

CHAPTER-II

BUDGET AND FINANCIAL MANAGEMENT IN ULBs

2.1 Status of Preparation of Budgets.

Under Section 71 of Bihar & Orissa Municipal Act, 1922, the commissioners at a meeting held at least two months before close of the year, shall prepare detailed budget estimates showing probable receipt and expenditure for ensuing year and objects in respect of which it is proposed to incur such expenditure. In old Act (B&O Municipal Act 1922), Municipal Board was authorized to prepare and pass the budget.

Audit observed that in 16 ULBs, out of 40 test checked ULBs, no budget estimates were prepared for varying periods (**Appendix-II**). Without preparation of budget estimates in these 16 ULBs, an unauthorized expenditure of Rs.2856.83 lakh was incurred. Incurring of expenditure without budget is not a healthy financial practice, as it undermines the importance of prioritization of resource allocation besides diluting exercise of control over receipts and expenditures.

The Executive Officers of the ULBs are primarily responsible for preparation of budget and assisting the Board in scrutinizing and approving the same. It is obvious that this responsibility was not effectively discharged by the Executive Officers.

2.2 Status of preparation and maintenance of accounts

2.2.1 Non-maintenance of basic records

The prescribed basic records as contained in Bihar Municipal Account Rules, 1928 and Municipal Accounts Rules (recovery of taxes), 1951 viz. Government Grant Register, Loan Register, Loan Appropriation Register, Asset Register, Demand and Collection Register, Sarkar's Ledger, 'K' progress statement, 'L' list of outstanding taxes, Advance Ledger, Adjustment Register, Work Register, Audit Register, Unpaid Bill Register etc. were not being maintained by all the 40 test checked ULBs.

Due to non-maintenance of above records and registers actual financial status of ULBs could not be ascertained.

2.2.2 Deficiencies in maintenance of cashbook

Scrutiny of cashbooks of 40 ULBs revealed that transactions were not classified under relevant heads of account in 17 ULBs and the competent authority did not authenticate entries of the cashbook in 8 ULBs as given in table below.

Table-1
Deficiencies in maintenance of cashbook

| Sl. No. | ULBs where transaction were not classified under relevant heads of accounts in Cash Book | ULBs where entries in Cash Book were not authenticated by competent authority |
|---------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| 1 | Darbhanga | Jehanabad |
| 2 | Dehri Dalmianagar | Shahpur (Bhojpur) |
| 3 | Sitamarhi | Muzaffarpur |
| 4 | Khagaria | Barh |
| 5 | Muzaffarpur | Maharajganj (Siwan) |
| 6 | Sugauli | Khagaul |
| 7 | Mairwa | Dumraon |
| 8 | Khagaul | Dehri Dalmianagar |
| 9 | Mahnar | |
| 10 | Shahpur (Bhojpur) | |
| 11 | Rosera | |
| 12 | Bhagalpur | |
| 13 | Dumraon | |
| 14 | Dumra | |
| 15 | Motihari | |
| 16 | Maharajganj | |
| 17 | Jehanabad | |

The competent authority never verified cash in hand, as certificate of cash verification had not been recorded in cashbook in all the ULBs.

Due to wrong classification, irregular maintenance of cashbooks and inadequate monitoring by supervising officials, possibilities of any major irregularities viz. misappropriation/fraud /embezzlement in ULBs could not be ruled out.

2.2.3 Non preparation of Annual Accounts

As per rules 82 to 84 of Bihar Municipal Accounts Rules, 1928, every ULB is required to prepare quarterly and annual accounts. But out of the 40 ULBs test checked in audit, no ULB had prepared annual accounts for the period under audit. Due to non-preparation of annual accounts expenditure of Rs.15724.77 lakh incurred by ULBs could not be verified in audit, details of which are given in **Appendix-III**.

2.2.4 Non-Reconciliation of Cash Book with Treasury/Bank Passbook

Out of 40 ULBs, cash balances of 17 ULBs were not reconciled with Treasury/Bank Passbook as on 31st March 2006. As such, the difference of cash balance of Rs 473.42 lakh between CashBook and Treasury/Bank Passbook in 17 ULBs were not reconciled at the close of financial year ending March 2006. Details are given in **Appendix IV**.

Due to non-reconciliation of cash balance, possibility of defalcation and misappropriation of funds cannot be ruled out. The authenticity of these cash balances also remained doubtful.

