



**Government Accounting Practices for Matching Grants
A study on SGSY Scheme of District Rural Development Agencies (DRDA)
Region wise analysis of Andhra Pradesh**

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ABSTRACT

In this paper an attempt to analyze how efficiently Government organizations (DRDAs) have practicing Accounting system for implementation of matching grants scheme for 13 years period and its performance of receiving and allocating grants, and also differences between allocation and releases i.e., lapses of grants under SGSY scheme. We have used linear growth Rate (LGR), t-test, mean and simple averages as statistical tool for variation trends during the 13 years study period. Our study shows that how trends in allocating and releasing Matching Grants in Region wise analysis of AP DRDAs and factors (Accounting Practices) influencing for differences of grants allocated and released by the Central and State Governments. We have also made a survey on perception of accounting staff on existing system during the study period.

INTRODUCTION:

Accounting and financial reporting standards are essential for improved public accountability and, in fact, for the efficient and effective functioning of our democratic system. They play a major role in fulfilling the Government's duty to be publicly accountable and they contribute to a fuller understanding of economic, political and social consequences of allocation decisions and various uses of Government resources both at the Centre and at the State levels. Accounting rules are designed to provide standardized frameworks within which the financial position of a Government can be assessed. Bad accounting frameworks can lead to bad information and bad information invariably leads to bad decisions with serious long-term consequences. Accounting rules can be manipulated and abused to provide a misleading picture of what is really happening in the national economy.

The history of accounting is as old as civilization, key to important phases of history, among the most important professions in economics and business, and fascinating. Accountants participated in the development of cities, trade, and the concepts of wealth and numbers. Accountants invented writing, participated in the development of money and banking, invented double entry bookkeeping that fueled the Italian Renaissance, saved many Industrial Revolution inventors and entrepreneurs from bankruptcy, helped develop the confidence in capital markets necessary for western capitalism, and are central to the information revolution that is transforming the global economy.

In some ways accounting hasn't changed much since 'Luca Pacioli' wrote the first "textbook" in 1494. On the other hand, accounting has been a leader of the Information Revolution. Many aspects of 21st century accounting will be unrecognizable by today's professional leaders. Understanding the role of financial and managerial needs today and in the future requires an understanding of the past.

GOVERNMENT ACCOUNTING:

Government accounting is the process of recording, analyzing, classifying, summarizing communicating and interpreting the financial transaction and events about government in aggregate and in detail reflecting transactions and other economic events involving the receipt, spending, transfer, usability and disposition of assets and liabilities.

In the words of Premchand (1995) Government Accounting may be defined as a system that is charged with identification, selection and analysis, measurement, estimation, processing, and communication of information on receipts, expenditure, assets, liabilities, costs, and benefits and all other aspects that legitimately form part of fiscal management and is now the recognized handmaiden of fiscal policy.

OBJECTIVES OF GOVERNMENTAL FINANCIAL REPORTING:

IFAC PSC Study 1 (1991) Financial Reporting by National Governments identified the following objectives of governmental financial reporting. Financial reporting should demonstrate the accountability of the government or unit for the financial affairs and resources entrusted to it, and provide information useful for decision making by: 1 indicating whether resources were obtained and used in accordance with the legally adopted budget; 1 indicating whether resources were obtained and utilised in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities

INDIAN ACCOUNTING STANDARDS:

Accounting Standards-setting in India The Institute of Chartered Accountants of India (ICAI) being a member body of the IASC, constituted the Accounting Standards Board (ASB) on 21st April, 1977, with a view to harmonize the diverse accounting policies and practices in use in India. After the avowed adoption of liberalization and globalization as the corner stones of Indian economic policies in early '90s, and the growing concern about the need of effective corporate governance of late, the Accounting Standards have increasingly assumed importance. While formulating accounting standards, the ASB takes into consideration the applicable laws, customs, usages and business environment prevailing in the country. The ASB also gives due consideration to International Financial Reporting Standards (IFRSs)/ International Accounting Standards (IASs) issued by IASB and tries to integrate them, to the extent possible, in the light of conditions and practices prevailing in India. Composition of the Accounting Standards Board The composition of the ASB is broad-based with a view to ensuring participation of all interest groups in the standard-setting process. These interest-groups include industry, representatives of various departments of government and regulatory authorities, financial institutions and academic and professional bodies. Industry is represented on the ASB by their apex level associations, viz., Associated Chambers of Commerce & Industry (ASSOCHAM), Confederation of Indian Industries (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI). As regards government departments and regulatory authorities, Reserve Bank of India, Ministry of Company Affairs, Comptroller & Auditor General of India, Controller General of Accounts and Central Board of Excise and Customs are represented on the ASB. Besides these interest-groups, representatives of academic and professional institutions such as Universities, Indian Institutes of Management, Institute of Cost and Works Accountants of India and Institute of Company Secretaries of India are also represented on the ASB. Apart from these interest groups, certain elected members of the Central Council of ICAI are also on the ASB.

