

CHAPTER – II

BUDGET AND FINANCIAL MANAGEMENT IN PRIs

2.1 Status of preparation of Budgets

The Bihar Panchayat Raj Act, provides that ZP, PS and GP shall, at such time and in such manner as may be prescribed, prepare in each year a budget of its estimated receipts and disbursements for the following year and the same will be passed by the majority of members (at least 50 percent) in its meeting. The budgetary exercise in ZPs and PSs is to be done by Standing Committee on Finance, Planning and Audit. In ZP the Chief Account Officer is to ensure that no expenditure is incurred without sanction.

The budgetary process was, however, found deficient as rules were not yet framed regarding time and manner of preparation of budget estimates. Major lapses noticed in preparation of budget are given below.

- (i) Under clause (i) of sub section (1) of section 25, clause (ii) of sub section (1) of section 50 and clause (ii) of sub section (1) of section 77 of Bihar Panchayat Raj Act, 2006, the GP, PS and ZP respectively have to constitute Finance, Planning and Audit Committees for carrying out duties relating to finance, audit, budget and planning. Details were called for by this office from all the 38 ZPs and 531 PS in October 2007 to intimate the position of constitution of this committee, its functioning and number of Audit Reports discussed. In response only 40 units have reported about formation of the above said committee.
- ii) None of the Panchayat Samitis and Gram Panchayats covered in this audit had prepared budget estimates for all the years test checked.
- (iii) Out of 12 Zila Parishads, 7 Zila Parishads did not prepare the budget estimates at all while one Zila Parishad (Arwal) did not prepare this for 2003-04 and the Zila Parishad, Siwan did not show the position of the budgets to audit. The total expenditure incurred without preparation of any budget estimates was Rs. 188.27 crores as shown in the table below.

Table-1 Details of expenditure incurred without budget preparation

Sl. No.	Name of ZP	Period for which estimate not prepared	Expenditure incurred (Rs. in crore)
1	Nalanda	2002-03 to 05-06	53.64
2	Rohtas	-do-	34.97
3	Kaimur	1996-97 to 03-04	20.07
4	Madhubani	2003-04 to 05-06	29.79
5	Jehanabad	2002-03 to 05-06	17.26
6	Lakhisarai	2001-02 to 05-06	16.01

7	Sheikhpura	1994-95 to 05-06	15.70
8	Arwal	2003-04	0.83
Total			188.27

- (iv) Budgetary process including its approval was to be completed before the commencement of the financial year but it was noticed that in the following cases there was delayed approval of budget estimates ranging from two to eight months and the two ZPs incurred an expenditure of Rs. 107.94 lakhs prior to budget approval. Incurring of expenditure without budget provision is not a healthy financial practice, as it undermines the importance of prioritization of allocation besides exercise of control over receipt and expenditure. There was thus no financial control over the expenditure incurred by these PRIs.

Table-2 Details of expenditure incurred before budget approval

Sl. No.	Name of ZP	Financial Year	Date of approval	Period of delay (In months)	Expenditure incurred before budget approval. (Rs. in lakh)
1	Saran	2001-02	29.12.2001	08	63.18
		2002-03	18.9.2002	5&1/2	40.89
		2005-06	24.8.2005	05	3.87
2	Darbhangha	2004-05	19.5.2004	02	NA

- (v) The estimated receipts and expenditure varied widely with the actuals in case of 5 Zila Parishads as shown in the table below.

Table-3 Details of variation in provisions and actuals in budget estimates

(Rupees in crore)

Sl. No.	Name of ZP	Year	Receipt prov.	Actual receipts	Variation (percentage)	Exp prov.	Actual exp.	Variation (percentage)
1	Darbhanga	02-03	10.13	13.69	(+) 35.14	11.96	5.1	(-) 57.38
		03-04	2.11	1.29	(-) 38.87	3.13	10.09	(+) 222.36
		04-05	2.13	7.72	(+) 262.44	3.04	6.19	(+) 103.62
		05-06	1.09	16.63	(+) 1425.69	2.5	11.58	(+) 363.20
2	Saran	01-02	2.42	0.57	(-) 76.45	2.96	0.85	(-) 71.28
		02-03	1.76	13.32	(+) 656.82	2.02	6.88	(-) 240.59
		05-06	8.45	16.66	(+) 97.16	9.94	18.22	(+) 83.30
3	Kaimur	04-05	4.62	3.16	(-) 31.60	4.73	2.96	(-) 37.43
		05-06	3.92	1.08	(-) 72.45	3.62	8.11	(-) 124.03
4	Arwal	04-05	0.11	0.06	(-) 45.45	0.17	0.04	(-) 76.47
		05-06	0.13	0.20	(+) 53.84	0.38	0.27	(-) 28.95