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 Finance Commission Grant

Tenth Finance Commission grants amounting to Rs. 1.04 lakh only was received during 2001-05 in one ULB i.e. Bhagalpur Municipal Corporation, but the closing balance on this account as on 31st March 2006 was Rs 2.17 lakh as shown by the ULB. Besides, indicating misclassification, it is obvious that the grants remained unutilized under the audit period.

2.3.1.2 Eleventh Finance Commission Grant

A sum of Rs. 2265.90 lakh (**Appendix V**) was received in 38 ULBs as Eleventh Finance Commission grant. But, Utilization Certificates, if sent to State Government, were not made available to audit. The position of schemes taken up, completed and amount of grants blocked as advance in incomplete schemes in 25 ULBs are as under:-

Table- 2 Grants received, Schemes taken up and completed out of E.F.C.Grant during period under study
(Rs. In Lakh)

| Sl. No. | Name of ULB | Grant received | Schemes taken up | Completed schemes | Incomplete schemes | Amount involved as advance in incomplete Schemes |
|--------------|-------------|----------------|------------------|-------------------|--------------------|--------------------------------------------------|
| 1 | Babhua | 35.72 | 5 | 5 | 0 | 0 |
| 2 | Murliganj | 19.02 | 4 | 2 | 2 | 7.18 |
| 3 | Mahanar | 35.25 | 6 | 2 | 4 | 21.87 |
| 4 | Sitamarhi | 44.23 | 27 | 24 | 3 | 2.65 |
| 5 | Sugauli | 38.89 | 52 | 39 | 13 | 0.7 |
| 6 | Jamui | 70.31 | 89 | 87 | 2 | 1.43 |
| 7 | Munger | 99.06 | 74 | 60 | 14 | 12.77 |
| 8 | Maharajganj | 14.31 | 18 | 9 | 7* | 4.8 |
| 9 | Jagdishpur | 28.16 | 56 | 30 | 26 | 3.32 |
| 10 | Hajipur | 68 | 52 | 0 | 52 | 61.54 |
| 11 | Sasaram | 68.52 | 40 | 28 | 12 | 13.73 |
| 12 | Sultanganj | 23.34 | 38 | 28 | 10 | 5.08 |
| 13 | Buxar | 42.38 | 33 | 24 | 9 | 12.35 |
| 14 | Bahadurganj | 30.29 | 28 | 17 | 11 | 15.44 |
| 15 | Aurangabad | 96.52 | 61 | 57 | 4 | 3.34 |
| 16 | Dehri | 103.19 | 31 | 3 | 28 | 49.74 |
| 17 | Araria | 69.80 | 37 | 34 | 3 | 4.89 |
| 18 | Supaul | 38.6 | 22 | 3 | 19 | 25.24 |
| 19 | Khagaul | 37.62 | 29 | 23 | 6 | 2.3 |
| 20 | Revelganj | 23.39 | 21 | 17 | 4 | 1.11 |
| 21 | Nirmali | 10.73 | 5 | 5 | 0 | 0 |
| 22 | Lakhisarai | 76.8 | 58 | 5 | 53 | 62.44 |
| 23 | Sheikpura | 54.19 | 50 | 27 | 23 | 11.48 |
| 24 | Muzaffarpur | 160.33 | 230 | 228 | 2 | 0 |
| 25 | Rosera | 13.65 | 14 | 9 | 5 | 3.3 |
| Total | | 1302.3 | 1080 | 766 | 312 | 326.7 |

- 2 Schemes abandoned involving Rs. 0.80 Lakh.

2.3.1.3 Twelfth Finance Commission Grant

A sum of Rs. 744.93 lakh (**Appendix V**) was received in 36 ULBs as Twelfth Finance Commission Grant. But, Utilization Certificates, if sent, to the Govt were not made available to audit. The position of schemes taken up, completed and amount of grant blocked as advance in incomplete schemes in 11 ULBs are as under:

Table-3 Amount received, schemes taken up and completed out of TFC Grant during period under audit

| Sl.No. | ULB | Grant received (Rs. In Lakh) | Schemes taken up | Schemes completed | Incomplete schemes | Amount involved as advance in incomplete Schemes (Rs. In Lakh) |
|--------|-----------|------------------------------|------------------|-------------------|--------------------|----------------------------------------------------------------|
| 1 | Mahanar | 19.33 | 29 | 0 | 29 | N.A |
| 2 | Sitamarhi | 11.91 | 2 | 0 | 2 | 1.65 |

