

Local Government Budgets: Towards A Reliable and Rational Financial Reporting System

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Centre for Development Studies

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ABSTRACT

A reliable and time series financial reporting is an essential prerequisite for accountability, fiscal management, research, proper monitoring, public scrutiny and policy formulation. In India budget documents at the Union and state levels supply regular and consistent fiscal data flow that has stood the test of times. The purpose of this paper is to empirically verify the cross-section data of budget, revised budget and accounts of local government budget on the basis of illustrative case studies of selected urban and rural local governments in Kerala. The study shows that the budgeting and accounting system in Kerala is in deep disarray and calls for remedial action. Some suggestions for improving the situation are also given.

Keywords: Fiscal data, budget, financial reporting, double entry system, Annual financial statements, Accountability.

“Well! I’ve often seen a cat without a grin,’ thought Alice
‘but a grin without a cat! It’s the most curious thing i ever saw in my life!”
- Lewis Carroll, *Alice in Wonderland*

Introduction

The 73rd/74th Constitutional Amendments (CAs) gave constitutional status to local governments¹ (LGs) which were once part of the rural or urban development departments. They provide for quinquennial elections, uniform institutional architecture and regular flow of funds. Within the parameters set by the CAs, the states have been given adequate flexibility to build and promote local governments as a viable component in delivering local development and social justice in the Indian federal polity. While the fiscal federalism literature of the West treats citizens as customers or consumers, the CAs envisage citizens as political entities engaged in the transformation of their area and consider LGs as autonomous institutions responsible, responsive and accountable to the people.

The CAs mandate the LGs(as per 243G, 243W and 243ZD read along with schedules XI and XII) to plan and implement schemes and policies for ‘economic development and social justice’ besides preparing a draft development plan for each district. Kerala is one state that took the CAs seriously and comprehensively amended the Kerala Panchayat Act, 1994 and Kerala Municipal Act 1994 to devolve funds, functions and functionaries in order to create ‘institutions of self-government’ on the basis of the recommendations of an expert committee popularly called Sen Committee (1996-98). The state legislature also amended all the important related legislations (36 in all) to empower and enable the LGs to act on their own. To be sure, CAs along with the significant reforms taken by Kerala could be considered as important steps towards ushering in a strong local democracy.

1 I have used the term Local Government (LG) in preference to local self-government (LSG) used in the Kerala Panchayat Act and Kerala Municipality Act as well as in official correspondence for a variety of reasons. For one, LG or LSG refer to panchayats and municipalities. My definition of democratic decentralisation as the empowerment of the people through empowerment of LGs assumes relevance here.[see Oommen (2004) in Geeta Sethi (ed.)]. They derive their constitutional status from Part IX and Part XIA of the constitution. Two, the use of the term self-government for one tier of government smacks of the days of freedom struggle although the emphasis in the letter and spirit of Part IX and Part XIA is autonomous governance. Panchayats and municipalities are no longer part of any department but are governments on their own. So I think LG is a better expression than LSG. Needless to say, it is not an issue of semantics, but one’s preference in usage based on better reasoning. At any rate the Government of Kerala has accepted the reports of the Committee for the Evaluation of Decentralised Planning and Development (2009), the Fourth SFC Report (2011), the Fifth SFC Report (2015) and the like which have used local government instead of local self-government.

Needless to say, the CAs at best provide only necessary conditions, several sufficient conditions are also required to see local governance at work on a stable and sound footing. An important prerequisite for any government to function efficiently and transparently is to have a regular financial reporting system. Without this you cannot have an integrated public finance consisting of Union, States and local governments². Financial reporting is the process of producing reliable and consistent fiscal data and statements that disclose an organization's financial status to the concerned stakeholders which for local governments consist of elected representatives, administration, civil servants, and the wider local community. No meaningful decision-making or inference can be made by it by the gram sabha/ward sabha, the local government, policy-makers, researchers or by any entity without a credible financial data system. This study proceeds on the hypothesis that the budgets of LGs in Kerala do not provide a consistent and reliable fiscal data and fails to be part of a reliable and regular financial reporting system³. A well-orchestrated, rule-based and fully comparable budget system remains a distant goal. In Kerala the Panchayat Raj Institutions (PRIs) consist of 941 Gram Panchayats, 152 Block Panchayats and 14 District Panchayats and the urban local governments (ULGs) comprise 87 municipalities and 6 corporations function independently, subject to guidelines and regulatory control by the Local Self-Government Department. For efficient stewardship and good use of public money, proper accounting and regular financial reporting is a *sine-qua-non*. This study is important for it can initiate debates that can streamline the budget-making process and contribute to the theory, practice and policies relevant to local budget and budget-making. This is an unexplored area.

1.0. A Brief Historical Backdrop

This section traces out briefly the local governance system and finance before the two CAs and the pattern of financial accounting system that has evolved since then to serve as a backdrop to the discussions that follow. Before the two CAs, Kerala's local bodies were governed by the Kerala Panchayat Act, 1960 and the Kerala Municipalities Act, 1960 and the Kerala Municipal Corporation Act 1961. These Acts for the first time systematically unified the laws existing in Malabar and the Travancore-Cochin state and sought to enlarge the functional domain and resource base of the panchayats and the municipalities. Although I do not propose to trace the legislative efforts, moves and countermoves that happened following the abortive Kerala Panchayat Bill, 1958 and the District Council Bill, 1959 (introduced on the recommendations of the first Administrative Reforms Committee presided over by EMS Namboodiripad), it is instructive to outline the salience of the local governance regime in Kerala at the eve of the CAs.

2 For the first time in the history of Economic Surveys (first survey was in 1960 and that was tabled by Jawaharlal Nehru in Parliament), this year survey visualizes an integrated approach to federal public finance [see Government of India (2018) Chapter 4].

3 For an attempt at producing reliable data on panchayats in Kerala, one may refer to Oommen *et al* (2017).

First, Kerala except for a very brief period of District Council in the early 1990s, had only a Gram (Village) Panchayat system. The several Bills introduced by the various governments since the first Kerala Ministry (1957-59) recommended only a two-tier panchayat system besides the municipalities. Second, the village panchayats had a fairly good revenue base. It had powers to levy property tax, profession tax, entertainment tax, show tax etc. Third, expenditures were confined largely to traditional civic functions. Fourth, statutorily every panchayat was required to formulate annual budget of receipts and expenditure and had to maintain a five percent budgetary balance. This continues even today. Fifth, Kerala has had a tradition of raising own revenue and had generally raised large amounts by comparison with other states. As far back as 1960-61 the average own revenue of Kerala gram Panchayats was the highest among the Indian States with Rs.10902 per panchayat as against an all-India average of Rs.1798. [See GOI (1964): 55]. Own tax revenue as a percentage of total receipts was 33 per cent in 1990-91 and 38 per cent in 1991-92 and including non-tax revenue, and assigned revenue, own revenue was over two thirds of the total income of gram panchayats (See Kerala SFC Report 1996: Table 4.2). This shows the high fiscal base and data availability of Kerala which is in sharp contrast to what is obtained in the rest of the country.

Anyone who carefully reads through the recommendations of the last four union finance commissions (UFC) will be struck by the efforts made to empower the third tier especially in building a fiscal data base in the country and improving the accounts, auditing and accountability mechanisms in the states. However, looking back we find that the progress achieved has been halting, piecemeal and incomplete. Kerala is no exception.

The UFC XI said as far back as 2000:

“In many states, the formats and procedures for maintenance of accounts by these bodies prescribed decades ago, are continued without making any improvements to take into account the manifold increase in their powers, resources and responsibilities with the passage of time, the flow of funds to the panchayats and municipalities will increase considerably. Therefore there is a need to evolve a system of maintenance of accounts by the local bodies that could be adopted by all the states”[Government of India (2000):77].

