

CHAPTER-II

Budget and Financial Management in PRIs

2.1 Status of Preparation of Budgets

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

- (i) Under Section 25 (i) clause (i) and under section 7(i) clause (ii) of BPR 2006, P.S. and Z.P respectively have to constitute Finance, Audit and Planning Committee 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 PSs in October 2007 to intimate the position of constitution of said committees, its functioning and number of Audit Reports discussed. In response, only 13 ZPs and 36 PSs intimated the position of constitution and functioning of the committee. In 13 ZPs where the committee was constituted, only seven meetings were held and only one Z.P. (Saharsa) discussed the Audit Report. In 36 PSs only nine meetings were held and no Audit Report was discussed in any meeting.
- (ii) None of the Panchayat Samitis and Gram Panchayats covered in this audit had prepared budget estimates.
- (iii) Out of 12 ZPs, five ZPs¹ did not produce budget file and copies of budget to audit, so it could not be ascertained whether budget was prepared in these ZPs or not. Three ZPs² prepared the budget but records were not shown regarding sending of copies of budget estimates to state government for approval and follow up action taken by state government on above budget. In Zila Parishad, Bettiah there was wide gap between the probable and the actual receipt and expenditure, as detailed below:

Table-1
Details of variations in probable and actual receipt and expenditure

(Rs. In lakh)

Year	Receipt				Expenditure			
	Budget provision	Actual	Variation	Variation %	Budget provision	Actual	Variation	Variation %
2002-03	52.31	18.94	33.37	(-)63.79	168.42	33.64	134.78	(-)80.03
2003-04	46.31	35.95	10.36	(-)22.37	162.53	50.58	111.95	(-)68.88
2004-05	41.06	25.29	15.77	(-)38.41	158.59	36.19	122.40	(-)77.18
2005-06	41.31	30.04	11.27	(-)27.28	160.21	45.70	114.51	(-)71.47
2006-07	40.56	20.90	19.66	(-)48.47	153.60	61.88	91.72	(-)59.71

¹ Bhojpur, Purnea, Gopalganj, Patna and Samastipur

² Sitamarhi, Bhagalpur and Jamui

Thus the budget was not realistic as the variations between provisions and actuals ranged between 22.37 to 80.03%. However, in three Z.Ps (Khagaria, Motihari and Katihar) budget was not prepared but expenditure incurred was of Rs. 4.17 crore out of Personal Ledger account which did not include expenditure on schemes out of finance commission grants, SGRY & NREGS grants.

Name Z.P.	Year for which budget not prepared	Total Expenditure (Rs. in crore)
Khagaria	2003-04 to 2005-06	0.58
Motihari	2004-05 to 2006-07	2.28
Katihar	2003-04 to 2006-07	1.31
Total		4.17

Budget estimates in these three ZPs were not prepared, therefore the expenditure incurred of Rs. 4.17 crore was unauthorised.

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 receipt and expenditure.

2.2 Status of the Preparation of Annual Accounts

Out of 12 ZPs, 48 PSs and 196 GPs discussed in this report, none of the PRIs prepared Annual Accounts for the year upto 2007. 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.

2.3 Status of Preparation and maintenance of Accounts

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. The cash books were not maintained properly as the receipt and expenditure were neither codified nor classified and the closing balance was not arrived at and analysed. The bank reconciliation statements were also not prepared by the PRIs, in order to detect cases of omission of entry in the cash book and treasury/bank pass books, cases of wrong debit and wrong credit, interest allowed and commission charged by the bank but not entered in cash book 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 the position of closing balance remained unascertainable.

2.4 Non-maintenance of prescribed records and registers

The basic records/registers prescribed for maintenance by Zila Parishad and Panchayat Samiti under rule 77 of the Bihar Panchayat Samitis and Zila Parishad

(Budget and Accounts) Rules 1964 viz. Govt. Grant Register, Govt. Loan Register, Loan Appropriation Register, Advance Ledger, Deposit Ledger, Register of outstanding Advance, Register of works, Asset Register etc. were not maintained. In Panchayat Samitis and Gram Panchayats only the cash book and scheme registers were being maintained.