5	Supaul	03-04	0.08	0.23	(+) 187.50	0.23	0.16	(-) 30.43
		04-05	0.08	0.14	(+) 0.75	0.29	0.18	(-) 37.93
		05-06	0.17	0.12	(-) 29.42	0.41	0.14	(-) 65.85

The percentage of variation ranged between (-) 57.38 to (+) 363.20. The budget prepared was thus not realistic either due to excess/short provisioning or non- exercise of control over receipt and payment.

2.2 Status of preparation and maintenance of accounts

2.2.1 All the PRIs were maintaining several cash books in place of one and the transactions covered in several cash books were not compiled which resulted in non depiction of actual position of finance in a year. Even the cash books were not properly maintained as the receipt and expenditure was neither codified nor classified, nor was the closing balance arrived at and analyzed. The bank reconciliation statements were also not prepared by the PRIs in order to detect cases of omission of entry in the cashbook and bank pass book, cases of wrong debit and wrong credit, interest allowed and commission charged by the bank but not entered in cashbook etc. None of the PRIs audited got their bank pass books updated. The treasury pass book was not written or certified by the Treasury Officer due to which position of closing balance remained unascertainable.

2.2.2 Unreconciled differences between Cash book and Bank pass book

In 6 Zila Parishads, where closing balance of cash book and bank account were available, a comparison of the two sets of figures revealed a discrepancy of Rs. 8.02 crore as shown in the table below:-

Table - 4
Non reconciliation of
balances (Rs. in crore)

Sl. No.	Name of the ZP	Closing balance as per cash book on 31st March 2006 (Rs. in crore)	Closing balance as per pass books on 31st March 2006 (Rs. in crore)	Difference (Rs. in crore)
1	Rohtas	10.82	10.50	(-) 0.32
2	Supaul	5.93	9.16	(+) 3.23
3	Arwal	0.54	1.82	(+) 1.28
4	Jehanabad	1.61	4.47	(+) 2.86
5	Kaimur	3.82	4.78	(+) 0.96
6	Sheikhpura	1.94	1.95	(+) 0.01
Total		24.66	32.68	8.02

Had the bank reconciliation been done regularly by these ZPs, the causes for differences between above two sets of balances could have been detected and rectified/accounted for.

2.2.3 Status of the preparation of Annual Accounts

Out of 12 ZPs, 65 PSs and 195 GPs audited only 2 ZPs (Siwan & Saran) prepared Annual Accounts of the transactions of P L Account of Treasury only upto 2005-06, which did not include transactions of SGRY/NREGP/MP/MLA fund etc. received from the District Rural Development Agency. In the absence of Annual Accounts, the position of opening balance, closing balance, receipt and payment under several heads, diversion of grants etc, could not be ascertained. The PSs and GPs have not yet started preparation of Annual Accounts except maintenance of Cash Books.

2.2.4 Non-maintenance of prescribed records and registers

The basic accounts/records prescribed for maintenance by Zila Parishads and Panchayat Samiti vide Rule 77 of the Bihar Panchayat Samiti and Zila Parishads (Budget and Account) Rules 1964 viz. Govt. grant register, Govt. loan register, loan appropriation register, advance ledger, deposit ledger, adjustment register, register of outstanding advance, register of works, asset register etc, were not maintained by them. In Panchayat Samitis and Gram Panchayats, only the cash book and scheme registers were being maintained.

Due to the above deficiencies, the transactions in PRIs lacked transparency and accountability of the executives could not be ensured.

2.3 Status of allocation and utilization of Central and State Finance Commission grants

2.3.1 Central Finance Commission grants

2.3.1.1 Tenth FC grants

The State Govt. released Rs. 94.73 crore (central share) in 2002-03 to PRIs under Tenth Finance Commission (TFC) for execution of developmental works and for providing civic amenities. The State Govt. or the PRIs were to contribute one hundred percent matching share against central share. But neither the State Govt. nor the PRIs released any matching share. As a result sufficient fund was not available for execution of development works under this grant.

