

Accounting Practices of Grama Panchayats in Kerala - A Qualitative Study

¹Joby Joseph Thoomkuzhy & ²Ajimon George PhD

¹Research Scholar, Research and Post Graduate, Department of Commerce, Marian College Kuttikkanam (Autonomous) (India)

²Associate Professor and Research Guide, Research and Post Graduate, Department of Commerce, Marian College Kuttikkanam (Autonomous) (India)

1. Introduction

In Kerala, 35 to 40% state government plan outlay is provisioned for plans and programmes formulated by the Grama Panchayat. Over the years, the demands of the Grama Panchayat have shifted from basics – food, shelter and safety to quality life requirements – potable water, electricity, education, health services, physical infrastructure and agricultural inputs and services. The fund requirement for all these is enormous. Panchayats are allowed to borrow from banks and other financial institutions. Financial reporting is the process of producing statements that disclose an organization's financial status to management, investors and the government. It is the process of communicating economic information to the stakeholders— management, shareholders, public, etc. to facilitate informed judgment and decision making. It deals with the presentation of financial and other relevant statements to show the extent to which the objectives of the organization have been achieved. Financial reports are means through which the strengths and weakness of an organization can be ascertained at a glance. They are instruments without which certain operational decisions cannot be made, especially those that deal with investment, expenditure and assets management. This calls for the importance of effective financial reporting at grass root level of Grama Panchayat in Kerala.

Qualitative data analysis can be defined as a process in which data is obtained, identified, classified and analyzed for the benefit of knowledge and advancement of the understanding of the topic of enquiry. By identifying the underlying components of it from verbal expressions based on life experiences, it aims to provide a coherent idea of the ground-level reality.

The thought behind this process is that knowledge is found and formed from the life experiences of persons. To identify such knowledge, researchers analyze the conversations and words they use commonly. This empirical study is conducted in simple way without many arithmetic calculations or scientific terminologies and yet, at the same time, it maintains absolute justice to the viewpoints expressed by the persons being interviewed. Such empirical research methods are accepted and used worldwide for research in social sciences. This is a method in which a preliminary qualitative exploration is conducted in an area where there are not much research findings available. Based on an interview guide, data was collected and analyzed using a qualitative approach. The researcher identified various problems prevailing in the financial reporting system of Grama Panchayats in Kerala. Usage of the qualitative method enabled the respondents to

openly express the inadequacies and grievances associated with the current accounting infrastructure.

For the purpose of data collection, the researcher interviewed 15 accountants of various Grama Panchayats and 10 auditors of the Department of Audit in the State of Kerala. This was done to get a clearer picture of the existing accounting infrastructure used in the Grama Panchayats of the State. The interviews were done with the help of an interview guide which consists of open-ended questions related to the compliance of accounting standards, the educational background of the accountants and the auditors, exposure to practical training in accounting, reliability and transparency of financial reports, utilization of the accounting packages used in Grama Panchayats, role of stakeholders and setbacks of implementing computational accounting in Grama Panchayats.

2. Review of literature

Nobe & Parker (2000) asserted three major reasons to study the subject of international accounting and the problems involved in it. One reason is elementary, i.e. to contribute to the development of accounting. The second is to upgrade the accounting theory and practices to meet the needs of constantly growing the Multi-National Companies. The last reason is the harmonization of accounting practices around the world. Hopwood (1987) reported that the notion of the ongoing transformation and mutability of accounting practice can be applied to changing paradigms in financial reporting practice. Nallathiga (2008) explores the accounting practiced in advanced countries like the European nations and America, the systems of public finances are well structured and the roots of the same are well laid down within the administrative structures. Ali & Ustundag (2009) in their paper on development process of Financial Reporting Standards around the World and its practical results in a developing country, Turkey. They observed that Turkey has encountered several complications in adaption of IFRS such as complex structure of the International standards, potential knowledge shortfalls and other difficulties in application and enforcement issues. Chaudhury (1971) in his article, coined that "Municipal Accounting and Audit" clarifies the method of keeping up books and records in Municipalities. He additionally expresses the importance of auditing books of records of municipal bodies. Pina & Torres (2002) the paper analyze the developments of Spanish local government accounting to assess the Spanish advancements in the introduction of yearly records, which have taken as a benchmark the International Public division Accounting Standards (IPSAS). The article thinks about various methods for overseeing open administrations in Spanish and European nearby governments and the bookkeeping methodology utilized for merging the records of neighborhood governments.

