Head (Sub-Scheme) and Object Head (Object level of classification). **The new system** does not adhere to this 6- tier classification and instead, **a 3-tier classification (Major Head, Minor Head and Object Head representing function, scheme and object)** where the lowest tier is the object of every transaction is proposed thereby ensuring the required transparency of accounts. This pattern takes cognizance of the fact that first and foremost, accountability requires accounting systems and procedures that are easy to comprehend and implement while at the same time adhering to principles of account keeping and the need for transparency and reliability. It is also an appreciation of the reality that in this day and age of computers, aggregation of accounts and establishment of a one to one co-relation with state and national level accounts can largely be the function of information technology, without burdening end users in PRIs with these accounting nuances. Accordingly, relevance of accounting heads being used and their appropriate nomenclature, ease of identification/classification and comprehensive coverage of all activities carried out by PRIs are some of the guiding principles used in developing this new pattern of codification.

7.25 The new 3-tier classification-

(a) **First Tier: Major Head -** While the first level of major heads, corresponds by and large to the pattern in Government Accounts, both in terms of number and nomenclature, in selected cases, the nomenclature has been simplified in order to reflect the exact nature of the function as performed at the level of the PRIs. In a few instances, in order to enable prompt identification of the specific function as performed at the PRI level, the existing Major Head has been accounted as two or three distinct Major Heads, each one permitting accounting of the function in the first instance without having to go through the entire accounting rubric. This is particularly noticeable in sectors such as education, social security and welfare as also health where the PRIs have a significant role to play and the simplified format draws the attention of the users to the activity or sub-activity in the very first instance (*the disaggregation of the functions has been attempted only on the expenditure side, since it is felt that transactions may not be too many on the receipt side*). However, as mentioned earlier, despite such deviations, aggregation

and mirroring would still be possible by using mapping of codes and nomenclature through computers. A concordant table showing the correspondence between the accounting heads in Government Accounts and the Heads as proposed in the new system for PRIs is presented in the following Table.

Table: Correlation between Major Heads of Govt. Accounts and PRI Accounts

Sl.No.	Government accounts	PRI accounts
1.	0028-Other taxes on income and expenditure	0028-Taxes on Profession, Trades, Callings and employment
2.	0030-Stamps and Registration fees	0030-Duty on transfer of immovable property
3	0035 – Taxes on Immovable property other than agricultural land	0035 – Taxes on Buildings
4	1601 – Grants-in-aid/ assistance from Central/State Govt.	1601 – Grants-in-aid/ assistance from Central Govt. 1602 – Grants-in-aid/ assistance from State Govt.
5	Nil	1608 – Contributions/ Donations from private agencies
6	2202 – General education	2206 – Pre-primary education 2207 – Primary education 2208 – Secondary education 2209 – Adult education
7	2225 – Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	2225 – Welfare of Scheduled Castes 2226 – Welfare of Scheduled Tribes 2227 – Welfare of Other Backward Classes
8	2235 – Social Security and Welfare	2231 – Welfare of Handicapped 2232 – Child Welfare 2233 – Women's Welfare 2234 – Welfare of Aged, Infirm and Destitute 2235 – Social Security Pensions
9	2515 – Other Rural Development Programmes	2515 – PRI Administrative and Civil Services
10	4225 – Capital Outlay on Welfare	4225 – Capital Outlay on Welfare of

	of Scheduled Castes, Scheduled Tribes and other Backward classes	Scheduled Castes 4226 – Capital Outlay on Welfare of Scheduled Tribes 4227 – Capital Outlay on Welfare of Other Backward Classes.
11	4235 – Capital Outlay on Social Security and Welfare	4231 – Capital Outlay on Welfare of Handicapped 4232 – Capital Outlay on Child Welfare 4233 – Capital Outlay on Women's Welfare 4234 – Capital Outlay on Welfare of Aged, Infirm and Destitute
12	6003 – Internal Debt	6003 – Loans from non-Govt. sources
13	6004 – Loans and Advances from Central Govt./State Govt.	6004 – Loans from Government sources
14	8550 – Civil Advances	8550 – PRI Advances
15	Nil	8650 – Material Suspense Account
16	Nil	8658 – Other Suspense Accounts
17	8782 – Cash Remittances and adjustments between officers rendering accounts to the same Accounts Officer	8782 – Cash Remittances between PRIs

