

20. ACCOUNTS AND AUDIT

20.11 Introduction of accrual accounting system in Panchayat Unions

Finance (FC.IV) Department

G.O. (Ms) No. 435

Dated : 4.11.2003

Read :

1. G.O Ms No., 371, Finance (FC.IV) Department, dated: 11.11.2002
2. From the Principal Accountant General, Chennai, D.O.No.AG (Au)I/DAG/ISC-11/2002-2003/146 dated 18.3.03.
3. From the Director of Local Fund Audit D.O letter RC. No. 61914/PU Audit-1/2002, dated: 3.2.2003 and 24.6.2003
4. From the Director of Rural Development, Chennai Letter No. 64104/2002LF.1, Dated: 5.9.2003

ORDER

The Task Force Committee appointed by the Second State Finance Commission as suggested that such of the Panchayats Raj Institutions which are having credibility may be allowed to borrow towards remunerative projects. Based on this, the Second Finance Commission has recommended that long term borrowings can be extended to capable Panchayat Raj Institutions by examining the individual cases on their merits. For this purpose consistent and fair accounting policies would be the pre-requisite for those Panchayat Raj Institutions. On these lines the Second State Finance Commission has recommended for the introduction of accrual accounting system in Panchayat Unions with effect from 2003-04. This recommendation was accepted by the State Government and formal orders were issued to introduce Accrual Accounting System in Panchayat Unions with effect from 2003-04 in GO Ms. No. 371, Finance dated 11.11.2002. Meanwhile based on the recommendations of the Eleventh Finance Commission the Comptroller and Auditor General of India has devised new account formats for Panchayat Unions amendable to computerisation in a network environment.

2. The new formats have been designed for preparation of accounts on cash basis and adoption of those formats would enable integrating the figures vertically from Village Panchayat level up to State level. The Principal Account General Tamil Nadu has therefore requested the State Government to review the orders issued on the introduction of Accrual Accounting System in Panchayat Unions favouring Cash Basis system. The Director of Local Fund Audit and Director of Rural Development who were consulted on the efficacy of the suitable system to Panchayat Unions with reference to its present functions have endorsed the view of the Accountant General to have accounting system on cash basis as at present and requested for reconsideration of orders issued on the implementation of Accrual Accounting System in Panchayat unions.

3. The Director of Local Fund Audit has substantiated his view after in-depth study of transaction of some representative Panchayat Unions and adduced the following reason for continuing the cash based accounting system in the Panchayat Unions.

- i) The income from own sources in Panchayat Unions (rent, lease, toll collection, hire charges, income from sandai markets, revenue from rest houses, swimming pools etc.) is less than 10% of the total receipts of the Panchayat Unions.
- ii) The Panchayat Unions are not vested with powers to levy taxes. Most of the Panchayat Union Councils depend on Government grant only.
- iii) The account format devised by the Comptroller and Auditor General is on cash basis. The cash based information has the advantage of being relatively simple and readily verifiable. As regards the accounts receivable and payable which is the basic concept of Accrual Accounting System, the account heads "receivable" and "payable" in the revised account format prescribed by the Accountant General take care of this accounting aspect adequately.

iv) The accrual system of accounting need not be introduced till additional functions are entrusted to Panchayat Unions making them asset based institutions of their own. At present the Panchayat Unions do not have adequate assets of their own.

4. The Director of Rural Development who was consulted in the matter has also endorsed the view of the Principal Account General, Tamil Nadu for the following reasons;

- i The Panchayat Unions are run with meagre own resources and the major portion of receipts is by way of grants.
- ii The Panchayat Unions are mainly run on service motive and not on profit motive
- iii Accounting on accrual basis requires trained professional person for maintaining Accounts whereas cash basis accounting can be handled by the existing Panchayat Union staff; and
- iv. The existing Panchayat Act does not permit the Panchayat Unions to levy any tax or increase its revenue resources by enhancing the tax rates.

5. The whole issue was discussed in a meeting with the Principal Accountant General, Tamil Nadu, Director of Rural Development and Director of Local Fund Audit and a consensus was arrived for adopting cash basis accounting system in Panchayat Unions. The Accounts formats now maintained by the Panchayat Unions and the one prescribed by the Comptroller and Auditor General are on cash basis. Since the Comptroller and Auditor General's formats are adopted uniformly by all the States, the State Government on reconsideration of the earlier orders have decided to keep the orders issued already on the introduction of accrual accounting system in abeyance and accordingly issue the following orders:

6. The order issued in para 3.3.7(a) of G.O.(Ms) No. 371, Finance Department dated 11.11.2002 relating to Panchayat Unions shall be kept in abeyance until Panchayat Unions have diverse income source warranting the need for "accounts receivable" accounting.

(By order of the Governor)

N.NARAYANAN

DEVELOPMENT COMMISSIONER AND
SECRETARY TO GOVERNMENT