Following the recommendations of the UFC-XI the Comptroller and Auditor General (CAG) has initiated reforms to evolve standardised budget and accounting practices in India. The National Municipal Accounts manual prepared by the Ministry of Urban Development in 2004 and the PRIASoft published much later in 2011 are the outcome of these initiatives that sought to capture the financial information of LGs. The UFC XIII introduced incentive-based approach through their performance grants conditionalities. UFC XIV also pursued a similar approach. The data the UFCs collected from the states were not useable. The situation by 2015 is summed by UFC-XIV.

“In overview, a common issue that emerges from SFC reports is the need to have reliable data on the finances of local bodies in order to enable all stakeholders to make informed decisions. For this, the compilation of accounts and their audit assumes importance”[Government of India (2015):109].

Given this grim situation this study assumes importance. Though Kerala has made progress in her own way, tremendous work remains to be achieved.

The accounting rules of Kerala for local bodies were based on cash-based single entry system. They were based on the 1960 panchayats and municipalities Acts already mentioned. Under this regime budget making was a routine affair with no consequence and was not an integral part of finance management. That the receipts of local governments (LGs) in 1993-1994 which was Rs.237 crore forming about 0.9% of the GSDP, rose to Rs.14925 crore in 2015-16⁴ or 2.61% of GSDP around 63 times increase signals a sea change in state public finance and policy. A fiscal management system based on simple account books such as cash book, receipts register and payments register was far too inadequate for the proper and efficient functioning of the new generation LGs. The devolution of functions, funds and functionaries, along with the decision to devolve 35-40% of the state plan outlay to LGs in 1996, the introduction of Appendix IV to the state budget from 1997-98 onwards to ensure annual legislative sanction to the transfers to LGs and so on necessitated reforms in accounting and accountability standards and arrangements.

The accounting reform initiatives taken up by the Comptroller and Auditor General (CAG) following the recommendations of the Eleventh Finance Commission (UFCXI) was a much-needed and certainly timely reform for Kerala. It is important to note that following that, CAG made some reforms and the government initiated certain measures. Except making a seven fold classification of receipts and detailing the manner of fund allocations (see GO (p) No.177/2006 Fin dated April 12, 2006) there was not much progress in regard to accounting and budgetary reforms. To quote Government of Kerala (2006),

“Government have not framed so far the Rules and Manuals for Budget and Accounts of the PRIs. Consequently, the Kerala Panchayat (Budget) Rules, 1963 and the Kerala Panchayat (Accounts) Rules, 1965, which are at variance with the new formats, continue to be in force”[p..4].

As already mentioned the UFC-XI required the CAG to introduce reforms to facilitate a comparable, computerised accounting and audit system. The CAG prescribed the accrual-based double entry system of accounting for municipalities. It was introduced first only in selected municipalities in Kerala. The Ministry of Panchayati Raj (MoPR) prescribed the PRIAsoft accounting which combines double entry and cash-based system for panchayats. Most states follow this.

4 This is based on Government of Kerala (2016).

The double entry accrual based system was introduced in selected municipalities in Kerala using a software and handholding by M/s. A Ferguson Co in 2007-08 based on an ADB grant support. After the support to the company was withdrawn, the Information Kerala Mission (IKM) stepped in to carry forward the reform process. The Mission designed and implemented what has come to be called Saankhya application of accrual-based double entry system of accounting. From 2011-12 onwards it was introduced in all panchayats, municipalities and corporations. We are in the sixth year of the new regime of accounting. The moot question is whether the new accounting system and budget practices have succeeded in delivering a sound financial reporting system based on a viable budget system.

2.0. Role of Local Budget

In public finance, budget represents the estimates of receipts and expenditure and is a financial plan of governance and development. It forms the basis of financial reporting. Although the term budget as such does not appear in the Indian Constitution, the Central Government (as per Article 112) and the State governments (as per Article 202) are mandated to prepare and submit before parliament and state legislatures an annual financial statement containing estimated receipts and expenditures. (The budget thus becomes a constitutional mandate binding on the central and state governments). Besides setting limits, a budget is the system of expenditure control, resource management and accounting in which all the operations are forecasted and planned in advance to the extent possible and the actual results compared with them. It is the best way to exercise control, find deviations and slippages and facilitate effective utilization of resources, besides revising plans and programmes. It is also a standard practice to present the coming year budget, revised budget of the current year and the actual account of the previous year as part of the Annual Budget document. The fiscal data are expected to be presented to all stake holders which include the general public. The conformity legislations following the CAs generally mandate the Panchayati Raj Institutions (PRIs) and Municipalities/ Corporations in every state including Kerala to prepare a budget (the term is explicitly used) and get it approved before 31st March of every fiscal year. While this exercise is dutifully done not much happens in practice, beyond this. However, in Kerala it is important to note that all the 1200 Local Governments (LGs) have switched over (certainly statutorily) to an accrual-based double entry system of accounting from 1st April, 2011 onwards along with the introduction of a computerized accounting system. The questions this study seek to address : Are the LG budgets in Kerala credible and reliable operational financial statements on the basis of which financial decisions and actions are done in each local government? Can they be relied upon for monitoring, planning, research or briefly put as a credible source of financial reporting?

The general accounting practice and fiscal accounting arrangements currently followed in Kerala's local governments consist of (a) preparation of a Budget and (b) Preparation of an Annual Financial Statement (AFS). It is not clear why the two practices are religiously followed as parallel streams. The actuals in a budget must be based on the AFS. The actuals in central and state government budgets reflect the real numbers as reported by the CAG. The budget therefore cannot be a stand-alone document.

2.1. Preparation of Budget by the LGs

The Budget is a statutory document for the LG as it is for the union and States. There are provisions in the Kerala Municipality Act 1994 and the Kerala Panchayat Raj Act 1994 on the preparation of Budget. As per section 286 of the Kerala Municipality Act, the Standing Committee for finance shall prepare a budget estimate of the receipts and expenditure of the Municipality for the next financial year. It is presented by the Deputy Mayor. The budget estimates shall provide for the payment of all installments of principal and interest for which the Municipality may be liable on account of loans. As per Section 293 of the Kerala Municipality Act, the Budget shall be prepared in the prescribed form and manner, and must be approved with modifications as it deems fit. The working balances shown in the budget shall not be less than 5% of the current year's estimated receipts excluding the receipts from endowments, government grants, contributions and debt heads. In particular it is specified that the estimated receipts should be detailed and real and apparent differences, if any, from the actual receipts of the last year should be accompanied by detailed notes and explanations. While incurring expenditure, no amount other than those included in the current budget estimates shall be expended except under unavoidable emergent circumstances. No expenditure, out of the amount granted by the Government for the implementation of any scheme, project or plan entrusted and delegated to the Municipality under this Act shall be incurred for any other purpose including the implementation of any other scheme, project or plan. Section 214 of the Panchayat Raj Act provides for almost similar procedures for the preparation and sanction of Budget of a Panchayat. Invariably, the preparation and presentation of the budget is the responsibility of the Vice President who is the Chairperson, of the finance standing committee.

There is a document titled Kerala Municipal Budget Manual which contains the procedures to be followed while preparing a budget by the Municipalities/ Corporations. The Municipalities/ Corporations prepare the Budget following the guidelines of this document.