2.3.1.2 Eleventh FC grants

The Eleventh Finance Commission Grants were released to the PRIs during 2001-02 to 2004-05 for repair and maintenance of civic amenities viz primary schools, primary health centres, pure drinking water supply, street lighting, cleanliness and sanitation and also for maintenance of accounts and development of database. Total grant released to PRIs was Rs. 540.18 crore (Central share Rs. 431.43 crore and State share Rs. 108.75 crore) which included Rs. 2.88 crore for maintenance of accounts. In addition, Rs. 5.72

crore was also drawn by the Panchayat Raj Directorate in March 2005 out of non plan budget for development of database on finances of PRIs and was kept under Civil Deposit. Scrutiny of PRIs records, however, revealed that the grant was utilised for construction, maintenance of civic amenities and not for accounts maintenance and development of database. Thus, the objective of the EFC as shown in Para 2.2 of the Ministry's guidelines on utilisation of this grant remained partially fulfilled.

Grants under EFC were released to PRIs for repair and maintenance of existing assets but ZP Nalanda incurred expenditure of Rs. 8.33 lakh in 2002-03 on purchase of 2 Tractors with accessories which were issued to Isua Gram Panchayat under Sarmera Block and Bhagwan Gram Panchayat under Chandi Block. This was a clear case of misutilisation of fund as such expenditure was not allowed to be incurred out of EFC grants.

2.3.1.3 Twelfth FC grants

The State Govt. is to get Rs.1624 crore during 2005-2010 in 10 six monthly instalments. The grants are to be apportioned in the ratio of 92:6:2 to Gram Panchayats, Panchayat Samitis and Zila Parishads respectively. The Govt. of India released the first instalment of Rs. 162.40 crore on 30th September 2005 for the year 2005-06. The grant was to be released by the State Govt. to PRIs within 15 days from the date of receipt from the Govt. of India. The State Govt. released this after a delay of 53 days and therefore paid interest of Rs.1.12 crore to the PRIs for delayed release. The State Govt. created an extra liability of Rs.1.12 crore due to delayed release of 1st instalment. The State Govt. explained (March 2007) that due to restrictions on account of election code of conduct the grant was not released timely to PRIs. The second instalment of 2005-06 of Rs.162.40 crore was released to the PRIs in March 2006 in anticipation of receipt of funds from the Govt. of India which was received in July 2006.

2.3.2 Status of Submission of Utilization Certificates

The State Govt. submitted utilization certificates for Rs.325.88 crore in April 2007 against Rs.325.92 crore received upto July 2006 under Twelfth FC, as Rs.4.37 lakh released to Zila Parishad Darbhanga against residual amount of 2nd instalment could not be drawn and the grant lapsed.

The scrutiny of utilization certificates revealed the following deficiencies: The utilization certificate furnished was thus not correct as this was furnished without obtaining the actual expenditure details from the PRIs.

- (i) The utilization certificate was to be submitted to LAD for vetting by October 2006 but this was submitted only in April 2007 after a delay of six months.
- (ii) Rs.179.23 crore (55 per cent) was shown as utilized on schemes relating to water supply and

sanitation but the supporting documents showing utilization of the same was not made available.

The authenticity of this utilisation thus remained unverified.

- (iii) Funds of Twelfth FC were to be utilized for repairs/rejuvenation and also meeting the O&M costs of the water supply and sanitation assets taken over by the PRIs and on maintenance of accounts and creating database. The State Govt. however permitted the PRIs to utilize this grant for other purposes viz. maintenance of civic services, maintenance and renovation of PRIs assets and payment of allowances to Gram Panchayat members nominated by the State Govt. for attending training, conference and workshop on the plea that water supply and sanitation assets were not available in PRIs. The State Govt., however, did not obtain approval from the Govt. of India for allowing expenditure of Twelfth FC grants on other items not specified in the guidelines of the Twelfth FC grant.
- (iv) Though the State Govt. rendered utilization certificate for Rs.325.88 crore, the audit scrutiny revealed that the full amount of grant was not released by Zila Parishads to Panchayat Samitis and Gram Panchayats upto March 2006 and the Panchayat Samitis did not utilize the total grant received. The actual Position of utilization in 12 ZPs , 65 PSs and 195 GPs audited during 2006-07 is shown in the Table below:

Table-5

Status of utilization of Twelfth FC grants in 12 ZPs, 65 PSs and 195 GPs

Particulars	Receipt (Rs. in Crore)	Expenditure (Rs. in Crore)	Balance (Rs. in Crore)
12 Zila Parishad	93.60	59.38	34.22
65 Panchayat Samiti	1.23	0.34	0.89
195 Gram Panchayats	3.28	2.53	0.75
Total	98.11	62.25	35.86

- (v) Though Rs. 4.37 lakh was not drawn by Zila Parishad, Darbhanga and the Authority Slip lapsed on 31st March 2006, this amount was neither released in 2006-07 to the ZP nor refunded to the Govt. of India.
- (vi) TFC grant was released to DDC cum CEO of Zila Parishad for releasing share of Panchayat Samitis and Gram Panchayats falling within their district. The Zila Parishads were required

to
release the grant to Panchayat Samitis and Gram Panchayats within 7 days from the date of drawal of the grant but it was noticed that timely release was not made by ZPs. Zila Parishad, Darbhanga released the first instalment of grant to Panchayat Samitis and Gram Panchayats after a delay of 18 days. Though the cheques prepared were debited in Cash Book it was not despatched immediately as the Bank Pass book of the ZP disclosed that cheques of 328 Gram Panchayats and 17 Panchayat Samitis were debited by the Bank between January 2006 to June 2006 while cheque of Gram Panchayat, Simri for Rs.1.77 lakh and of Panchayat Samiti, Tardih for Rs.1.56 lakh was not debited. The State Govt. did not devise means for direct release of funds to Panchayat Samitis and Gram Panchayats, like telegraphic transfer to their bank account, to avoid delay in release of funds.

2.4 State Finance Commission grants

The first State Finance Commission (SFC) was constituted in April 1994 under Article 243-I of the constitution and section 135 of the Bihar Panchayat Raj Act, 1993 but it could not make any recommendations. Second State Finance Commission was constituted in June 1999 and it submitted five interim reports between September 2001 to November 2003. These were related to distribution of Tenth FC and Eleventh FC grants to Gram Panchayats, Panchayat Samitis and Zila parishads in the ratio of 93:6:1 percent respectively. "Population ratio" was also recommended as criteria for distribution among Panchayat Samitis and Zila Parishads. The commission also recommended for levy of maximum rate of taxes, fees and toll by the PRIs. The SFC did not, however, recommend for allocation of State revenues between the PRIs and ULBs. The State Government accepted the above recommendations of the second SFC. The position of submission of final report, its placement before State Legislature and follow up action taken on this was, however, not intimated. The third SFC was constituted in June 2004 but, the status of submission of its recommendations was not intimated by the State Govt.

2.5 Overall financial position of PRIs

2.5.1 Zila Parishads

The financial position of 12 Zila Parishads for various periods ranging from 96-97 to 2005-06 is given below:-

Table-6 Position of receipt and utilization of grants/funds in 12 ZPs at the end of March, 2006

Sl. No.	Fund Particulars	Receipt including OB (Rs in crore)	Expenditure (Rs in crore)	Balance (Rs in crore)
1	10th FC	19.84	19.73	0.11
2	11th FC	115.35	113.52	1.83
3	12th FC	93.60	59.38	34.22
4	EAS/SGRY	107.68	100.39	7.29
5	NREGP/SREGP	5.65	3.60	2.05
6	MP/MLA/MLC	13.33	11.62	1.71
7	Other non-recurring grants	29.76	26.09	3.67
8	Govt. grant and loan and own receipt for establishment expenses	33.96	27.39	6.57
Total		419.17	361.72	57.45

(Details in Appendix- I)

Other non-recurring grants consist of grants released by Panchayati Raj Department for repair/renovation of Inspection bungalows/Dak bungalows, repair and maintenance of roads and Additional Central Assistance for construction of Gram Panchayat Buildings, grants released by Education Department for construction of Primary School Buildings, providing water and toilet facilities in Primary/Middle Schools, grants released by Agriculture Department for Macromode schemes and road cess released by Revenue Department.

