

District Primary Education Project (Bihar & Jharkhand)

Lessons Learnt (Financial Management Report)

Fund Flow arrangements

Funds have generally been available to the project both from GoI and the state Government. Since the project had its own bank account it has transferred the funds to the districts, who transfer the funds to the VSS. While transfer of funds from GoI to SPO and to DPO has been generally without any major delays, the last leg of transfer from DPO to VSS generally has been time consuming mainly because of clearing delays at the banks in rural areas. In last 1-2 years project has taken remedial actions to transfer these funds through electronic transfer, which has shortened the time of fund transfer to a number of VSS.

Availability of funds to the project and easy transfer of funds have helped the overall utilization, which in case of Bihar is 89 % and in case of Jharkhand it is 95 % of EFC approved cost. This compared to around 38%¹ utilization during Bihar Education Project (Period 1991-1996) indicates success of the present fund-flow arrangements.

Internal Control issues

The Project's financial management framework in Bihar has been based on Financial Regulations as adopted by the BSPP. The focus of these rules is on powers of individual officials and financial norms for various expenditures. The document does not cover adequately the accounting and internal control processes. This was also reflected in the 3rd Joint Review Mission's report. The Mission included a nominee of GoI for undertaking financial supervision. The last audit report (FY 2004-05) has also identified serious cash irregularities at the Bihar state project office.

Accounting

DPEP as a project did not adopt any specific accounting procedure. Instead it was upto each individual state. In Bihar the BSPP adopted double entry system of accounting in line with its regulations. However the Financial Regulations do not provide sufficiently on accounting procedures and methodology to be adopted for maintenance of books of accounts and preparing financial statements at District and the State offices. This lack of guidance has resulted in different practices between the two states. In Bihar while districts do not prepare any formal financial statements, districts in Jharkhand have been preparing complete financial statements including Balance sheet, etc. are prepared.

One advantage of preparing a complete set of financial statements observed in Jharkhand was that the district officials were fully aware of their assets and liabilities and accounting was a continuous process. However situation at Bihar is different where the district offices only account for current year's bank and cash transactions. Assets and liabilities at year-end are transferred to the state office. Thus the districts have to wait for instructions from the state office to incorporate new year balances' to commence the accounting. Such practices neither build capacities of the district offices nor enhance their ownership and accountability.

Under SSA attempts have been made to remove such type of weaknesses (lack of internal control processes and recommending appropriate accounting systems) by designing and implementing a detailed Financial Management Manual at the beginning of the project.

Audit of VSS

A large part of the funds have been spent by the project through VSS. A rough estimate puts this amount as high as 40%.

Considering the materiality of this amount, it is imperative that at the minimum these expenditures are subjected to the normal accountability mechanisms. It was observed that this expenditure is being accounted on the basis of self-certification by the VSS office bearers. Although Ward Sabha normally is kept in the loop of the expenditures incurred through a social audit mechanism, however there is no formal audit mechanism covering such expenditures. A study undertaken in Jharkhand indicated certain concerns on the accountability arrangements of the same. Realising the weakness in the present accountability arrangements, both the state projects have appointed a large number of audit firms to audit these expenditures.

GOI and the international funding agencies support for review of Financial Management arrangements

DPEP guidelines provides for biannual supervision missions, including both GoI and the international funding agencies nominees.² However due to certain restrictions on the number of persons on supervision mission teams, no WB nominees for Financial management participated in these missions. WB financial management supervision has been restricted mainly to reviewing the audit reports received from the project at the WB office.

During last Joint Review Mission (end-Jan'06) a GoI's nominee for financial management joined the mission and identified a number of weaknesses in accounting. However considering DPEP project was about to close in Mar'06, there has been no significant follow-up on issues identified.

Under SSA, GOI has taken steps to develop a Financial Management and Procurement Manual to help state offices in discharging their financial management responsibilities. This is a welcome development, in fact it is essential that a state office at the initial stages of the project should undertake assessment of its financial management capacities at different levels of the project and install adequate mechanisms to ensure proper delivery of fiduciary responsibilities.

Compliance with financial covenants

One of the requirements of the Development Credit Agreement was to submit audited financial statement of the project within 6 months of the closure of the financial year.³ However this has not been complied with not even during a single year by Bihar. In case of Jharkhand normally accounts have been audited with the above date, submission to bank has normally taken about a month.

One reason for this is that the project's accounts in case of Bihar both at districts as well as the state office are still not computerized. This has generally resulted in late finalization of the final accounts.

¹ A EU study entitled 'Review of Finance Studies conducted under DPEP' by Dr Sajitha Bashir

² Chapter 4: National Support & Monitoring, DPEP Guidelines

³ Clause 4.01 (ii) (b) of Development Credit Agreement