As per GO (Rt) No 3291/2016/ LSGD dated 02.12.2016, Government have issued orders approving a document titled "Manual on Finance Management: Budget for Gram Panchayats in Kerala" prepared by Kerala Institute of Local Administration (KILA). All Gram Panchayats, Block Panchayats and District Panchayats are expected to prepare their Budgets for 2017-18 onwards as per this document. Reviewing the document one can say that there many things to be desired and improvement are needed. As the AFS, the Saankya software, the Sulekha software for plans, etc., stand as independent documents an integrated budgetary system remains a distant goal.

2.2. Preparation of Annual Financial Statement (AFS) by the LGs:

There are well-defined rules and procedures for the preparation of AFS by a LG. As already mentioned in Section 1.0, from 2007 onwards the urban governments and from 2011 fiscal onwards the rural local governments have been following the accrual-based double entry system of accounting. This supplants the old cash-based single entry system.

2.2.1. *Kerala Municipality (Accounts) Rules, 2007*: As per GO (P) No.100/07/LSGD dated 30th March 2007, Government of Kerala had issued **Kerala Municipality (Accounts) Rules, 2007**, which was made applicable to all municipalities in Kerala with effect from 1st April 2007. As per clause 3 the municipalities will have to maintain their books of account on ‘Accrual’ basis under the double entry system of book-keeping. Accordingly, the municipalities have adopted the Accrual Accounting System, whereby all the financial transactions are expected to be recorded based on accruals, i.e., on occurrence of claims and obligations in respect of incomes or expenditures, assets or liabilities.

2.2.2. *Kerala Panchayat Raj (Accounts) Rules, 2011*: As per GO (Ms) No.83/11/LSGD dated 28th March 2011, Government of Kerala had issued Kerala Panchayat Raj (Accounts) Rules, 2011, which was made applicable to all Panchayat Raj Institutions in Kerala with effect from 1st April 2011. As per clause 3 of the Accounts Rules, the Panchayats shall maintain their books of account on accrual basis under the double entry system of book-keeping. As noted in the previous section GO (Rt) No 3291/2016/ LSGD dated 02.12.2016, Government have issued orders approving the document titled “Manual on Finance Management: Budget for Gram Panchayats in Kerala” prepared by KILA.

Kerala Panchayat Raj (Accounts) Manual: Even though Clause 3 (2) of the Kerala Panchayat Raj (Accounts) Rules 2011 stipulates that the Panchayats shall follow the Accounting Policies prescribed in the Kerala Panchayat Raj Accounts Manual, the Government have not so far prescribed separate Accounts Manual for the Panchayats. Actually the Panchayats follow the procedures given in Kerala Municipal Accounts Manual for preparing their accounts.

To complete the story a word about the coding structure is also in order. Coding has to be fool-proof to ensure correct and consistent accounting. The ‘coding structure’ stipulated in Chapter 4 of the Kerala Municipal Accounts Manual applies uniformly to all the municipalities of Kerala. The coding structure contains the following main groups, viz. (1) Fund (2) Function (3) Functionary (4) Field and (5) Account Head. In addition, there is a secondary account code for each Account head, and a municipality code for each municipality. Changes to the codes can be made only as per the Guidelines/ Rules prescribed in this regard.

The coding structure for Panchayats slightly differs from that for municipalities. As per Clause 14 of the Kerala Panchayat Raj (Accounts) Rules, the accounting entries shall be recorded using a uniform codification structure consisting of (1) Fund (2) Function (3) Functionary and (4) Account Head. There is no provision at present for capturing data at field (ie ward) level as required for municipalities. Since the coding structure used in the budget (only some LGs use them) and those in AFS are not strictly comparable and any attempt to draw inferences based on that can be misleading.

It is important to underline the fact that as per GO (Ms) No 23/10/LSGD dated 4th February 2010, the Accounts of all municipalities in the State have been fully computerised from 1st April 2010, using “Saankhya”, which is a dedicated software application developed by Information Kerala Mission (IKM) as we have noted in section 1.0. All accounting processes from the preparation of vouchers to preparation of Annual Finance Statements are handled by “Saankhya”. In the same manner, as per GO (Ms) No 128/2011/LSGD dated 6th July 2011, the Accounts of all Panchayats in the State also have been fully computerised from 1st April 2011.

3.0. Major Objectives of the Study

The major objectives of the study are:

- (i) To empirically investigate whether the LG budget-making in Kerala is the outcome of a due process of law and financial propriety;
- (ii) To examine whether the budgets provide a set of consistent, comparable and credible fiscal data that will help in efficient decision-making, monitoring and accountability.
- (iii) To examine whether the budget and revised budget are duly integrated in the Annual Financial Statements submitted for audit purposes and placed before the panchayat committee/municipal committee.
- (iv) To make some suggestions however tentative they may be, for evolving a systematic, reliable and rational financial reporting system for local governments in Kerala in the light of the findings.

4.0. Methodology

This study is largely based on a few case studies supplemented by consultations with experts and focus group discussions with stakeholders. For case studies the corporation of Thiruvananthapuram, the Pallichal and Kalliyoor Gram Panchayats, the Nemom and Pothencode block panchayats and Thiruvananthapuram district panchayat were chosen. Evidently the Thiruvananthapuram Corporations budget data are relatively better organised and are in print form and are taken for in-depth analysis. We concentrate mostly on the latest budget year / years for which budget actuals are available from the panchayat records. We thought that a large sample is perhaps not required for two reasons. One, as the rules governing budget-making and accounting do not significantly differ from one LG to another, one can come to reasonable inferences based on case studies. Two, this study is exploratory and is meant to identify and raise issues rather than come up with firm inferences and recommendations.

This study focuses only on cross-section data. Ideally, income as well as expenditure disaggregated into major items for at least five years would have been ideal. But this is very difficult because the quality of data and its consistency could not be assured. For generating consistent fiscal data I have

made an effort using AFS data to generate income and expenditure data for selected panchayats [for details see Oommen *et al* (2017)]. Even here there were serious data gaps and obvious inaccuracies which were over looked. It was in this context that we tried to confine to cross-section data.

5.0. The Findings of the Case Studies

5.1. The Thiruvananthapuram Corporation

We start with the Thiruvananthapuram Corporation with a population of 7.45 lakhs transacting a budget expenditure of over Rs.1000 crore per annum. The deputy mayor who is the Chairperson of the Standing Committee on Finance presents the budget prepared by the Committee and gets it duly passed before March 31st every year. The corporation has been following the accrual-based double entry system of accounting during the last six years. Headed by a Secretary of the rank of an IAS officer the Corporation has a good administrative support system. With no intention to make any invidious comparison, I may say that the corporation displays considerable procedural propriety as regards budget structure and budget making. This is the precise reason for the study of the corporation's budget for 2015-16 the latest year for which all the data are available in some details. The actuals / accounts are available from 2017-18 budget documents.

The standard practice in budget presentation viz., giving the budget estimates (BE) of income and expenditure for the budget year (next financial year), estimates for the current year, revised budget estimate (RE) for the current year and the actual for the previous year is followed by the corporation.

Appendix A Table 1 presents a comparison of the budget estimate, revised budget estimate and actuals for the major items of income and expenditure with reference to 2015-16. We also show in Table 1A, a comparison of budget actual with the AFS which logically should be the same. It is evident from the two Tables that the budgetary process and budget system of the corporation leave many things to be desired. Even a 10% slippage one way or the other may be considered on the high side⁵. On the revenue receipt side there is huge overestimates which ranges from over 31% in regard to fees and user charges to 97.86% in regard to income from investments. A near doubling be it above or below is not a prudent or reasonable estimate by any reckoning. By and large there is an unusually high margin of inflated figures in regard to receipts. The only item of receipts that agrees completely with the actual and the revised estimate is the opening balance. It is evident after looking into the budgets of earlier years that the opening balance numbers in the previous revised budgets (RE) and actuals match. In all probability the RE figures are taken from the trial balance of the ledger used in preparing the AFS. It seems the entries in several other items are adjusted to agree with this and this exercise lands the budgetary process in unjustifiable inaccuracies.