ACCOUNTING FOR GOVERNMENT GRANTS

The following is the text of the Accounting Standard (AS) 12 issued by the Council of the Institute of Chartered Accountants of India on 'Accounting for Government Grants'. The Standard comes into effect in respect of accounting periods commencing on or after 1.4.1992 and will be recommendatory in nature for an initial period of two years. Accordingly, the Guidance Note on 'Accounting for Capital Based Grants' issued by the Institute in 1981 shall stand withdrawn from this date. This Standard will become mandatory in respect of accounts for periods commencing on or after 1.4.1994.2 Introduction 1. This Statement deals with accounting for government grants. Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, etc.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB):

The Twelfth Finance Commission in its report has suggested for a change in the nations accounting system that has been accepted, indicating a move from cash basis to accrual basis. A committee has also been set up by the Comptroller and Auditor General of India to develop a framework and examine the technical feasibility of reforming the Government accounting system. The Government has also set up Government Accounting Standards Board for the developing Government accounting standards for the country.

RURAL DEVELOPMENT SCHEMES:

During the Ninth Plan period, several anti-poverty Programmes have been restructured to enhance the efficiency of the Programmes for providing increased benefits to the rural poor. Self Employment Programmes have been revamped by merging the Integrated Rural Development Programme (IRDP), the Development of Women and Children in Rural Areas (DWCRA), the Supply of Improved Tool-Kits to Rural Artisans (SITRA), the Training of Rural Youth for Self Employment (TRYSEM), the Ganga Kalyan Yojana (GKY) and the Million Wells Scheme (MWS) into a holistic self-employment scheme called Swarnajayanti Gram Swarozgar Yojana (SGSY) at present SGSY scheme is emerging in the year 2012 as National Rural livelihood programme (NRLP).

SGSY SCHEME:

India had experimented with numerous self-employment programmes. These were modified, consolidated and integrated into *Swarnajayanti Gram Swarozgar Yojana* (SGSY) in April 1999. Since then, SGSY has made rapid progress over time covering more than 31 lakh Self-Help Groups (SHGs). However, only 22 per cent of the SHGs were provided with bank finance for undertaking income generating activities including micro enterprises. What is worse, the bank assistance was abysmally low leading to low level of investment activity. This shortcoming has been attributed to failure of public intervention to enhance the credit absorption capacity of SHGs as well as to the failures of credit delivery systems to reach the poor. Since most of the SHGs were engaged in low technology and less productive traditional activities, the income gains to SHGs were very meagre. Hence, SGSY had not been able to make substantial impact on the living standards of the *swarozgaris*. The proposed two pronged strategy of universalization of coverage of SHGs with doubling the proportion of SHGs assisted by bank credit and providing skills at least to one youth of a Below Poverty Line (BPL) family necessitates restructuring of SGSY. There is also need to strengthen the capabilities of the poor for bringing them into mainstream of development as active partners.

Prof. S. Janakiraman, Head of the department of sociology, Gandhigram Rural Institute, Gandhigram, focuses his observation on four areas, namely, (i) Diversification of occupation or economic activity for better income; (ii) Occupational mobility for higher income; (iii) Educational and Trade skills and (iv) Tribal development under IRDP. He

found that the conservative outlook, rigidity of caste boundaries, and strong belief in traditions and customs do not allow the rural folk to lead a better life by their conscious involvement in various economic activities of the government. "Therefore, while striving for the development of bea group or an area, due emphasis has be given to their traditional values and historical experience".