(***Source: Appendix-II of 'The Simplified Accounting System for the PRIs, by C&AG of India , July 2007)***

(b) **The Second Tier: Minor Heads-** In Government Accounts it represents programmes. In developing the simplified codes, it was felt that since Minor Heads essentially serve the purpose of aggregating expenditure on various schemes under a particular category of programme and since scheme related expenditure is of crucial importance in monitoring and accounting of expenditure at the PRI level, minor heads should reflect schemes rather than programmes. To cite an example, under the Major Head 2210, Medical and Public Health, Schemes like National Anti Malaria Programme, National Aids Control Programme figure as sub heads under the Minor Head 'Prevention and Control of Diseases'. This Minor Head therefore only serves to summate the expenditure on all such schemes. It was therefore considered desirable that to reduce the levels of accounts, the schemes could straight away be accounted for at the second level under the Major Head.

(c) **The Third tier: Scheme Heads-** It has a 2 digit code (from 01 to 99) – these need to be used only where there is a felt need for greater accounting information. This tier may not, in all cases correspond to a separate source of revenue, or object of expenditure and may sometimes even depict schemes. On the expenditure side, some object heads that are used frequently and under almost all

major heads have been standardized and these are from 01 to 36. The simplified formats also permit accounting of different kinds of works to be executed as part of rural employment schemes like NREGP as the third tier.

(***Source: 'The Simplified Accounting System for the PRIs', by C&AG of India, July 2007)***

7.26 Highlights of the new system of codes designed by C&AG -

- The Simplified codification covers all the twenty-nine functions to be devolved to the PRIs.

- The heading 'Loans and Advances' Section is replaced by 'Borrowing Section' and 'Lending Section' in order to ensure that the nomenclature reflects more accurately the nature of the activity being accounted. Part II of the Accounts is now designated as Extraordinary Fund for better clarity. The major heads under Extraordinary Fund have been re-grouped under three sections viz Savings Fund Section, Deposit and Advance Section and Suspense and Remittance Section.

- States may choose and operate those major/minor heads as required in their particular context. States may add more minor/object heads as necessary without changing the overall structure in consultation with State Accountant General dealing with audit or Technical Guidance and Supervision (TGS) of PRIs. Proposal for introduction of new Major Head or change in existing Major Head may be got approved by the Comptroller and Auditor General of India before operating.

7.27 New Accounting Procedure reflecting 29 subjects of 11th Schedule-

The C & AG has allotted codes to each of the 29 subjects covered in the 11th Schedule of the Constitution, to be used by all PRIs across the country in respect of maintenance of their accounts. At **Appendix-III of its document 'The Simplified Accounting System for the PRIs (July 2007)** one can notice the following Table.

Table: 'Reflection of 29 functions (included in the Eleventh Schedule of the Constitution) in the PRI accounts'

Sl.No.	Function	Reflection in PRI accounts
1.	Agriculture, including agricultural extension	0401, 2401
2.	Land improvement, implementation of land reforms, land consolidation and soil conservation	2402
3.	Minor irrigation, water management and watershed development	0702, 2402,2702,4702
4.	Animal husbandry, dairying and poultry	0403, 2403
5.	Fisheries	0405, 2405, 4405
6.	Social forestry and farm forestry	0406 2406, 4406
7.	Minor forest produce	0406, 2406, 4406
8.	Small Scale industries, including food processing industries	2851
9.	Khadi, village and cottage industries	2851
10.	Rural housing	0216, 2216
11.	Drinking water	0215, 2215, 4215
12.	Fuel and fodder	0403, 2403, 4406
13.	Roads, culverts bridges, ferries, waterways and other means of communication	3054, 5054
14.	Rural electrification, including distribution of electricity	0801, 2801, 4801
15.	Non-conventional energy sources	2810, 4810
16.	Poverty alleviation programme	2501, 2505
17.	Education, including primary and secondary schools	0202, 2206, 2207, 2208, 2209, 4202
18.	Technical training and vocational education	2203
19.	Adult and non-formal education	2209
20.	Libraries	0202, 2205, 4202
21.	Cultural activities	0202, 2205
22.	Markets and fairs	2515
23.	Health and sanitation, including hospitals, primary health centres and dispensaries	0210, 2210, 4210
24.	Family welfare	0211, 2211, 4211
25.	Women and child development	2233, 2232, 4233, 4232
26.	Social Welfare, including welfare of the handicapped and mentally retarded	2231, 2234, 2235,4231, 4234
27.	Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes	2225, 2226, 2227, 4225, 4226, 4227
28.	Public Distribution System	2408, 4408
29.	Maintenance of community assets	0515, 2515, 2059, 3054