5 That the estimates of union and state government budgets are scrutinized by an estimate committee of Parliament/ Assembly is proof of the seriousness attached to making estimates of items of revenues and expenditure.

It is clear from Appendix A Table 1 that the expenditure items also shows high variability and the amplitude certainly more sharper than in regard to receipts. In three items viz., programme expenses, loans, advances, deposits and investments we see gross under estimate. For example in regard to loans, advances and deposits the actual is 3.72 times higher than the budget estimates. Estimates are wild guesstimates. When we go to disaggregated items there is sharp divergences which do not display any pattern. There is not much amiss in concluding that the budget estimates and actual diverge widely and show no rhyme or reason.

How do the actuals reported in the budget papers compare with the AFS data? Table 1A compares the budget actuals with the AFS actuals. Normally both should be the same. Although the divergence has been narrowing over the years, the situation in 2015-16 continues to remain inexplicable if not untenable. It is clear from Table 1A that the actuals of revenue receipts in the AFS which is officially accepted for audit purposes is higher than the budget actual by over Rs.107 crore. This is clearly unacceptable. That the slipshod manner of budget making can go to fictitious extreme is well exemplified in the case of income from investments where the AFS actual diverges from the budget actuals by 10338.83%. There is no pattern on the expenditure side. For example the actuals of administrative and establishment expenses which are pretty well known diverge by big margins, the establishment expenses by nearly 431% and administrative expenses by 35.23%. It is not clear why establishment and administrative expenses which are fairly predictable diverge so widely. The total receipts margin diverge by a sum of Rs.74 crore or about 14% and total expenditure by Rs. 14.5 crore or around 4%. The illustrative table given under Appendix A Table 1B shows that there is no internal consistency which is basic to all accounting. Under no circumstance the Budget Estimate and RBE can be a deficit of the order of Rs. 369.7 crore and the actual and RBE a surplus of over Rs.240.3 crore. In brief there is no need to labour the point any further to infer that the budget-making follows no systematic procedures leave alone any arithmetically consistent principles. The so-called Budget Actual and AFS differ in crores and is certainly untenable by any reckoning. Under such a regime financial reporting using widely deviated budget-based numbers becomes a ridiculous project and building fiscal data base an illusion.

5.2. *The Pallichal Gram Panchayats*

Pallichal Gram Panchayat in the Nemom block of the Thiruvananthapuram district is a large panchayat with nearly 54,000 population and has an expenditure of over Rs. 20 crore per annum. Strange as it may appear, the budget for 2015-16 was not available in the usual format, although the revised budget is prepared in the usual fashion. Soft copies were also not available. Many items shown in the revised budget estimates are missing in the Budget Estimate (BE) and many in BE do not appear in the Revised Estimate. This shows the lack of seriousness in the preparation of the budget and the reliability of the data, becomes clearly suspect. This is somewhat surprising given the size and tradition of the panchayat. Interestingly it does not have a good office building or even good furniture.

Appendix B presents the percentage change with reference to budget actual, from budget estimate and revised budget estimate. Appendix B1 shows the sharp difference between budget actual and AFS actual on a few comparable items for which we could get data.

That the budget actual for 2015-16 and the budget estimate as well as the revised BE, diverge hugely is evident from Appendix B. The budget estimate of own fund, for which predictable estimates are possible is Rs.3.13 crore, the revised estimate is Rs.1.27 crore which is nearly 60% lower and when it comes to actual it is a little over Rs.1 crore or less than one third of the budget estimates. Mookunnimala the big quarrying site is located in the panchayat and is a major potential source of non-tax revenue. While the estimated non-tax revenue is Rs. 2.12 crore, the actual collection was only Rs.31 lakhs or about 14.7% of the estimate. The real figure could not be culled out due to confusion in the account head and codes. This could be a case of over-estimate or a grave instance of laxity in revenue administration or brazen corruption or a combination of all these. The budgeted total income for 2015-16 is Rs.49.79 crore as against a reported budget actual of Rs.22.36 crore which is only 45% of the budgeted estimate. The budget estimates are unduly exaggerated and has no sense of proportion. Interestingly the real number reported in the AFS is Rs.20.62 crore. Most budget estimates except capital expenditure are overestimates. Actual capital expenditure for loan repayments for 2015-16 (as reported in the 2017-18 budget) is over four times larger than what was given in the Budget estimate. This is the only item which reportedly shows an underestimate in the budget. The amplitude of slippages violates all canons of prudence and accounting principles.

5.3. *The Kalliyoor Gram Panchayat* ⁶

Kalliyoor GP is not far away from Pallichal and falls within the Nemom block. Compared with Pallichal GP, it is slightly smaller in size with a population of over 40,000 but has a budgeted expenditure of the order of Rs.19 crore. In regard to maintenance of records Kalliyoor is certainly better than Pallichal and could supply time series data. Appendix C, presents the BE, BE actual and AFS actuals on selected items (difficult to present a regular set as we have done in Appendix A Table 1 and 1A for want of information). Even on the basis of the few items it is evident that the budget data and AFS actually vary very widely. Take the tax revenue estimate for 2015-16 (Appendix C) where the collection has to be seen against the demand for revenue. As against an estimated tax revenue of Rs.92.87 lakh the actual collection as per AFS data was only Rs.21.14 lakh which means an uncollected balance of Rs.71.83 lakhs. This means that only 23% of demand is collected. The traditional DCB (Demand, Collection and Balance) of a local body becomes a fiction. Collection efficiency defined as that percentage of tax collection to tax demand [World Bank (2004)] has no significance under such a regime. Under the double entry system the uncollected balance must appear as receivables. This is missing. Apparently you make a mockery of budgeting? If you have a very weak tax administration,

⁶ We have chosen another neighborhood GP to see if the budget data set reveals the same pattern like the Pallichal GP or not.

presumably you have to moderate your demand. In regard to administrative expenses the budget actual and AFS report the same number (Rs.1209263), but establishment expenses show a huge difference the AFS actual being only less than one third of budget actual (see item P) In short what sanctity can anyone attach to a budget where the figures diverge six or seven times from the actual (see for e.g other grants, total capital income and closing balance in Appendix C).

For Kalliyoor GP we have more refined accounts for 2016-17. Appendix C1 gives comparative details of income and expenditure, assets and liabilities as per Budget and as per AFS. This is done using the coding structure followed. We have added a remarks column to explain the difficulties and *lacuna*, in the process of comparison. In some cases suggestions for improvements are also indicated. Appendix C1 clearly shows that it is very difficult to compare budget numbers with AFS because the heads of account are not always given under the same title. We have taken 26 items from Income and Expenditure account and 16 items relating to Assets and liabilities to illustrate the difficulties in comparing the budget and the relevant AFS accounting. Even where they are comparable the amplitude of variation is very wide. It is also possible to point out that the principles of accrual-based double entry system of accounting are not followed strictly even in the preparation of the AFS, not to speak of budget-making.