Audit scrutiny revealed the following lapses:

- (i) The sectoral analysis of receipt and expenditure on education, health, agriculture, social forestry, etc. was not ascertainable as the Annual Accounts were not prepared by ZPs.
- (ii) The unspent balance shown above depicted that grant of 10 th FC required to be spent during 2002-03 and grant of 11th FC to be incurred upto 2004-05 were not fully utilised so far.
- (iii) In Zila Parishad, Nalanda investment of Rs. 56.74 lakh was treated as expenditure and not included in the closing balance of ZP fund.
- (iv) Fund of ZP's share of SGRY was not released by DRDA to Zila Parishad, Darbhanga during 2002-03 to 2005-06.

(v) Residual amount of 2nd instalment of 12th FC grants sanctioned in March 2006 (Rs 4.37 lakh) to ZP Darbhanga lapsed as the bill was not presented to Treasury and against the available balance of ZP share of 12th FC grants Rs. 0.43 lakh was incurred on establishment expenses.

(vi) Rs.1.70 crore was sanctioned (October 2003) under 10th FC for Kaimur District. This amount was drawn by the DRDA, Kaimur and only the ZP's share of Rs 1.51 lakh was released to ZP Kaimur and share of PSs and GPs were directly released by DRDA Kaimur to these PRIs due to which the ZP Kaimur did not know whether total grants payable to PSs and GPs were released to these PRIs.

ZP Saran did not release Rs 3.43 crore of 10th FC grants directly to GPs rather paid this to BDOs (January 2003) for onwards transmission to GPs. This led to delay in release of funds to GPs. The ZP did not even ensure that grant was released to all the GPs by the BDOs. Arwal ZP diverted Rs 0.81 lakh grant of 10th FC towards execution of schemes of 11th FC grants.

(vii) Grants sanctioned under 11th FC was to be drawn by the Zila Parishads and in turn the share of PSs and GPs were to be released by the ZPs. But in Kaimur district, upto 2003-04, this grant was drawn by the DRDA Kaimur and not by ZP and the DRDA Kaimur merely released the ZPs share of grant to Zila Parishad, Kaimur. The ZP authorities did not ensure whether grants payable to PSs and GPs were fully released to PSs and GPs. ZP Supaul did not release the 11th FC grants of Rs. 14.27 lakh (Grant Rs. 12.41 lakh and interest Rs.1.86 lakh) to Gram Panchayats and was retaining this in its fund from 03-04.

Under 11th FC grants Rs.4.16 crore was sanctioned by State Govt. in January 2002 for Zila Parishad, Saran. AG's Authority Slip was issued in February 2002 in favour of DDC cum CEO of Saran. But the ZP presented bill of Rs. 4.25 lakh only in treasury on account of its one percent share and the credit of same amount was depicted in Treasury Pass Book of the ZP. On audit query, it was stated that the share of PSs and GPs were directly released by the treasury to the PSs and GPs. This practice of direct release of money by the treasury was quite unusual as full amount of grant is released in ZP fund and the ZP releases the amount to PSs and GPs through treasury cheques.

(viii) ZP Supaul received Rs 3 lakh out of non-recurring grants in 1999-2000 from the State Govt. for execution of 2 development works. These works were got executed out of funds of Employment Assurance Scheme, but this specific grant was being retained in full instead of refunding this to State Govt. Rs. 3 lakh thus remained irregularly blocked by the ZP for which no reason was assigned to audit.

2.5.2 Panchayat Samitis

The position of receipt and utilisation of grants in 65 Panchayat Samitis for the period

2001-02 to 200506 is given below:-

Table-7

Position of receipt and utilization of grants/funds in 65 Panchayat Samitis at the end of March, 2006

Sl. No.	Nature of grant	Receipt including OB (Rs. in crore)	Utilisation (Rs. in crore)	Balance (Rs. in crore)
1	10th FC	0.89	0.78	0.11
2	11th FC	5.74	4.20	1.54
3	12th FC	1.23	0.34	0.89
4	EAS/SGRY	101.59	84.53	17.06
5	NREGP	0.58	0.06	0.52
6	OTHERS	0.11	0.10	0.01
Total		110.14	90.01	20.13

(Details in Appendix-II)