| | | | | | | |
|--------------|------------|---------------|------------|-----------|-----------|--------------|
| 3 | Jamui | 18.99 | 8 | 6 | 2 | 2.49 |
| 4 | Dumra | 3.32 | 1 | 1 | 0 | 0 |
| 5 | Hajipur | 27.47 | 31 | 18 | 13 | N.A |
| 6 | Sasaram | 27.69 | 7 | 1 | 6 | 6.2 |
| 7 | Supaul | 15.59 | 23 | 3 | 20 | 1.5 |
| 8 | Nirmali | 4.34 | 7 | 7 | 0 | 0 |
| 9 | Lakhisarai | 20.73 | 1 | 0 | 1 | 2.5 |
| 10 | Sheikpura | 14.66 | 1 | 0 | 1 | 5.15 |
| 11 | Rosera | 5.52 | 2 | 0 | 2 | 0.3 |
| Total | | 169.55 | 112 | 36 | 76 | 19.79 |

2.3.2 State Finance Commission Grants

No major Grants were found to have been received from State Finance Commission during the audit period in all 40 ULBs test checked.

2.4 Non-utilization of Specific Govt. Grants to the tune of Rs.195.44 Lakh

Govt. grants of Rs.195.44 Lakh (**Appendix VI**) released for specific purposes during 1983-84 to

2000-01 were lying unspent as on 31st March 2006. In Gaya Municipal Corporation Rs.21.67 Lakh of unspent grant pertaining to NSDP, construction of sulabh sauchalaya, water supply scheme and construction of stadium etc was lying idle since 1990-91. This not only blocked the capital but also hampered development works to be executed through those grants, as a result of which people were deprived of basic amenities even after release of funds from Government.

2.5 Diversion of Grants

Government of India sanctioned grants to the tune of Rs157.15 lakh for specific purposes were diverted by 16 ULBs towards payment of salary and allowances to staff and other normal expenditure. Thus, the very purpose for which the grants released, was defeated. (Detailed in **Appendix-VII**)

2.6.1 Tardy Utilization of Loans

ULBs did not maintain Loan Appropriation Registers, due to which the amount of loan of Rs. 1503.25 lakh

received by 39 ULBs was found merged in the cash balance.

Proper utilization of loan received for specific purposes could not, therefore, be ensured.

Utilization Certificates, if any, furnished to the sanctioning authority, were not made available to audit.

2.6.2 Non-repayment of loans

None of the 40 ULBs audited, maintained loan registers. As such, up-to-date position in respect of loans received, amount of instalments of principal and interest due

thereon for repayment, amount repaid and

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balance as on 31 march 2006 was not ascertainable. However, from cash book, it was noticed that 39 ULBs received Rs 1503.25 lakh as government loan during the period under audit (**Appendix-VIII**).

Due to non- repayment of loan by ULBs, the State Government deducted Rs 274.92 lakh (25% of sanctioned amount) from subsequently sanctioned amount of loan of Rs.1778.17 lakh at source against previous outstanding loans.

2.7 Outstanding Advances to the tune of Rs. 2795.26 Lakh

None of 40 ULBs maintained advance ledger and adjustment register, due to which, actual position of outstanding advances was not ascertainable.

However, from cash books, related work files and vouchers so far made available to audit, it was observed that the advances aggregating to Rs. 2795.26 lakh granted by 22 ULBs for various purposes during 1994-95 to 2005-06 are yet to be adjusted / recovered. Laxity in adjustment of advances resulted in blocking of funds for 01 to 11 years, as detailed in **Appendix IX**.

Further, non-adjustment of advances in a timely manner is fraught with risk of misappropriation / embezzlement.

2.8 Non-furnishing of records

29 ULBs did not produce relevant records, viz. bills, vouchers, estimates, measurement books, case files, stock registers etc to audit for want of which expenditure of Rs1505.67 lakh could not be vouched (**Appendix X**).

2.9 Overall financial position of ULBs

The following amounts were released to ULB under Xth, XIth, XIIth FC and other Central Assistance in respect of 35 ULBs out of 40 ULBs studied.

| | Amount Released (Rs. in lakh) | Amount Spent (Rs. in lakh) | Unspent Balance (Rs. In lakh) |
|-------------------------------------------|------------------------------------------|---------------------------------------|------------------------------------------|
| Xth, XIth, XIIth & Other Central Funds | 8744.31 | 6633.13 | 2111.18 |

(Vide detail in Appendix-XI)

The ULBs failed to maintain any accounts of the funds received and State Govt. also did not compile the position of release of funds to ULBs. The Eleventh Finance Commission recommendation for creation and development of database of finance of ULBs has not been implemented so far. The position of total funds made available to ULBs and their actual utilization, thus, could not be known which denoted weak financial reporting practice.