5.4. *The Story of Block and District Panchayats*

The panchayats at the intermediate level and at the district level with no taxing powers have only a slender own source revenue base which is confined largely to rental income and a few other non-tax revenue sources. Generally they are negligible. Even so, the budget system, and the rules governing them are basically the same. In this section we document only very general findings based on the budget estimate and AFS of the Nemom block panchayat, the Pothencode block panchayat and the Thiruvananthapuram district panchayat. Given our broad findings that these upper tier panchayats do not consider budget as a serious tool of fiscal management and governance except as a necessary statutory evil we treat them only very briefly. This is also because it is difficult to generate comparable fiscal data. The standard practice of presenting the revised budget of the current year and the actual of the previous year along with the budget estimate for the fiscal year is followed in its breach. The Thiruvananthapuram District Panchayat is an exception.

The budget document of Nemom block which has an estimated expenditure of Rs. -54.8 crore for 2015-16 has a population of over 264000. This block panchayat depends heavily on plan and non-plan grants from state and central governments. The budget paper for 2015-16 shows only estimates. We are told that revised budgets are prepared only for individual projects in December and are not part of an integrated budgetary exercise. The actual expenditure forms part of the Annual financial statement and does not appear in the Budget. In order to ascertain whether Nemom was an exception or part of a general pattern we examined the budget documents of Pothencode block Panchayat. In a way it is better in that the Pothencode block panchayat has been presenting a revised estimate of the

current year along the with the BE for the coming fiscal year in all the years since 2015-16. But in both cases the actual is missing and a meaningful comparison with AFS is rendered difficult. Without actual number there can be no accountability. Further, even this has no real meaning as could be seen from the abstract for Pothencode given under Appendix D. Most of the estimated budgets are expended and there is zero balance.

In short, block panchayats are not following any guidelines and abandon all standard principles of budget preparation and presentation. There is no actual in the budget which makes any worthwhile comparison difficult. Estimates are done and presented for meeting statutory requirements.

The Thiruvananthapuram district panchayat with an expenditure of over Rs.100 crore per annum has a fairly regular system of record keeping. Budgets are duly prepared and statutory formalities are also followed. Even so, all the short comings of budget-making we have outlined holds true in this case as well (See Appendix E). It is instructive to note that for an estimated budget receipt of Rs.152.54 crore, the reported actual is only Rs.70.2 crore, less than half, as against the AFS actual of Rs.97.9 crore. All our efforts to compare Budget estimates and AFS were unsuccessful.

6.0. Major Findings

It is useful at this state to sum-up the important findings.

- 6.1. The sanctity and significance attached to budget preparation, presentation and its use as a source of financial reporting and as a tool of monitoring, fiscal management, research analysis and public scrutiny are notably absent when we come to local government budgeting in Kerala. Budget is not a serious instrument at the local government level in sharp contrast to the union and state levels. At best, LG budgeting is an exercise in self-deception. Honesty demands that we abandon the exercise or reform it radically to make it operational and relevant. The most natural and logical pattern is to have a budget pattern for the rural and urban local governments, prepared and presented with the same importance as their state and union level counterparts. This is important to have an integrated public finance in the Indian Federal polity.
- 6.2. The AFS and Budget stand poles apart. This must not happen. They are complementary and never contradictory.
- 6.3. The budget is prepared manually whereas the AFS is system - generated.
- 6.4. It is not possible to compare receipts and expenditure of Budget inter-temporarily. The heads of account of various items are not uniform. A uniform and standardised pattern binding on all panchayats and all states has yet to become a reality in India.
- 6.5. In budgeting revenue/capital differentiation is very basic. There is no relationship between budget and AFS in regard to capital receipts and capital expenditure and any comparison is virtually impossible.

- 6.6. Double entry system of accounting is a commercial accounting system. The Indian Railways is in the process of implementing it. The experiment of this accounting, at the local level is not an easy task and therefore considerable back-up training and staff support is required.

7.0. Some Suggestions

We may offer some suggestions for improving the situation.

- 7.1. Now that the Budget and the AFS stand apart, in order to enable a meaningful comparison between the Budget and the AFS, and facilitate rationale accounting, it is desirable to follow the conditions given below:

- a) Budget document should be prepared in the same format in which the AFS is prepared.
- b) The coding structure used for AFS and that for Budget should be the same.
- c) The classification of head of account should be same for the Budget and the AFS.
- d) The principle of accrual accounting should be strictly followed in preparing the AFS.
- e) The Actuals given in the Budget and in the AFS should be the same.
- f) The original Budget figures and the Revised Budget figures must be integrated into the AFS generated by the Software

- 7.2. Two reviews are immediately needed. One, review the “Kerala Municipal Budget Manual” and “Manual on Finance Management: Budget for Gram Panchayats in Kerala” and make necessary modifications. This is immediately needed.

Second, review the AFS practice and coding structure to ascertain its adequacy to meet with all the current requirements and suggest modifications in the software. This means instituting a study on the capability of the Saankhya software and Sulekha software (confined to plan monitoring) to meet with all the requirements and improvements needed. If any change in coding structure is required to bring out any additional information or statement it should be carried out. In short, a requirement analysis must be made forthwith.

- 7.3. Budget is admittedly a very comprehensive document as well exemplified in the theory and practice of Union and state budgets. Unless and until a budget goes into the details of development, disaggregated into projects, schemes and reflect the priorities of the people and make it an integral component of accountability mechanism, we consciously discredit an institution that has stood the test of time. Every transaction should be linked to the functionary, function and the fund and should match with the AFS. If possible, a module similar to Saankhya software but much more comprehensive may be developed to prepare the budget by the LGs.
- 7.4. The accounts staff in all the LGs should be given intensive training on the present Accounts Manual. They should also be trained on the preparation of Budget when the Budget Manual is

ready. The President (Mayor), Vice President (Deputy Mayor) and members of the Finance committee must be given training in the essentials of budgeting and double entry system of accounting.

To conclude, the budget-making by LGs is not strictly rule-based and does not seem to follow standard practices. That the actuals reported in budget and in the Annual Financial Statement (AFS) diverge widely shows a malady which no serious government can afford to ignore. To be sure, budgets do not serve as the basis of a reliable and consistent financial reporting system. How can it be used as a basis for research, analysis and policy, not to speak of theory, is a great question that needs to be addressed seriously. The moot question is: Can we allow an established fiscal tool like a budget to decline through indifference and become a caricature of what it ought to be? This is something for the policymakers and government to sit back, and reflect and taken appropriate measures. Let me in conclusion cite the words of Piketty cited in a different situation but important in this context as well. “Without real accounting and financial transparency and sharing of information, there can be no economic democracy”[Piketty(2014):p.570].

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Appendix A

Table 1: Budget Estimate Revised budget estimate and actuals for the year 2015-16: A comparative account of selected items of Thiruvananthapuram Corporation

