

## **CHAPTER-I**

### **Introduction to PRIs in the State of Bihar**

#### **1.1 Constitutional Background**

After the 73rd Constitutional Amendment Act, Govt. of Bihar enacted the Bihar Panchayat Raj Act (BPRA), 1993, subsequently replaced by Bihar Panchayat Raj Act, 2006 and a three tier system of Panchayat Raj (Zila Prishad, Panchayat Samiti and Gram Panchayats) came into existence after 1st general election held in April/May 2001. There are 38 Z.Ps, 531 P.Ss and 8471 G.Ps in the state of Bihar covering 89% of rural population (approximately). At the state level the Panchayat Raj Department co-ordinates the functioning of the PRIs.

#### **1.2 Powers, Functions and Functionaries of PRIs.**

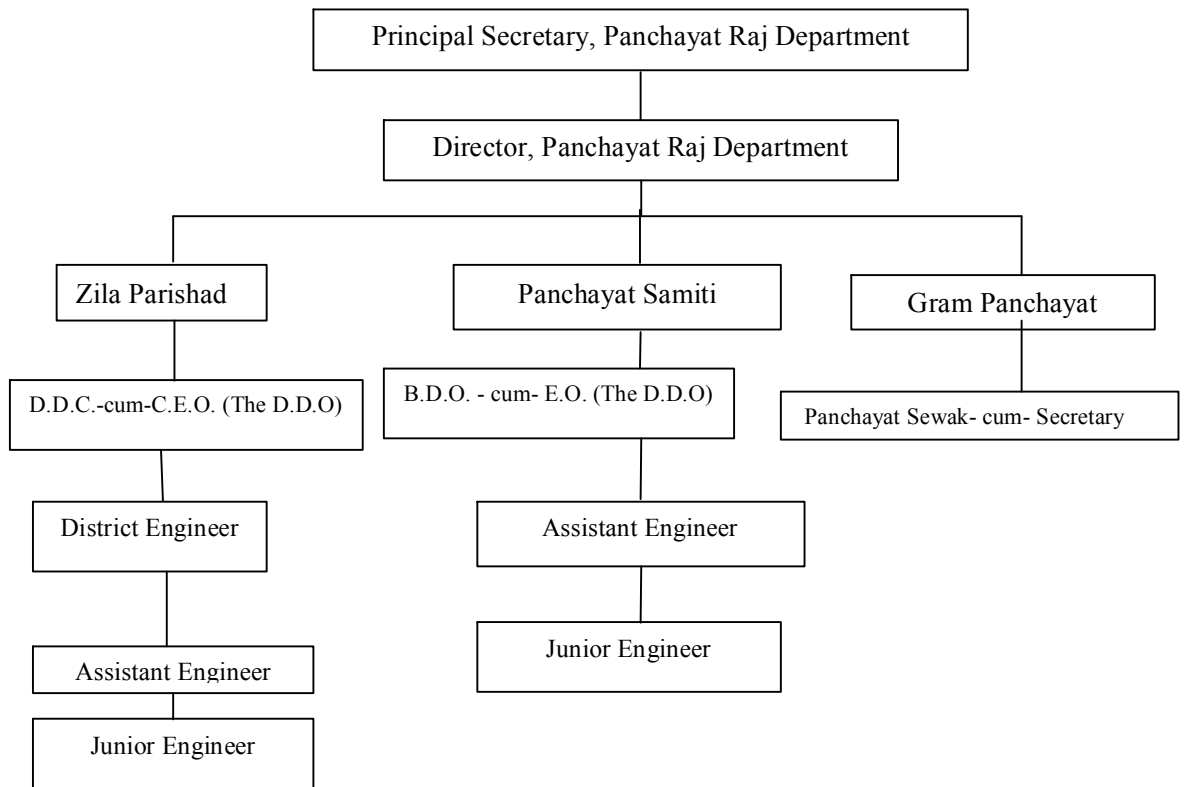
As per direction under Article 243 G of the constitution, the State Government intimated (February, 2005) that based on resolutions of the Deptt. in September 2001, the devolution of functions of 20 Deptts. have been made to PRIs. The transfer of functions to PRIs was not effective as the schemes were not included in Annual Action Plan in respect of works transferred. The transfer of functionaries to PRIs was not done which is a prerequisite for successful working of local self government at the grassroot level. Devolution of funds by the State Government was not effective as the departments concerned continued to receive budgetary allocations on account of transferred functions.