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

2.5 Un-reconciled difference between cash book and bank pass book

2.5.1 In six Zila Parishads, where the closing balance of cash book and bank accounts were available, a comparison of the two sets of figures revealed a discrepancy of Rs.10.38 crore as shown in the table below:

Table-2
Non reconciliation of balances

				(Rs. in crore)
Sl. No.	Name of the Z.P.	Closing balance as per cash book on 31st March 2007	Closing balance as per pass books on 31st March 2007	Difference
1	Katihar	7.71	8.57	0.86
2	Bettiah	3.59	9.79	6.20
3	Khagaria	3.62	5.47	1.85 (Information in respect of P/L account was not available)
4	Motihari	14.47	14.78	0.31
5	Patna	6.44	7.05	0.61 (Information in respect of P/L account was not available)
6	Bhojpur	10.85	11.40	0.55
Total		46.68	57.06	10.38

2.5.2 Bank balance was not available in 15 PSs out of 48 PSs audited. In respect of 33 PSs where cash book balance and bank balance were available it was noticed that there was excess balance in bank of Rs. 7.17 crore in 26 PSs and minus balance of Rs. 2.62 crore in seven P.Ss. The total discrepancy, thus, noticed was to the tune of Rs. 9.79 crore in above 33 PSs. (Appendix-II)

2.5.3 Out of 196 GPs the bank balance was not available in 20 GPs and in seven GPs there was no discrepancy in Cash Book and Bank balance. There was, however, minus balance of Rs. 0.84 crore in 57 G.Ps and plus balance of Rs. 2.46 crore in 112 GPs resulting in a total difference of Rs. 3.30 crore. (Appendix- III)

2.6 Overall Financial Position of PRIs in selected units under study

2.6.1 Zila Parishads

The financial position of 12 Zila Parishads for various periods ranging from 2002-03 to 2006-07 is given below. This position is arrived at as far as records made available to audit.

Table-3
Position of receipt and utilisation of grants/ funds in 12 ZPs at the end of March' 2007

(Rs. in crore)				
Sl. No.	Fund Particulars	Receipt including O.B	Expenditure	Balance
1	X F.C	3.76	3.74	0.02
2	XI F.C	108.21	107.38	0.83
3	XII F.C	227.78	191.98	35.80
4	EAS/ SGRY/ JRY/	121.58	106.53	15.05
5	NREGP/ BREGP	44.47	17.57	26.90
6	M.P/ MLA/ MLC	9.93	8.57	1.36
7	Misc	19.57	18.80	0.77
8	Own sources besides Road cess, Grant and Loan for pay & allowances etc.	25.84	19.94	5.90
Total		561.14	474.51	86.63

(Details in Appendix-IV).

Audit Scrutiny revealed the following lapses.

- (i) The sectoral analysis of receipt and expenditure on education, health, agriculture, social forestry etc. was not possible as the Annual Accounts were not prepared by ZPs.
- (ii) The unspent balance shown above, depicted that grant of Twelfth FC required to be spent during 2005-07 and grant of NREGP required to be spent during 06-07 were not fully utilised. In Sitamarhi Zila Parishad, grant of NREGP was not utilised and entire amount of Rs. 2.75 crore was lying in balance.
- (iii) **Incorrect furnishing of Utilization Certificates of Finance Commission Grants by Zila Parishad, Patna**

Zila Parishad, Patna submitted utilisation certificate of Rs.27.20 crore between June 2004 to June 2007 to the State Government in respect of Finance Commission Grants (Rs. 3.73 crore for Tenth FC in June 2004, Rs. 4.31 crore of

Eleventh FC in January 2006 against grant for 2004-05 and of Rs. 19.16 crore of Twelfth FC in June 2007 against grant for 2005-06 and first instalment of 2006-07). The Utilisation Certificate was submitted without ascertaining the position of utilisation of grants by the Panchayat Samitis and Gram Panchayats and retention of Rs. 0.81 crore in Zila Parishad (Rs. 0.01 crore of Tenth FC, Rs 0.11 crore of EFC and Rs. 0.69 crore of Twelfth FC) fund. The utilisation certificate, thus, furnished to State Government was not correct and authentic.