GOVERNMENT OF INDIA SGSY GUIDELINE FOR MATCHING GRANTS CONDITIONS:

Release of First Installment

The release of first installment of SGSY subsidy amount can be made without any formal request if the second installment in the previous year had been released without any condition. If this installment was not released at all or was released with some conditions, formal requests for release of first installment are required from the DRDAs after the conditions have been fulfilled/reasons for non-release of the second installment have been met. The release of the first installment should ordinarily be completed by the end of the second month of the financial year.

Release of Second Installment

The second installment of Central funds is released on the request of the DRDAs in the prescribed proforma on fulfillment of the following conditions:

1. Budget provision for the current year may be indicated by the State Governments. The Central release will not exceed it proportionately.
2. The State Government should have released its contribution during the previous year. Deficiency in release of its share will be deducted from the second installment.
3. The opening balance of the DRDAs should not exceed 15% (20% for the year 1999-2000) of the allocation of the year in which funds are being released. In case, the opening balance exceeds this limit, the Central share of the amount by which it exceeds this limit will be deducted at the time of release of second installment.
4. Available funds including carry forward funds should have been utilized at least to 60%.
5. Audit reports, utilization certificates for the previous year should be furnished.
6. Annual Plan should have been approved by the Governing Body of the DRDA.
7. Any other terms and conditions imposed at the time of the last release should have been met.
8. The States should ideally get the release of second installment latest by the end of December. The quantum of second installment releases while seeking the second installment will be made dependent on the time of reporting of utilization. Depending on the receipt of complete proposal for second installment, the quantum will be governed as follows:

Proposals Received

by the end of December	:	50% of allocated funds
by the end of January	:	40% of allocated funds
by the end of February	:	30% of allocated funds
In March	:	20% of allocated funds

Brief history of DRDA:

DRDAs are established for effective implementation of anti-poverty programmes in rural areas at the district level. It is an institution that acts as a delivery agency to support and facilitate the development process. The role of the DRDA is plan for effective implementation of anti-poverty programmes. Coordinating with other agencies like



governmental, non-Governmental, technical and financial for successful programme implementation they enable to poor rural community to participate in the decision making process. This agency was created originally to implement the Integrated Rural Development Programme (IRDP). Subsequently the DRDA s were entrusted with number of programmes of both state and central governments.

Since its inception the District Rural Development Agency (DRDA) has been the principal organ at the District level to oversee the implementation of different Central Government anti-poverty programmes. It is also taking up State Government Programmes. From 1st April, 1999 a new Centrally Sponsored Scheme for strengthening the DRDA has been introduced. This scheme, which is funded on a 75:25 basis between Centre and States, aims at strengthening and professionalizing the DRDAs for effective functioning of organization.

DRDA Accounting Procedures:

The Revised Accounting Procedure for District Rural Development Agencies/Zila Panchayats /DLC on NSAP/Societies has been prepared after getting the feedback from the dedicated teams of the Accounts Wing of the Ministry of Rural Development. The Study Teams had visited around 100 Districts/DRDAs, 200 Blocks and 350 Panchayats. The site visit and first Hand information collected from the operational level about the difficulties and discrepancies in the existing Accounting guidelines and remedial action/improvement needed in the system for smooth and perfect accounting procedure become a guiding factor to prepare the present accounting procedure. A draft of this was sent to all DRDAs for their comments and an overwhelming response from approximately 225 DRDAs further helped us in improving upon the existing Accounting guidelines.

The Study Teams of CCA.s Wing carried out the study of accounting practices followed by the DRDA.s of 100 districts during the years 1998-99, 1999-2000 and 2000-2001. The study group of National Institute of Financial Management had also submitted their project report on the delivery of funds by the Ministry Rural Development to the Implementing Agencies. Based on the feedback received from these study teams, the need for modifying the Accounting Procedure was felt and important amendments have been incorporated in the Accounting Procedure 1984: Based on the recommendations of an inter-ministerial working group a revised accounting procedure was drawn up in 1984 and was approved by the C & AG of India. The main modifications brought about in the revised procedure for SFDA and approved for the DRDA in 1984 with systematic procedure of accounting practices suggested in 10 steps.