Sl.No.	Particulars	Budget estimates for the year 2015-16	Revised Budget Estimate for 2015-16	Actual for 2015-2016	Percentage Change with Budget Estimate and Actual	Percentage Change with Revised Budget Estimate and Actual
	OPENING BALANCE	1,625,931,975	2,725,277,856	2,725,277,856	67.61	0
	REVENUE RECEIPTS					
1	Tax Receipts	1,440,070,000	1,440,040,000	878,135,012	-39.02	-39.02
2	Rental Income from Municipal Properties	63,500,000	42,200,000	41,104,899	-35.27	-2.6
3	Fees and User Charges	206,615,000	259,226,150	142,422,169	-31.07	-45.06
4	Sales and Hire Charges	16,235,000	24,112,000	8,263,607	-49.1	-65.73
5	Revenue Grants, Contributions and Compensation	1,635,275,928	1,555,323,303	677,551,058	-58.57	-56.44
6	Income from investments	1,000,000	700,000	21,450	-97.86	-96.94
7	Interest from Bank	10,000,000	15,000,000	19,617,633	96.18	30.78
8	Other Income	623,750,000	674,120,000	23,328,180	-96.26	-96.54
	TOTAL REVENUE RECEIPTS	3,996,445,928	4,010,721,453	1,790,444,008	-55.2	-55.36
	CAPITAL RECEIPTS					
9	Grants, Contribution for Specific purpose	5,801,917,000	3,414,175,000	598,329,988	-89.69	-82.48
10	Secured Loans	625,000,000	607,000,000	17,243,611	-97.24	-97.16
11	Deposits received	35,000,000	25,000,000	30,342,792	-13.31	21.37
12	Ear Marked Fund			1944903		
13	Other liabilities			142,065,164		
	TOTAL CAPITAL RECEIPTS	6,461,917,000	4,046,175,000	789,926,458	-87.78	-80.48
	Total Receipts including Opening Balance	12,084,294,903	10,782,174,309	5,305,648,322	-56.09	-50.79
	REVENUE EXPENDITURE					
14	Establishment Expenses	1,353,054,500	1,473,080,000	703,785,953	-47.99	-52.22
15	Administrative Expenses	82,230,000	34,014,000	21,595,313	-73.74	-36.51
16	Operation & Maintenance	1,296,835,000	684,953,000	310,193,638	-76.08	-54.71
17	Interest and Finance Charges	150,000	150,000	102,127	-31.92	-31.92
18	Programme Expenses	828,273,125	732,909,303	1,103,180,936	33.19	50.52
19	Revenue Grants, Contributions	3,700,000	3,845,000	40,310	-98.91	-98.95
20	Transfer to Reserve Fund	79,928,919	80,214,429	-		
21	Depreciation					
	Total Revenue Expenditure	3,664,171,544	3,009,165,732	2,138,898,277	-41.63	-28.92
	CAPITAL EXPENDITURE					
22	Fixed Assets	1,039,550,000	543,680,000	342,798,243	-67.02	-36.95
23	Capital Work in Progress	7,099,947,000	3,298,645,000	55,602,544	-99.22	-98.31
24	Stock in Hand	600,000	100,000	-		
25	Loans, Advances and Deposits	5,250,000	5,500,000	19,578,375	272.92	255.97
26	Investments	5,000,000	5,000,000	6,557,291	31.15	31.15
27	Period Period Items			3,699,391		
28	Pension fund for Contingent staff			180,680,622	-	-
29	Grants & Contribution specific purpose			716,488,792	-	-
30	Other liabilities			325,256,202		
	Total Capital Expenditure	8,197,567,000	3,852,925,000	1,650,661,460	-79.86	-57.16
	TOTAL EXPENDITURE	11,841,738,544	6,862,090,732	3,789,559,737	-68	-44.78
	CLOSING BALANCE	242,556,359	3,920,083,577	1,516,088,585		

Table 1A: Comparison of Actuals as revealed in Budget Documents and AFS (2015-16) of Thiruvananthapuram Corporation

Sl.No.	Head of Account Code	Particulars	Actuals in Budget Document 2015-2016	AFS data 2015-16	Difference (Column 4-3)	% difference and budget data (col 5/3%)
	1	2	3	4	5	6
		OPENING BALANCE	2,725,277,856	2,725,277,856	Nil	
I	REVENUE RECEIPTS					
1	110	Tax Receipts	878,135,012	994,264,458	116,129,446	13.22
2	130	Rental Income from Municipal Properties	41,104,899	43,678,678	2,573,779	6.26
3	140	Fees and User Charges	142,422,169	146,787,125	4,364,956	3.06
4	150	Sales and Hire Charges	8,263,607	9,048,175	784,568	9.49
5	160	Revenue Grants, Contributions and Compensation	677,551,058	1,641,569,342	964,018,284	142.28
6	170	Income from investments	21,450	2,239,129	2,217,679	10,338.83
7	171	Interest from Bank	19,617,633	20,602,576	984,943	5.02
8	180	Other Income	23,328,180	439,507.50	-22,888,673	-98.12
		Total Revenue Receipts	1,790,444,008	2,861,205,434.53	1,070,761,427	59.80
II	CAPITAL RECEIPTS					
9	320		598,329,988	1643261542	1,044,931,554	174.64
10			17,243,611	0		0.00
11	340 & 341		30,342,792	24354613	-5,988,179	-19.74
12	311		1944903	1944903	Nil	
13	350		142,065,164	33441636	-108,623,528	-76.46
			789,926,458	1703002694	913076236	115.59
			5,305,648,322	4,564,208,128.53	741440193.5	13.90
III	REVENUE EXPENDITURE					
14	210	Establishment Expenses	703,785,953	951,719,422	247,933,469	35.23
15	220	Administrative Expenses	21,595,313	114,631,845	93,036,532	430.82
16	230	Operation & Maintenance	310,193,638	376,296,899	66,103,261	21.31
17	240	Interest and Finance Charges	102,127	102,127	Nil	
18	250 to 253	Programme Expenses	1,103,180,936	1,037,951,490	-65,229,446	-5.91
19	260	Revenue Grants, Contributions	40,310	40,310	Nil	
		Total Revenue Expenditure	2,138,898,277	2,600,181,221	461,282,944	21.57
IV	CAPITAL EXPENDITURE					
20	410	Fixed Assets	342,798,243	342,839,531	41,288	0.01
21	412	Capital Work in Progress	55,602,544	55,602,544	Nil	
22	460	Loans, Advances and Deposits	19,578,375	263477	-19,314,898	-98.65
23	420 & 421	Investments	6,557,291	2,217,679	-4,339,612	-66.18
24	350	Other liabilities	325,256,202	33441636	-291,814,566	-89.72
25	280	Prior period Items	3,699,391	3,699,891	500	0.01
		Fund Creation		0		
26	311	Pension fund for Contingent staff	180,680,622	180,680,622	Nil	
27	320	Grants & Contribution specific purpose	716,488,792	716,488,792	Nil	
		Total Capital Expenditure	1,650,661,460	1,335,234,172	-315427288	-19.11
		TOTAL EXPENDITURE(III+IV)	3,789,559,737	3935415393		0.00
		CLOSING BALANCE	1,516,088,585	1,516,088,585	NIL	

Appendix 1B: Illustrative Table to show Internal Inconsistency

	<i>Total Receipts</i>	<i>Total Expenditure</i>	<i>Closing Balance</i>
Budget Estimate(BE)	12,084,294,903	11,861,738,544	222,556,359
Revised Budget Estimate (RBE)	10,782,174,309	6,862,090,732	3,920,083,577
Actual Budget	5,305,648,322	3,789,559,737	1,516,088,585
AFS	7,289,485,985	3,935,415,393	3,354,070,592
The Margin of difference			
<i>BE-RBE</i>	1,302,120,594	4,999,647,812	-3,697,527,218
<i>RBE-Actual Budget</i>	5,476,525,987	3,072,530,995	2,403,994,992
<i>Actual budget-AFS</i>	-1,983,837,663	-145,855,656	-1,837,982,007

Appendix B

Comparison of Budget Estimate, Revised Budget and Actuals of 2015-16 - Pallichal Gram Panchayat