Thus, actual transfer of functions, functionaries and funds to PRIs is yet to be done by the State Govt. for enabling the PRIs to effectively discharge their 29 functions listed in 11th schedule of article 243 G of the Indian constitution.

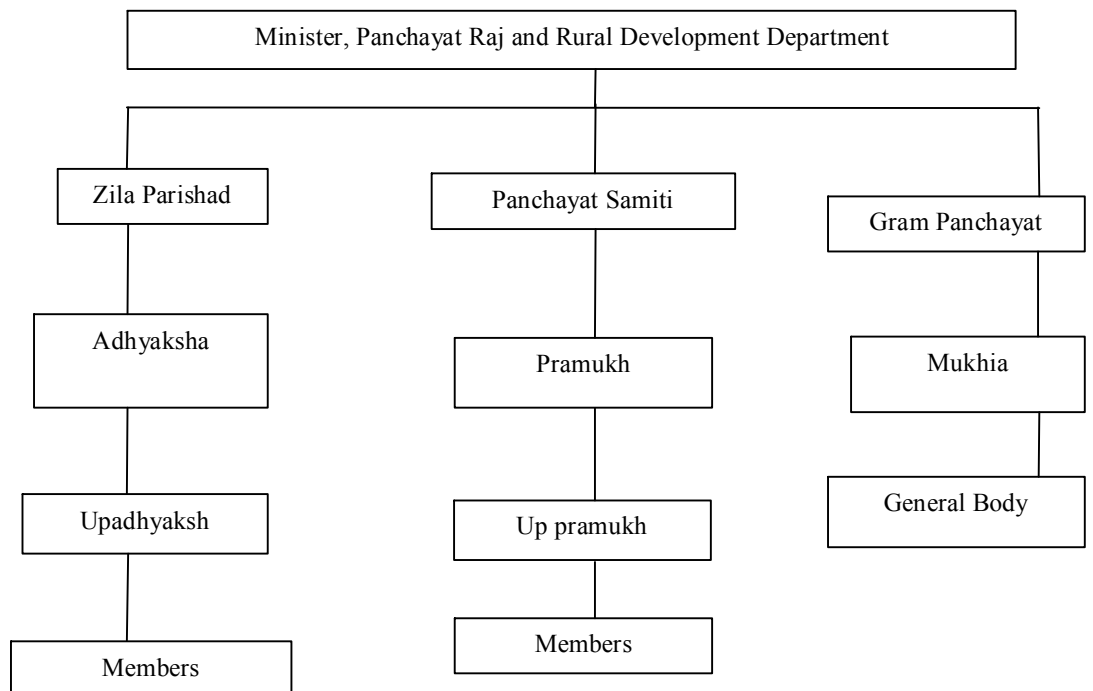
#### **1.3 Organisational Structure of PRIs**

The following organogram depicts the structure of the PRIs at different levels.

### Administrative Body



### Elected Body



The DDC Cum CEO of Zila Parishads carries out the policies and directives of the ZP, discharges duties defined under the Act, controls the officers/officials of ZP, has custody of all papers and documents of ZP and draws and disburses money.

The functions of the B.D.O. Cum E.O. in Panchayat Samiti are to exercise all the powers conferred under the Act, lay down the duties of officials, supervise and control the officers and officials under him, supervise the execution of all works, have custody of all papers and documents of Panchayat Samiti including drawl and disbursement of money out of the PS fund.

The Mukhia is responsible for convening the meeting of Gram Sabha, maintenance of the records of GP, financial and executive administration, supervision over the work of GP employees and transaction of business connected with the Act.

Besides above there are various Standing Committees and other Committees in each tier of PRIs headed by Adhyaksha / Upadhyaksha, Pramukh / Up-Pramukh and Mukhia in ZP, PS & GP respectively to regulate the affairs of the PRIs.

#### **1.4 Sources of Finance/ Revenue**

The PRIs are mainly financed by grants from Central Govt. besides recurring and non-recurring grants released by the State Government and their own sources of revenue. The Panchayat Samitis and Gram Panchayats have not yet augmented their own sources of revenue as the State Government had not yet notified minimum and maximum rates of taxes, tolls & fees etc. to be imposed by them despite recommendation of the Second State Finance Commission (SFC).