The outcome demonstrates a higher level of happenstance between the administrations given by bigger European Union (EU) neighborhood governments and the need to combine their money related report. Sajady et al (2008) in his paper argued the strength of accounting information system. The finding indicates that execution of accounting information systems at sample companies caused the improvement of managers' decision-making process, internal controls, and the quality of the financial reports and facilitated the process of the company transactions. Ravikant (2001) presents the accounting model which can be replicated by any other Municipal Corporation which is contemplating such reforms. This model stands apart because of its unique characteristics and innovative implementation solutions. The accounting reforms at Vadora Municipal Cooperation (VMC) were remarkably successful. He concludes that only an appropriate, innovative and participative implementation strategy formulated after taking into consideration the characteristics and requirements of a particular Municipality only can lead to successful municipal accounting reforms. Uwaifo&Kabadi (2006) reveals the effective use of technology enables administration in local governments. IT contributes enormous value to the workings and operations of local government offices and when costs, leadership and management are indicative of such needs, it would be in the best interest of local governments to invest in such a launch. Originality/value - Applied the imperativeness of information technology practices to see how local practices could be improved for efficiency, quality control and ease of use. Aijaz (2007) ascertained that urban local governments in India continue to remain plagued by numerous problems, which affect their performance in the efficient discharge of their duties. These problems relate to the extent of participation and rule of law in the municipal decision- making process, transparency in the planning and implementation of infrastructure projects, and level of efficiency in various municipal management and finance practices. Research by Soudani (2012) walks around the usefulness of accounting information system on organizational performance. Financial reporting includes financial statements such as balance sheet, income statement, statement of cash flows, and statement of stockholders' equity. The accounting systems followed by the countries are dissimilar. The independence of the accounting system places the accounting diversity in the global context. Accounting diversity is a major problem in the international accounting scenario. However, it is perceived that this diversity can be rectified with the implementation of IFRS or transition of Local Accounting Standards with IFRS in each of the country. Ilias& Zainudin (2013) referred that Computerized Accounting Information System (CAIS) in business organizations, has become an important tool to improve the efficiency of the organization and support its competitiveness through providing management with financial and accounting information. Guillamón et al. (2011) opinioned that lack of transparency is frequently related to government corruption. It is the most important financial problem in most developing countries, and it is perhaps the greatest obstacle to economic development. Kramer (2014) pointed out that a shift from a periodic to a real-time financial reporting system, there needs to be a fundamental change in attitudes toward financial reporting. Kapasi(2017)General disclosure of audit means how audit report discloses to the stakeholder or public. In majority of

cases audit report discusses in the members special meeting. In few cases, audit report publishes in notice form or in the manual of the gram panchayat, financial markets are demanding instantaneous, nonstop financial information. Strossmayer et al (2016) Accounting in many countries rests on the historical cost principle. The historical cost principle is based on the assumption that monetary units used to present results in financial reports are rather stable, which presupposes that the value of a monetary unit does not change under the impact of inflation. Accounting and financial reports are necessary for organizations to attract capital and human resources and to ensure that the contributors have a reasonable chance of receiving their share of the surplus in exchange for their respective contributions. In this sense, financial reporting is necessary for organizations, including society as a whole another larger organization to sustain.

3. Research Gap

By examining the existing literature on the area, it was found that prominent studies were made on local governments and its financial reporting systems. In this context, there was a need for evaluating the financial reporting system of Grama Panchayats in Kerala and the effective implementation of the double-entry system of accounting. The financial reporting system of local self-governments in Kerala is monitored by the Information Kerala Mission (IKM). It addresses the entire scope of issues concerning local body governance, ranging from decentralized planning to local economic development. In order to identify the effectiveness of financial reporting of Grama panchayats in Kerala, the existing system of financial reporting has been evaluated and analyzed to answer the following objectives:

- (i) Compliance of accounting standards issued by ICAI;
- (ii) Recruitment and training of professionals;
- (iii) Computational accounting practices and its efficiency;
- (iv) Evaluation of reliability and transparency of financial reports and
- (v) Utilization and setbacks of implementing computational accounting in Grama Panchayats.

4. Materials and Methods

The study applies a descriptive and qualitative approach to evaluate and identify the problems prevailing in the financial reporting of Grama Panchayats. This study was further expanded to assess the compliance of the double-entry system of accounting standards in the functioning of Saankhya accounting software, developed by the Information Kerala Mission (IKM). The study also focuses on the software's utility, operational setbacks, training needs and utilization of financial reports generated through it, by interviewing the accountants and auditors to understand the real problems.

5. Sample Profile

Convenience sampling technique was used as the method of conducting this qualitative study. Ten auditors from the Kerala Local Fund Audit Department, Kottayam and fifteen accountants from various Grama Panchayats in Kottayam District were interviewed for the purpose, with the help of an interview guide comprising of open-ended questions.