- (i) Records of PS Harlakhi (Madhubani district) for the period 2001-02 to September 2005 and of PS Basantpur (Supaul district) for the period 2001-02 to 2003-04 was not produced to audit and hence the position of transaction of the remaining period has alone been included in the above table. Moreover 4 Panchayat Samitis (Rampur, Hulasganj, Kishanpur and Khutauna) did not show the position of receipt and utilization of 12th FC grants, hence, their financial position was not depicted in the above figures.
- (ii) The unspent balance of 10th and 11th FC grants and poor utilisation of 12th FC grant and SGRY grant as evident from the above table denoted failure on the part of executives of PSs to take proper action for utilization of grant or refund of the unspent balance to the sanctioning authority. The position of utilisation was very poor in Bhagwanpur, Saraigarh, Marauna and Basantpur PSs as these ended up with huge unspent balance, due to lack of monitoring by the Panchayat Raj Directorate.
- (iii) The PSs did not prepare the Annual Accounts, hence expenditure on different sector viz. education, health, agriculture, forestry, irrigation etc. could not be known.
- (iv) The PSs have not started imposition of taxes, fees, tolls etc. so far and hence their own

sources of receipt were nil.

- (v) The SGRY grant of Rs 27.21 lakh was found diverted towards other programmes as detailed below:-

Table-8 Diversion of SGRY grant in 6 PSs

Sl. No.	Name of the P.S.	Amount of diversion (Rs. in lakh)	Diverted to
1	Kudra	3.00	Anganwari programme
2	Mohania	2.27	-----DO-----
3	Nuon	0.20	BREDA for solar lantern
4	Durgawati	12.90	Rs.7 lakh for Anganwari, Rs. 4.80 lakh for MP Scheme and Rs. 1.10 lakh for furnishing of Block office and school
5	Rajnagar	8.09	MP/MLA schemes
6	Ladania	0.75	Other schemes
Total		27.21	

This diversion was not regularized by refund of money in SGRY which resulted in unauthorized diversion of SGRY grant.

2.5.3 Gram Panchayats

The Position of receipt and utilisation of grants/funds of 195 Gram Panchayats for the period 2001-02 to 2005-06 is given below: -

Table-9 Position of utilization of grants/funds in 195 GPs at the end of March, 2006 (Rs in crore)

Sl. No.	Particulars of grants	Receipt including OB	Expenditure	Balance
1	10th FC	2.26	2.05	0.21
2	11th FC	11.95	11.05	0.90
3	12th FC	3.27	2.53	0.74
4	EAS/SGRY	26.69	24.77	1.93
5	NREGP	0.05	Nil	0.05
6	PHED/Shiksha Mitra/Lok Shiksha/ MLA etc.	2.53	2.19	0.34
Total		46.76	42.59	4.16

(Details in Appendix-III)

As the GPs did not prepare Annual Accounts the position of expenditure made on education, health and other services could not be ascertained. Non-utilisation of full grant of 10th and 11th FC and funds devolved by PHED (Public Health Engineering Department) clearly denoted failure on the part of Mukhiyas to execute works. The unutilised balances of the above grants were not even refunded to sanctioning authorities and was unnecessarily being retained in GPs fund.

2.6 Status of Asset Management

2.6.1 PRIs were required to prepare asset and liabilities position in order to depict their financial status. The model Receipt and Payment Accounts format prepared by the CAG provided for preparation of statement of Capital Expenditure (Scheme wise) at the end of the year and maintaining Registers of immovable property, moveable property, roads and lands. Para 5.16.3 of the SGRY guidelines also provided that the PRIs shall maintain register of assets created by depicting the date of start, date of completion, cost involved, benefits derived and employment generated. Audit scrutiny, however, revealed that none of the PRIs studied maintained asset registers.

The asset management of the PRIs was thus deficient and in the absence of Register of Assets, the position of assets created by execution of various works (Road, Building, Drain, Culvert, Hand Pump etc.) and the capital invested in creation of the same could not be known.

2.6.2 Status of maintenance of stock registers

The Zila Parishads were only maintaining Stock Register of stationeries and other consumable items besides Stock Register of furniture, cement, and bitumen etc., but the balance shown to be lying in stock were never got physically inspected and certified by any officer of the Zila Parishad.

The centralized purchase of materials viz. Bricks, Sand, Stone Chips and Cement was not made by the PRIs. The departmental executing agents purchased materials separately for each work but the materials purchased were not accounted for anywhere.