2.6.2 Panchayat Samitis

The position of receipt and utilisation of grants in 48 Panchayat Samitis, as far as records made available to audit, for the period 2001-02 to 2006-07 is given below:

Table -4
Position of receipt and utilisation of grants/ funds in 48 Panchayat Samitis at the end of March, 2007

(Rs. in crore)				
Sl. No.	Nature of grant	Receipt including O.B	Utilisation	Balance
1	10th F.C	1.04	0.86	0.18
2	11th F.C	5.91	4.70	1.21
3	12th F.C	4.24	2.15	2.09
4	S.G.R.Y.	112.06	101.77	10.29
5	NREGP	44.65	25.25	19.40
6	Other	0.18	0.07	0.11
Total		168.08	134.80	33.28

(Details in Appendix-V)

2.6.3 Gram Panchayats

The position of receipt and utilisation of grants/ fund of 196 Gram Panchayats, as far as records made available to audit, for the period 2001-02 to 2006-07 is given as under.

Table-5
Position of receipt and utilisation of grants/ funds in 196 Gram Panchayats at the end of March, 2007

(Rs. in crore)				
Sl. No.	Particulars of grant	Receipt including O.B	Utilisation	Balance
1	10th F.C	2.01	1.93	0.08
2	11th F.C	11.26	10.61	0.65
3	12th F.C	10.40	8.26	2.14
4	S.G.R.Y.	30.23	28.29	1.94
5	NREGP	8.69	4.59	4.10
6	Other	1.78	1.55	0.23
Total		64.37	55.23	9.14

(Details in Appendix-VI)

As the GPs. did not prepare Annual Accounts it could not be certified whether the expenditure was made on purposes for which the grants were received.

2.7 Diversion of Grants of Rs 1.39 crore.

Grants of EFC, TFC and SGRY were found diverted towards other purposes. The cases noticed were the following:

- (a) Zila Parishad, Bhagalpur and Bhojpur (Arah) diverted Rs 90.17 lakh during 2003-04 to 2006-07 out of Tenth, Eleventh, Twelveth FC and SGRY Grants for other purposes as detailed below:

(Rs. in lakh)

Sl. No.	Name of Zila Parishad	Head	Amount diverted	Purpose of diversion
1	ZP Bhagalpur	Tenth FC Grants	1.23	Payment of retirement benefit, Pay, T.A., Marriage Advance to regular employees.
		Eleventh FC Grants	7.70	
		SGRY Grants	70.73	
2	ZP Bhojpur	Twelfth FC Grants	10.51	Purchase of offset printing machine and plates making machine.
Total			90.17	

- (b) In PS, Runni Saidpur SGRY fund of Rs. 41.21 lakh was diverted between January 2004 to March 2004 for execution of 13 MLA schemes (scheme no. 12, 13, 14, 15, 16, 17, 18, 19, 20 and 21 of 2002-03 and 13, 41 and 50 of 2003-04).
- (c) DDC, Bhojpur entrusted execution of two works of protection/development of conventional water sources to PS, Koilwar and released Rs. 1.27 lakh (May,2005) for the above work. The expenditure incurred in above two works was of Rs. 2.17 lakh which included payment of Rs. 0.90 lakh out of EFC grant of the PS. The D.D.C. did not recoup this amount of Rs. 0.90 lakh due to bad work done. Due to diversion of Rs. 0.90 lakh out of P.S.fund, 9 works of EFC undertaken for execution in 2005-2006 estimating Rs. 6.22 lakh remained incomplete despite payment of advance of Rs. 5.07 lakh as no further payment could be made for above works due to paucity of fund.
- (d) In P.S. Badhhara, 138.42 quintals of food grain was diverted for execution of schemes of EFC. EFC Scheme No. 01 of 05-06 relating to brick soling and repair of road from Ekwana to Balaura Bandh estimated at Rs. 4.33

lakh was executed by the PS without administrative approval but on the verbal order of the DDC, Bhojpur. The executing agent was paid Rs. 3.46 lakh out of EFC grants and 138.42 quintals grain valuing Rs. 0.87 lakh from SGRY fund. Food grain was to be issued only for SGRY works but in violation of SGRY guidelines, food grain was issued for EFC work which was executed without administrative approval.

- (e) In P.S. Bihta Rs. 6.25 lakh SGRY grant was diverted (October 2006) towards ICDS Project for construction of office cum godown and building of Anganwari Centre.

The total amount diverted by the 2 ZPs (Bhagalpur and Bhojpur) and 4 PSs (Runni Saidpur, Koilwar, Badhara and Bihta) was Rs 1.39 crore which was not recouped so far. Due to irregular diversion of specific grants meant for execution of development works the desired objective of those grants remained to be achieved.

2.8 Status of Asset Management

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 C&AG 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 audited 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.

2.9 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 the CEO of the Zila Parishad.

The centralised 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.