The ZPs have meagre revenue from their own sources viz. rent of shops, rent of Dak Bunglow (D.B.)/ Inspection Bunglow (IB), settlement of pounds/ ghats/ ferries/ road side land and trees, bullock cart registration fee and other miscellaneous fees. The ZPs were not able to meet even their establishment and other recurring charges from their own sources and remained wholly dependent on the State Government as 30 percent. grants and 40 percent loans were released by the State Government to meet expenditure over salary payment of Z.P. Staff.

#### **1.5 Application of Funds**

The funds released by the Central / State Government were to be utilised by the ZPs, PSs and GPs over the functions specified under section 73, 47 and 22 respectively of the Panchayat Raj Act, 2006 for execution of various development works relating to provision of civic amenities to rural people. As the PRIs were

not maintaining Government Grant Registers and not preparing Annual Accounts too, it could not be ascertained whether the grants released to PRIs were properly utilised and not diverted towards other purposes.

### **1.6 Accounting Arrangements**

Accounting arrangements were deficient in PRIs as the rules to be framed under BPRA, 2006 had not been framed so far and the ZPs, PSs and GPs were following the Panchayat Samiti and Zila Parishads (Budget and Accounts) Rules, 1964. Budget and accounts formats prescribed by the C&AG of India, though accepted by the State Government, were not operationalised at the PRIs level for want of issue of Government orders in this regard. As per Panchayat Raj Act, 2006, Chief Accounts Officer was to be appointed in each Zila Parishad but the said appointment had not been made so far. Similarly in other tiers of PRIs also qualified staff for handling accounts were not posted so far. Absence of qualified staff for maintenance of accounts in all three tiers of PRIs affected the maintenance of accounts, records and registers of vital nature.

### **1.7 Audit Arrangement**

As per provisions of BPRA, 2006 Under Section 31, 59 and 86, the audit of PRIs will be carried out by the authority as may be prescribed by the State Government. The Examiner of Local Accounts (ELA), Bihar was declared as prescribed audit authority of PRIs and the audit is to be conducted as per provisions of the Bihar Local Fund Audit (BLFA) Act, 1925. Accordingly the ELA, Bihar functions as the sole auditor of PRIs under the supervision of the Principal Accountant General (Audit), Bihar. The ELA is assisted by the Local Audit Department (LAD) in discharge of his duties and responsibilities.

The Audit Reports of the PRIs audited are sent to the concerned Chief Executive Officers, Executive officers and Mukhias of the PRIs with copies to Panchayat Raj Directorate. The follow up action on the Audit Report is to be taken by the executive of the auditee units and Standing Committees on Finance, Audit and Planning in ZPs & PSs.

### **1.8 Audit Coverage**

During the financial year 2007-08, audit of the accounts of 12 Zila Parishads, 48 Panchayat Samities and 682 Gram Panchayats was conducted covering the period up to 2006-07. This report discusses the important audit findings of all 12 Z.Ps, 48 P.Ss and 196 G.Ps. (Appendix IV to VI)

## **1.9 State Finance Commissions (SFC)**

The first State Finance Commission constituted in April 1994 did not make any recommendation. Second SFC constituted in June 1999 submitted five interim reports between September 2001 to November 2003. The Commission made the following important recommendation:

- (i) Distribution of grants of Tenth and Eleventh F.C. to be made to Zila Parishads, Panchayat Samitis and Gram Panchayats in the ratio of 93:6:1 respectively.
- (ii) Population ratio for distribution of grants amongst Zila Parishads and Panchayat Samitis to be followed.
- (iii) Maximum rate of taxes and fees to be imposed by the PRIs.

The third SFC was constituted in June 2004 submitted the following recommendations in November 2004.

- (1) The Commission accepted the recommendations of second SFC regarding maximum rate of taxes and fees to be imposed by the PRIs.
- (2) The entire salary and retirement liability of local bodies may be borne by the local bodies.
- (3) An amount not exceeding three percent of the State's total tax revenue from its own taxes shall be set apart in the annual budget for providing matching grants to ULBs and Zila Parishads. The distribution shall be made on the basis of total resources raised from own sources in the preceeding financial year.
- (4) The State Government should ensure close supervision and provide help to the local bodies to raise and enhance their resources towards self reliance.
- (5) The Panchayats should collect holding and professional tax as arrears of land revenues with the help of the Circle Officer.
- (6) The local bodies may seek financial helps for creating revenue generating assets from the financial institution without Govt. Guarantee.
- (7) Actual salary requirements of regular employees working in local bodies against sanctioned post should be borne by the State Govt. in the first year and afterwards 20 percent cut should be made in each year so that at the end of 5th year the assistance may be stopped.