Need & Importance:

After reviewing the above there is a requirement to improve and study on accounting practices in implementing agencies like DRDAs. As per the Department of Rural development, Government of India guidelines accounting system and performance of utilization funds for various rural development schemes are not in suggested level of guideline as per their internal procedures Grants released are decreased comparatively allocation made. Therefore during the 12 years study made on the trends of releasing and allocation of matching Grants and its difference for rural development scheme of SGSY Grants released by Central and state Governments in Andhra Pradesh State.

OBJECTIVES OF STUDY:

- To find out trends in reign wise allocation and release of grants under matching grants system for rural development scheme SGSY,
- To analyzing reign wise Source and Uses of funds for the SGSY Scheme presentation
- To justify the reign wise accounting factors influenced for difference of grants

METHODOLOGY:

For the purpose of present study, the study was made on Andhra Pradesh state region wise analysis. There are 23 districts in Andhra Pradesh where as Hyderabad is urban area there fore study was made on 22 districts. Further, the study makes use of 13 years secondary data collected from department of Rural development, Andhra Pradesh to make tabulation form of matching grants allocated and received form Central and State governments. The relevant statistics i.e., linear growth Rate (LGR), t-test, Chi-square test, mean and simple averages are used to bring out brief justification of the study.

Scope of the Study: The study confine to the Andhra Pradesh State three regions for 13 years period total life of the SGSY Scheme.

ANALYSIS:

A) Grants allocated & Released in AP State: Region-wise Analysis

An analysis of the differences of Grants allocated and released by the Central & State Governments in the State of A.P. is analyzed Region-wise to assess the growth over a period of time. The same is reflected in the table 4.2.

Table – 4.2
AP. STATE ALL REGIONS-WISE ACCOUNT OF DIFFERENCES BETWEEN CENTRAL & STATE GOVERNMENT GRANTS ALLOCATED AND RELEASED UNDER SGSY SCHEME DURING 1999-201(Rupees in lakhs)

Region	Central Grants Allocation	Central Grants received	Central Difference (2-3)	State Grants Allocation	State Grants received	State Difference (5-6)	Total Difference (4+7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Telangana: (9 Districts Total) Percentages Average:	36,901.61	31,960.88	4,940.73 (13.39)	12,300.56	10,494.78	1,805.78 (14.68)	6,746.51 (13.71)
	4,100.18	3,551.21	548.97	1,366.73	1,166.09	200.64	749.61
Andhra: (9 Districts Total) Percentages Average:	44,572.50	38,564.25	6,008.25 (13.48)	14,857.53	12,730.95	2,126.58 (14.31)	8,134.83 (13.69)
	4,952.50	4,284.92	667.58	1,650.84	1,414.55	236.29	903.87
Rayalaseema: (9 Districts Total) Percentages Average:	20,262.03	17,495.53	2,766.50 (13.65)	6,754.05	5,826.97	927.08 (13.73)	3,693.58 (13.67)
	5,065.51	4,373.88	691.63	1,688.51	1,456.74	231.77	923.39
AP. State: (9 Districts Total) Percentages Average:	101,736.14	88,020.66	13,715.48 (13.48)	33,912.14	29,052.70	4,859.44 (14.33)	18,574.92 (13.69)
	4,624.37	4,000.94	623.43	1,541.46	1,320.58	220.88	844.31

Source: Office of the Commissioner, Dept. of Rural Development, AP., Hyderabad.

Note: Figures in parentheses indicate percentage to

4 - Central Grants received to Central Grants allocated

7 - State Grants received to State Grants allocated

8 - Central and State both Govt. Grants received to allocated Grants

Hyderabad is an urban area where no rural development schemes are implemented. Hence A.P. State is divided into three regions geographically i.e., Telangana Region with 9 districts, Andhra Region with 9 districts and Rayalaseema Region with 4 districts, their totaling 22 districts. Based on secondary data, Region-wise Analysis is made with averages.