	<i>Particulars</i>	<i>Budget Estimate 2015-16</i>	<i>Revised Budget 2015-16</i>	<i>Actual 2015-16</i>	<i>(Actuals- BE)/BE x 100</i>	<i>(Actuals- RE)/REx100</i>
A	Opening balance (net)	24,319,000.00	19,148,000.00	4,199,876.00	-82.73	-78.07
B	a) Tax revenue	10,142,000.00	7,350,000.00	7,634,358.00	-24.73	3.87
C	b) Non-tax revenue	21,216,000.00	5,372,000.00	3,117,499.00	-85.31	-41.97
D	Total Own Fund	31,358,000.00	12,722,000.00	10,751,857.00	-65.71	-15.49
E	c) General Purpose Fund	0	13,245,000.00	13,761,187.00	0.00	3.90
F	Total		25,967,000.00	24,513,044.00	0.00	-5.60
G	d) Other Grants (Plan)	0	209,377,000.00	126,379,609.00	0.00	-39.64
H	e) Other Grants (Non-Plan)	0	42,000,000.00	52,141,000.00	0.00	24.15
	Grant in aid and Contributions (E+G+H)	403,717,000.00	264,622,000.00	192,281,796.00	-52.37	-27.34
I	Total Revenue Income		277,344,000.00	203,033,653.00	0.00	-26.79
J	Capital Income-Loans	12,110,000.00			0.00	0.00
K	Income other than loans (which includes Deposits and Advances Inter -Panchayat Payments)	23,286,000.00	35,880,000.00	16,404,728.00	-29.55	-54.28
L	Total Capital Income	35,396,000.00	35,880,000.00	16,404,728.00	-53.65	-54.28
M	Total Income	470,471,000.00	313,224,000.00	219,438,381.00	-53.36	-29.94
N	Total Income +Net opening balance	494,790,000.00	332,372,000.00	223,638,257.00	-54.80	-32.71
O	Revenue Expenditure - Statutory functions		35,499,000.00	11,872,354.00	0.00	-66.56
P	Revenue Expenditure-Plan	235,188,000.00	195,720,000.00	94,236,640.00	-59.93	-51.85
Q	Revenue Expenditure-Non-Plan	134,022,000.00	46,255,000.00	52,741,000.00	-60.65	14.02
R	Total Revenue Expenditure	369,210,000.00	277,474,000.00	158,849,994.00	-56.98	-42.75
S	Capital Expenditure-Loan repayments	1,210,000.00	2,500,000.00	4,827,300.00	298.95	93.09
T	Capital expenditure other than loan repayments	76,275,000.00	32,150,000.00	46,327,202.00	-39.26	44.10
U	Total Capital Expenditure	77,485,000.00	34,650,000.00	51,154,502.00	-33.98	47.63
V	Total Expenditure	446,695,000.00	312,124,000.00	210,004,496.00	-52.99	-32.72
W	Closing Balance	48,095,000.00	20,248,000.00	13,633,761.00	-71.65	-32.67

Appendix B1

Comparison of Selected Items of Budget Actual and AFS (Pallichal Gram Panchayat)

Sl. No.	Particulars	Budget Estimate	Revised Estimate	Actual	AFS	Difference (AFS & Actual)	Difference as % of Actual
1.	Opening Balance	24,319,000	19,148,000	4,199,876	17,761,000*	- 13,561,124	-322.89
2.	Total Income	470,471,000	313,224,000	219,438,381	206,180,910 #	13,257,471	6.04
3.	Total Expenditure	446,695,000	312,124,000	210,004,496	213,746,510#	-3,742,014	-1.78
4.	Closing Balance	48,095,000	20,248,000	13,633,761	2,386,743.00*	11,247,018	82.49

#Based on Income & Expenditure Statement of AFS

*Based on Receipt & Payment Statement of AFS

Appendix C

Comparison of Budget Estimate and Budget Actuals and AFS (only selected items) of 2015-16 Kalliyoor Gram Panchayat

	<i>Particulars</i>	<i>Budget Estimate 2015- 2016</i>	<i>Budget Actual 2015- 2016</i>	<i>(Actuals- BE)/BE x 100</i>	<i>AFS</i>	<i>Percentage change with budget estimate and AFS</i>	<i>Percentage change with budget actual and AFS</i>
A	Opening balance (net)	7,914,725.00	12,150,139.00	53.51			
B	a) Tax revenue	9,297,887.00	5,482,767.00	-41.03	2114836	-77.25	-61.43
C	b) Non tax revenue	3,001,000.00	1,153,948.00	-61.55			
D	Total Own Fund	12,298,887.00	6,636,715.00	-46.04			
E	c) General Purpose Fund	108666000	10,866,000.00	-90.00			
F	Total	120,964,887.00	17,502,715.00	-85.53			
G	d) Other Grants (Plan)		62,414,512.00				
H	e) Other Grants (Non-Plan)	1734700	12,958,868.00	647.04			
	Grant in aid and Contributions (E+G+H)		86,239,380.00				
I	Total Revenue Income	183801587	92,876,095.00	-49.47			
J	Capital Income-Loans	16,800,000.00					
K	Income other than loans (which includes Deposits and Advances Inter Panchayat Payments)		37,668,288.00				
L	Total Capital Income	6,272,600.00	37,668,288.00	500.52			
M	Total Income	190,074,187.00	130,544,383.00	-31.32	127243443	-33.06	-2.53
N	Total Income+Net opening balance	197,988,912.00	142,694,522.00	-27.93			
O	Revenue Expenditure- Statutory functions		12,606,206.00				
P	Establishment Expenses	8238805	7,883,979.00		2754904	-66.56	-65.06
Q	Administrative Expenses	2016500	1,209,263.00		1209263	-40.03	0.00
R	Revenue Expenditure-Plan		38,181,432.00				
S	Revenue Expenditure-Non- Plan		1,849,702.00				
T	Total Revenue Expenditure	174,611,508.00	52,637,340.00	-69.85			
U	Capital Expenditure-Loan repayments	3,819,600.00	3,819,600.00	0.00			
V	Capital expenditure other than loan repayments	10,357,804.00	18,171,752.00	75.44			
W	Total Capital Expenditure	14,177,404.00	21,991,352.00	55.12			
X	Total Expenditure	188,788,912.00	74,628,692.00	-60.47	132582457	-29.77	77.66
Y	Closing Balance	9,200,000.00	68,065,830.00	639.85			

Appendix C1

Comparative details of Income, Expenditure, Assets and Liabilities as per Budget and AFS of Kalliyoor GP(2016-17)

<i>Head of Account</i>	<i>Budget 2016-17 (Rs lakhs)</i>	<i>AFS 2016-17 (Rs lakhs)</i>	<i>Remarks</i>
INCOME			
Property Tax - residential building	22.00	27.15	The codes for Head of account used for Budget and AFS are the same. There is also a function code in the Budget. But no function code is seen in the AFS. It is to be verified whether the AFS is also prepared function wise. It is not certain whether the accrual accounting procedure is followed, where required.
Property Tax - non-residential building	8.00	14.70	
Profession Tax - Institutions	2.00	2.40	
Profession Tax - Employees	30.00	21.09	
Advertisement Tax	1.00	-	
Entertainment Tax	0.15	0.16	
Rental Income	0.25	0.03	-Do-
Fees & user charges	30.01	15.66	The coding structure and codes used for Budget and AFS are the same. However, in the Budget, all the heads of accounts are shown under Non-tax revenue. Hence comparison becomes difficult.
Sale & hire charges		0.09	
Receipt from transferred institutions	-	2.00	There is no provision for this head in the Budget. It would be desirable if the Budget contains this head of account with a target of Rs Nil.
Revenue Grants, contributions & subsidies	123.56 425.66 10.35 400.00	1289.76	In the Budget, the amounts are shown under (i) General Purpose Fund, (ii) Various State sponsored schemes (iii) Various non-plan grants and (iv) Centrally Sponsored schemes, respectively. In the AFS all these receipts are shown in different heads under Revenue Grants and contributions, making it difficult to compare budget with actuals.
Housing Loan from Bank	67.20	-	This is a capital receipt and shown in AFS under Capital Receipt.
Interest Earned	-	2.57	In the Budget, this item is included under Non-tax revenue, whereas in the AFS the same is shown separately making it difficult to make a comparison.
Other Income	-	0.44	-Do-