6. Discussions and Results

Financial Reporting System of Local Self Government

The financial reporting system in Grama Panchayats will not only determine the performance of the Grama Panchayats but will contribute much towards the transparency and accountability of Grama Panchayat and state. Grama Panchayat of Kerala occupies a predominant position in the state, the effective management of Grama Panchayat and its financial reporting is utmost important. The efficient financial reporting system of Grama Panchayats may help to smoothen the Grama Panchayats along with an increased collection of the state. In the absence of proper and effective financial reporting, the revenue of the state cannot be achieved. In such condition the morale of the financial reporting system is affected and that tries to take advantage of weakness and limitations of the reporting system. The respondent stated that "the Grama Panchayats in Kerala maintained their books of accounts on accrual-based double-entry system of bookkeeping, which was conferred by the Panchayat Raj (Accounts) Rules 2011". The efficient financial reporting system of Grama Panchayats may help to smoothen the functioning of Grama Panchayats along with an improved revenue collection for the State.

Accountability of Local Governments

The Government of India (GOI) Task Force on Decentralization (2001) stated, "Decentralization in the context of Panchayat means that when authority is transferred from the state to the local governments, the latter should have the prerogative of taking decisions on the planning and implementation of such activity." The 73rd and 74th Constitution Amendment Acts 1992, supplemented by legislation/resolutions in the States in 1994, changed the structure of governance permanently from a two-tier to a three-tier system consisting of the Union, the States and the Panchayat/Municipal Bodies with a distinct developmental orientation. With these landmark Constitutional amendments, the units of local self-government at various tiers/levels got a new lease of life and many far-reaching changes in the Constitution and the State laws were brought about to ensure proper functioning of democracy at the grassroots. The respondent coined out that "Panchayat Raj system changed to local self-government which generates and utilizes its funds give enormous powers and utilization capacity to the elected directors who act as local caretakers of the economy and they are more accountable than ever".

Compliance of Accounting Standards

The accrual-based double-entry system of accounting, which follows the Kerala Panchayat Raj (Accounts) Rules, 2008, was introduced in Kerala's Grama Panchayats in 2011-2012. The accountants were of the opinion that "the Grama Panchayats, National Municipal Accounts Manual is not followed, instead Kerala Panchayat Raj (Accounts) Rules, 2008 is followed as the main tool for all the accounting and other related procedures". However, this manual for the accounting practices in Grama Panchayats does not comply with the 14 guidelines of accounting formulated in the Accounting Standards for Local Bodies, issued by the Institute of Chartered Accountants of India (ICAI). The unawareness and lack of implementation of accounting standards issued for

local bodies by ICAI make the current reporting system less competent and comparable with other financial reports of local bodies in the nation. The respondents argued that "Accounting Standards for Local Bodies, issued by the Institute of Chartered Accountants of India (ICAI) was not implemented by the government of Kerala, till now but some of the standards issued by ICAI are common for Panchayat Raj Account Rules which is following in the Grama Panchayats".

Accountants of the Grama panchayats also responded that "The Grama Panchayats are the only government institution which fully implements the accrual-based double-entry system, which is the universally accepted model of accounting is followed and preparations of final statements are carried out. Other government institutions in the state follow the conventional single-entry system for their purpose of accounting".

Recruitment, Training and Lack of Professionalism

During the study, it was observed that most of the accountants in the Grama Panchayats had no formal education in Commerce or other allied subjects. Mainly recruited through the Public Service Commission (PSC) and through internal promotions, the accountants have little or no practical experience in accounting, thus affecting the reliability of accounting practices. This calls for an immediate training of the existing accountants in the Grama Panchayats of Kerala. "The training that we have received so far has not been adequate, and we would like to have periodic training to be more familiar with the system," said Respondent, Accountant, Kanjirappally Grama Panchayat, Kottayam.

Annual auditing is conducted in the Grama Panchayats by the Kerala State Audit Department, who also audits the accounts of the state's universities, the Devaswom Board, municipalities and other government institutions, said Respondent, Auditor Local Fund Audit Department, Kottayam. According to the Institute of Chartered Accountants of India (ICAI), auditing is to be conducted only by chartered accountants. However, during the study, it was observed that a majority of the auditors were not chartered accountants and even lacked formal education in commerce. Incidentally, most of the new recruits of the Audit Department had their formal education in engineering, who were not given the required training and had no prior practical experience in auditing. "The presence of commerce graduates in the department is minimal, which affects the delivery of services in the department," said Respondent, Auditor Local Fund Audit Department, Kottayam.