Rayalaseema Region has the highest grants and allocated received from both the Central and State Governments compared to the other Regions based on averages. Though it rank last based on the absolute figures focused by Andhra region and Telangana region same in the case with regard to the difference between the allocated and received grants. An average amount of Rs.5,065.51 lakhs have been allocated, an amount of Rs.4,373.88 lakhs grants have been received from the Central Government out of which an amount of Rs.691.63lakhs (13.65%) was the difference between the allocation and receipt of grants. An average amount of Rs.1,688.51 lakhs was allocated and an amount of Rs.1,456.74 was received from the State Government out of which an amount of Rs.231.77 lakhs (13.73%) was the difference under SGSY scheme by Rayalaseema Region DRDAs during the study period. Second highest Region is Andhra with an allocated grants of Rs.4,952.50 lakhs, an amount of Rs.4,284.92 lakhs have been received from Central Government, out of which Rs.667.58 lakhs(13.48%) was the difference. A.P. Sate grant allocation was Rs.1,650.84 lakhs and received was Rs.1,414.55 lakhs while the difference was Rs.236.29 lakhs (14.31%) under Andhra Region.

Telangana Region has the least allocated average grants of Rs.4,100.18 lakhs and an amount of Rs.3,551.21 lakhs have been received from Central Government, out of which an amount of Rs.548.97 lakhs (13.39%) was the difference. Under A.P. State grant allocation was Rs.1,366.73 lakhs and received was Rs.1,166.09 lakhs while the difference was Rs.200.64 lakhs (14.68%) under Telangana Region. Allotment of grants for each and every district is on the basis of the rural land and other factors like rural population, active role played by the DRDAs and numbers of schemes adopted are considered by the Government of India.

CONCLUSION:

As per the Government of India guidelines the second installment grants has been reducing based on unutilized funds available with DRDAs is a positive practices, but reasons for availability of unutilized funds with DRDAs in Andhra Pradesh is a important study, these issues are clearly focused in this study.

It is also observed that a decline between central & state government grants allocation and received differences with unutilized funds over 13 years period (Return of subsidy, interest from banks and opening balances) available with DRDAs.

The study is made on secondary data provided by the Commissioner Rural Development (CRD) Andhra Pradesh. This data is maintained by the CRD which is collecting from monitory wings of all District DRDAs in Andhra Pradesh. In the monitory reports of DRDAs includes committed expenditure of SGSY Scheme work certified by concerned officials. But the Government of India is releasing Grants on the bases of Utilization Certificate (UC) submitted by individual DRDAs certified by the Chairman

(District Collector), Project director, Chartered Accountant and other officials of District DRDA, which has been preparing based on accounting records of DRDAs. Therefore as per the Monitoring reports expenditure showing much and unspent balances showing less for which we can recommend to the Government that when unspent balances are less than 10% there should not be any deduction in the Grants. But in practically Government is releasing Grants depending up on Audited Accounting based Utilization Certificate which was differs with Monitoring figures. Therefore it is suggested to the CRD & DRDAs to maintain accrual based Accounting system in the wings of Accounting in all DRDAs and considered the committed expenditure, resulting reconciliation of all expenditure figures with Accounting and Monitoring wings. In view of this, primary data was collected from the related officials under the survey of all (22 Districts).

Finding & Suggestions:

- ✓ The accounts should be maintained on commercial principle on Double Entry System.
- ✓ The Agencies should maintain annually among others the following:
 - Receipt and Payment Account
 - Income and Expenditure Account
 - Balance Sheet
- ✓ There should be an audit by a Chartered Accountant or any other recognized body of the Accountants every year and
- ✓ There should be test audit by the C&AG of India.
- ✓ Provision was made for the maintenance of Block wise accounts
- ✓ through the Cash Book.
- ✓ A uniform format was prescribed for Subsidy Register (**Annexure-II**) as well as the Cash Book.
- ✓ Specific time limits were incorporated for compilation and submission of annual accounts. The annual accounts are to be compiled by the DRDA by 30th June. After approval by the Governing body the accounts shall be got audited by the Chartered Accountants or any other Auditor as envisaged under the Rules by 31st August. A copy of such Audit Report along with annual statement of Accounts certified by the Auditor and the Chairman of the Agency shall be furnished simultaneously to the Government of India and the State Government not later than 30th September.
- ✓ A standard format for furnishing Utilisation Certificate was prescribed.
- ✓ Powers of Project Officer/Project Director for signing cheques fixed at 10,000/- and was subsequently raised to Rs.50,000/-.
- ✓ A charter of duties and responsibilities of the accounting wing of the DRDA was suggested.

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