(Source: Appendix-III of 'The Simplified Accounting System for the PRIs' by Comptroller and Auditor General of India , July 2007)

7.28 Tips to follow simplified accounting procedure:

(a) Daily transactions shall be recorded in Cash Book (in the prescribed format- Form 8). The receipts shall be recorded on receipts side and payments on payments side. Every day (or at least once in a week) the cash-book shall be closed and Closing Balance worked out which forms the Opening Balance for next day. Classification/head of account for each transaction shall be mentioned.

(b) Every day (or at least once in a week) the details of transactions as recorded in the cash-book should be transferred to either Register of Receipts if the transaction is receipt or to Register of Payments if it is payment under the respective heads of account.

(c) At the end of the month the bank reconciliation and treasury reconciliation should be completed and ensured that all differences are rectified between cash book and bank and treasury balances. If any differences noticed the corrections should be made then and there in the Register of Receipts and Register of Payments. At the end of the month totals in Register of Receipts and Register of Payments can be struck. This gives the total expenditure under each head of account for the month.

(d) The totals are simply posted to the Monthly Receipt and Payment Account (Form-6). The monthly figure is added to previous month's progressive total and the figures up to the end of the current month can be worked out.

(e) At the end of the year the progressive figure to the end of March can be posted to Annual Receipt and Payment Account (Form 1), which completes the accounting process.

(f) **Simplified Procedures for Transfer Entries-** ***Transfer Entry*** means to transfer the amounts from one head of account to another to rectify the error of misclassification in accounting. The error of misclassification in accounts can be noticed in the following 4 situations, such as (i) ***before monthly closure of the cash book, (ii) after the monthly accounts are closed but before closure of annual accounts, (iii) after closure of annual accounts, and (iv) where misclassification occurs in scheme expenditure and noticed after the closure of annual accounts.*** The C&AG's simplified accounting system provides for easy method of rectification of these errors of misclassifications. ***(Source: Simplified Accounting System for PRIs, C& AG of India, January 2007).***

7.29 "Panchayat Raj Institution Accounts Software" (PRISOFT) –

To enable the District, Block and Gram Panchayats, each to build up their database on accounts of receipt and expenditure in connection with various schemes and provisions at their respective level, the Government of Orissa have recommended the adoption of PRIASOFT, an web enabled accounting soft ware for DRDA, Block and Gram Panchayat available on web server http://164.100.140.4/priasoft. The software has been designed in the context of 'Panchayati Raj Institutions & Achievements under 11th Finance Commission Award' ***[vide Letter No.CC-II(PS&RS) - 20/2003 - 7970 PR/2003 dated 8.10.2003 from Shri Swapneswar Baya, IAS, Director, Panchayati Raj and Additional Secretary PR Dept. Orissa) addressed to the Collectors, Project Directors of DRDAs, and Additional Project Directors (Panchayat) of DRDAs in the State].*** The letter while mentioning necessary tips as to how to update the accounts on-line in the internet has provided the requisite formats for all 3-tier Panchayats in which the data shall be collected. The Table 1.8 shows the Data Collection Format to be followed at Gram Panchayat level.

Table : Panchayat Level Data Collection Format (PRIASOFT)

Name of the District : Name of Block: Name of Panchayat : Financial Year : Month :

Sl. No.	Name of the Schemes/Major Head of Accounts	Opening Balance	Receipts			Expenditure			Closing Balance
			Bank	Cash	Advance	Bank	Cash	Advance	
1.	SGRY-II								
2.	IAY								
3.	FCA-10								
4.	FCA-11								
5.	KENDULEAF GRANT								
6.	CESS								
7.	HONARARIUM								
8.	SITTING FEE								
9.	TA								
10.	SALARY								
11.	UNCLASSIFIED								
12.	WATERSHED GRANTS								
13.	MISSION SHAKTI								
14.	DWCRA								
15.	JRY								
16.	JGSY								
17.	OTHERS								

(Source: http://orissagov.nic.in/panchayat/pgs37-42.pdf)