<i>Head of Account</i>	<i>Budget 2016-17 (Rs lakhs)</i>	<i>AFS 2016-17 (Rs lakhs)</i>	<i>Remarks</i>
EXPENDITURE			
Establishment Expenditure	131.20	99.60	The codes for Head of account used for Budget and AFS are generally the same. Whether the accrual accounting procedure is followed, where required, is also to be checked. One apparent mistake noticed is that Rs 30.66 lakhs shown as Honorarium to anganwadi workers in the Budget, whereas the same is not included under this head in the AFS. It seems that this kind of expenditure is included in expenditure relating to decentralised plan program. Where exactly this expenditure is booked is not clear from the AFS.
Administrative Expenditure	17.82	11.82	Mistakes of above nature are seen here also.
Operation & Maintenance Expenses	37.84	32.73	In the Budget both these heads are shown as Expenditure on Mandatory functions. A sum of Rs 17.35 lakhs is shown in AFS as Interest on loans from Co-operative Banks, but there is no provision for this anywhere in the Budget.
Interest & Finance Charges		17.95	
Decentralised plan program - productive sector	425.66	80.93	In the Budget, the amounts are shown under (i) Non-plan revenue expenditure from state sponsored scheme funds (ii) Non-plan revenue expenditure from other grants, (iii) Plan expenditure on development and maintenance - included in projects and (iv) Plan expenditure on development and maintenance - not included in projects respectively. All these expenditures are shown under different schedules in the AFS as shown here, making it difficult to compare budget with actuals.
Decentralised plan program - Service sector	10.35	555.53	
Decentralised plan program - Infrastructure sector	3.56	36.80	
Decentralised plan program - Project not included in sector division	400.00	2.73	
Expenditure of Transferred Institutions and state sponsored schemes		432.80	
Maintenance Projects		80.05	
Depreciation		36.95	
Prior period items (Net)		-19.78	- Do -
CAPITAL RECEIPTS (LIABILITIES)			
Opening Balance	79.15		

<i>Head of Account</i>	<i>Budget 2016-17 (Rs lakhs)</i>	<i>AFS 2016-17 (Rs lakhs)</i>	<i>Remarks</i>
Surplus of Income over expenditure brought down	29.85	148.73	
Panchayat Fund - General Fund	-	37.38	
Special Fund/ Sinking Fund	2.00	0.37	In the Budget, the amounts are shown under (i) Liabilities to be discharged (ii) Housing Loan from Banks, (iii) Grants , Funds and contributions for Non-plan expenditure (iv) Centrally sponsored scheme funds and (v) Devolution of funds from State Government for Development and Maintenance (Less transfers to revenue income) respectively. All these expenditures are shown under different schedules in the AFS as shown here, making it difficult to compare budget with actuals.
Reserves		651.69	
Grants & Contributions for specific purposes (320)	21.88	39.61	
Secured Loans from Co-operative Banks (330)	67.20	134.40	
Deposits received (340)	15.35	9.98	
Sundry creditors (350)		9.62	
	400.00		
	500.92		
CAPITAL EXPENDITURE (ASSETS)			
Fixed Assets	28.80	635.19	The Budget figures represent (i) EMS total housing program (loan repayment) and (ii) Capital expenditure on development plan projects respectively. These figures and the AFS figures are not at all comparable as AFS figures contain opening balances also, whereas the budget contains the actual payment during the year.
Capital Work in progress		21.42	
Stock in Hand	220.45	-	
Sundry debtors		48.10	
Prepaid expenses (440)		134.40	
Closing Balances (Cash & Bank) 450		174.67	
Loans, Advances & Deposits (460)		18.01	

Appendix D
Pothencode Block Panchayat - Revised Budget 2015-16

<i>Items</i>	<i>Closing Balance</i>	<i>Budget Income</i>	<i>Total</i>	<i>Budget Expenditure (till 31/03/2016 Expenditure limit)</i>	<i>Balance</i>
Category (A) Fund (General)	1235070	28024000	29259070	29259070	0
Category (A) Fund (SCP)	2603761	14318000	16921761	16921761	0
Category (A) Fund (TSP)	0	93000	93000	93000	0
Maintenance Grant	334888	4081000	4415888	4415888	0
Indira Awass Yojana	0	150000000	150000000	150000000	0
Indira Awass Yojana (IAY)	4487250	37323500	41810750	41810750	0
Stable Income Project	2636	402421	405057	405057	0
Total sanitation Programme	0	4000000	4000000	4000000	0
M.P., M.L.A., Local Development Fund	0	40000000	40000000	40000000	0
General Purpose Grant	631807	3000000	3631807	2905990	725817
Sports, Tourism, Keralatosavam, etc	0	100000	100000	100000	0
Education	0	200000	200000	200000	0
Sales of Forms, Tender, Auction etc.,	0	200000	200000	200000	0
IAY State Fund	0		0	0	0
IWMP	94911	1080000	1174911	1174911	0
Income tax, Sales Tax, Construction Employees welfare fund	0	700000	700000	700000	0
Internal transfers of District Panchayats	0	11004010	11004010	11004010	0
Other Income	0	250000	250000	250000	0
Own Fund	3045625	465000	3510625	1671442	1839183
Total	12435948	295240931	307676879	305111879	2565000

Source: Budget Document 2016-17, Pothencode Block Panchayat.

Appendix E

Budget Actual (2015-16) Vs Budget Estimate of Thiruvananthapuram District Panchayat

Sl.No.	Particulars	Budget Estimate 2015-16 (Rs. In thousands)	Actual for 2015-2016 (Rs. In thousandas)	Percentage Change with Budget Actual and Budget Estimate 15-16	AFS 2015-16
	OPENING BALANCE	55089.53	530,449	862.89	
PANCHAYAT FUND INCOME					
1	Revenue Account -Tax Receipts	0.00	0		
2	Revenue Account-Non Tax revenue	49627.76	53,446	7.69	
3	Grants-in -aid, and Contributions	1394935.39	640,426	-54.09	
4	Capital Account-Income	0.00	0		
5	Loans and Advances	2500.00	0		
	TOTAL PANCHAYAT FUND	1447063.16	693,872	-52	
DEBT HEAD ACCOUNTS INCOME					
6	PF & Others		0		
7	FD & Advances	78406.258	8,518	-89	
8	Inter panchayts remittances		0		
9	TOTAL DEBT HEAD ACCOUNTS	78406.258	8,518	-89	
10	TOTAL INCOME	1525469.41	702,390	-54	979913725.00
11	Total Receipts including Opening	1580558.94	1,232,839	-22	
EXPENDITURE					
PANCHAYAT FUND					
12	Total Revenue Expenditure	1,143,872	851,101	-25.59	
13	Total Capital Expenditure	333,764	225,541	-32.42	
14	Loans and Advances	12,075	12,316	2.00	
15	TOTAL REVENUE EXPENDITURE	1,489,711	1,088,958	-26.90	
DEBT HEAD ACCOUNTS					
16	Fd & Advances	57713.929	20648.481	-64.22	
17	TOTAL DEBT HEAD ACCOUNTS	57713.929	20648.481	-64.22	
18	TOTAL EXPENDITURES (I + II)	1,547,425	1,109,606	-28.29	
19	CLOSING BALANCE	33,134	123232.932	271.92	
	Total	1,580,559	1,232,839	-22.00	

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