- (8) The PRIs may be paid one time grant for developing database and manpower requirements as per following details:

Gram Panchayat	0.05 lakh
Panchayat Samiti	0.10 lakh
Zila Parishad	1.00 lakh

Recommendations of the Third SFC, whether accepted by the State Government or not, was not ascertainable and the PSs and GPs have not started imposition of taxes and fees as State Govt. has not notified the same so far.

### **1.10 Twelfth Finance Commission (TFC)**

The State Government released Twelfth Finance Commission Grants of Rs. 324.80 crore in May 2006 and in February 2007 for the period 2006-07 to the PRIs. There was, however, no delay in the release of funds because the release was made in anticipation of receipt of grant from the Government of India. The State Government recouped Rs. 162.40 crore in October 2006 and Rs. 162.40 crore in September 2007 from the central government.

#### **Utilisation Certificate**

**1.10.1** The Utilisation certificate for 2006-07 was to be forwarded to this office up to 30<sup>th</sup> April 2007 by the State Government, but this was done after a delay of about one year on 10.04.2008.

**1.10.2** Total expenditure on water supply and sanitation shown as incurred was 42.43 percent against the requirement of 50 percent of spending on this sector. In three districts Vaishali, Darbhanga and Arwal, the expenditure incurred was merely 0.5, 2.5 and 5.6 percent respectively.

**1.10.3** The State Government submitted utilisation certificate for the entire amount of Rs. 324.80 crore but Rs. 40.03 crore was not spent by the 256 PRIs (discussed in this report) upto March 2007, the stipulated period of utilisation as detailed below. The utilisation certificate rendered by the state government was, thus, not correct.

Sl.No.	Particulars	Receipt	Expenditure	Balance
1.	12 Zila Parishads	227.78	191.98	35.80
2.	48 Panchayat samitis	4.24	2.15	2.09
3.	196 Gram Panchayats	10.40	8.26	2.14
<b>Total</b>		<b>242.42</b>	<b>202.39</b>	<b>40.03</b>

**(Rs. In Crore)**

**1.10.4** The State Government did not fix any percentage for utilisation of this grant on creation and development of database and maintenance of accounts rather it was left on the discretion of PRIs. The PRIs units audited during 2007-08, however, did not maintain any accounts showing receipts of fund and corresponding expenditure on water supply and sanitation, development of database, maintenance of accounts and expenditure on other development works.

**1.10.5** Out of TFC grants 50 percent grant was to be utilised on account of organisation and management cost of water supply and sanitation assets. The Zila Parishads and Panchayat Samitis, however, incurred expenditure on repair / renovation of block buildings, offices, quarters and some other buildings. A few such example has been given in Appendix-I.

**1.10.6** The Zila Parishads in whose favour the total grant of the district was sanctioned were required to release grants to Panchayat Samitis and Gram Panchayats of the district within seven days of the receipt of the money but the Zila Parishad, Katihar released funds after a gap of two to three months as shown below:-

Sl.No.	Date of Receipt of fund	Date of payment of fund	Period of delay
1.	11.08.06	14.11.06	2 months
2.	31.03.07	09.07.07	3 months

**1.10.7** Zila Parishad, Purnea against receipt of fund in February 2007 did not release funds directly to the Gram Panchayats rather the entire amount of P.S and respective G.Ps was released to Panchayat Samitis themselves for onward release to Gram Panchayats. This resulted in unnecessary delay in release of fund to GPs.

**1.10.8** Chakia Tola and Jalalpur G.Ps falling under Danapur Panchayat Samiti were denotified vide State Government gazette notification No. 20, dated-25.10.05 and 24 dated-15.02.06 respectively but the Zila parishad, Patna released Rs. 3.54 lakh to above Panchayats after denotification and is still retaining their other amount of Rs. 10.61 lakh in ZP Fund instead of apportioning this amount in the entire GPs falling under Patna district.