Computational Accounting Practices

The Financial Reporting System of Local Self Government in Kerala is monitored by the Information Kerala Mission (IKM). The Information Kerala Mission (IKM), an autonomous institution under Local Self Government Department, which envisage computerizing and networking the 1209 local self-government institutions in Kerala. Information Kerala Mission (IKM), the flagship e-Governance program of the Local Self Government bodies in Kerala, has launched Accrual based Double Entry Accounting in Grama Panchayat using the 'Saankhya' Software. The software system, developed by IKM, was inaugurated by the Minister for

Panchayat. The Mission designed and implemented what has come to be called Saankhya application of the accrual-based double-entry system of accounting. From 2011-12 onwards it was introduced in all panchayats, municipalities and corporations. Information Kerala Mission (IKM), was established to strengthen local self- governance through Information and Communication Technologies (ICT) applications. The IKM, in 2011, introduced the Saankhya accounting package, along with 8 other auxiliary software for Grama Panchayats in Kerala. But, there is no synchronization between these 9 interfaces, which, if done, could provide comprehensive accounting results. "The software does not have a provision on annual budget and budgetary controls, which results in an uncontrolled expenditure by the Grama Panchayats," Respondent.

"However, it was noticed that with digitalization, accounting and financial reporting has been easier- delivering speedy transactions and providing accurate and comprehensive results in a short time. This has made it possible the ascertaining of financial position of the Panchayat at any point of the financial year" Said Respondent, The Saankhya software also contains default transaction vouchers like Building Tax and Entertainment Tax, which can ensure a speedy and easier service. The software has a provision for data backup and retrieval and is equipped with user manuals and an inbuilt help option. There is also an adequate number of account books and registers, and the software can also let the accountants generate financial reports and financial statements." Said Respondent.

At the same time, computer literacy of the officials in the Grama Panchayats varied widely, thus affecting the delivery of services. "It would be ideal if each Grama Panchayat had at least one person who was familiar with the changes in accounting procedures and technologies," said Respondent. She also observed that most of the aged employees found it difficult to work on a computer, and thus had to depend on their colleagues.

Evaluation of Reliability and Transparency of Financial Reports

According to the guidelines of the Local Self Government Department, Government of Kerala, all the Grama Panchayats are required to publish the annual audited financial reports in their respective websites, to improve the reliability and transparency in the Grama Panchayats. However, such annual reports are absent from the websites of most of the Grama Panchayats in Kerala. This prevents the dissemination of important financial reports to the stakeholders, mainly the general public, and the elected local representatives, who are required to make decisions on capital expenditure and investments in the Panchayat based on these reports. "There

is also a need to make the relevant information in a way that could be understood by the common people, for their increased participation," Respondent.

From the study, it was also evident that the valuation of fixed assets was estimated incorrectly, and was not updated on a yearly basis. "The fixed assets of a Grama Panchayat are often undervalued or overvalued, affecting the determination of the financial position of the Grama Panchayat," said Respondent. Initially, when the Saankhya software was introduced, the values could be altered or manipulated even after the financial period, leading to widespread corruption. However, this loophole in the software was addressed by the IKM in 2018. "Maintenance and periodic updating of the software according to the changes in the tax slabs and budgetary decisions are necessary," said Respondent.

7. Limitations and directions for future research

This study focuses only on the qualitative aspects of the problems prevailing in the accounting system of Grama Panchayats. The major limitation of the study is that it does not analyze the quantitative aspects of compliance of accounting standards issued by Institute of Chartered Accountants of India (ICAI), benefits of implementing computerized accounting practices in the Grama Panchayats of Kerala, setbacks while using the current infrastructure, the qualitative aspect of financial reporting followed in the Grama Panchayats of Kerala or the various utilization of financial reports generated through the Saankhya accounting software.

8. Concluding Remarks

One of the biggest encounters which hinder the realization of the very purpose of Saankhya software is the lack of domain knowledge at the input/data entry level. Therefore, in order to make the software effective and robust, which would contribute to better delivery of services at the local level, there is a need for adequate training to improve the efficiency of the reporting system. From the study, it was observed that there is an immense need for training in the software domain and there are a prevailing undervaluation and overvaluation of assets. It was also noticed that there is a lack of professionals with formal education in accounting practices, need for monitoring and supervision within the Grama Panchayats, and there exists the scope for improving the transparency and reliability of financial reports. It is hoped that the findings of the study will throw some light to identify the existing financial reporting system prevailing in the Grama Panchayats of Kerala.

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