

Chapter - I

An Overview of the Functioning of the Panchayati Raj Institutions (PRIs) in Bihar

1.1 Introduction

The Seventy Third Constitutional Amendment Act, 1992 gave constitutional status to the Panchayati Raj Institutions (PRIs) and established a system of uniform structure, elections, reservation of post for weaker sections of society and women and regular flow of funds through Finance Commissions etc. As a follow-up, the State Governments were required to entrust the PRIs with such powers, functions and responsibilities to enable them to function as institutions of local self-government. In particular, PRIs are required to prepare plans and implement schemes for economic development and social justice in various areas including those enumerated in the Eleventh Schedule of the Constitution.

Consequently, the Government of Bihar (GoB) enacted the Bihar Panchayat Raj Act (BPRA), 1993 (subsequently replaced by the BPRA, 2006) and established a three-tier system of PRIs *viz.*, Gram Panchayat (GP) at village level, Panchayat Samiti (PS) at Block level and Zila Parishad (ZP) at the district level in the State. As of March 2015, there were 8967 PRIs¹ having 21,061 elected representatives in the State. The last general election to the elected bodies of PRIs was held during April-May 2011.

The State of Bihar is the 13th largest State in the country with an area of 94,163 sq. km and constitutes 2.86 *per cent* of total geographical area of the country. The population growth in Bihar in the last decade was 25.4 *per cent*. The rural population in the State was 9.23 crore (89 *per cent*) whereas urban population was 1.18 crore (11 *per cent*). Bihar has the highest population density (1106 persons *per sq. km*) and the lowest literacy rate (61.80 *per cent*) among the States of India. The sex ratio of Bihar at 918 is lower than the national average of 943. The comparative demographic and development statistics of the State are given in **Table 1.1** below:

Table 1.1: Important Statistics of the State

Indicators	Unit	State Value	National Value	Rank amongst all States
Population	Crore	10.41	121.06	3
Population Density	<i>per sq. km</i>	1106	382	1
Rural Population	Crore	9.23	83.35	2
Urban Population	Crore	1.18	37.71	11
Gender Ratio	1000 males	918	943	23
Literacy	<i>Per cent</i>	61.8	73	28
Number of districts	Number	38	640	3
Number of PRIs	Number	8967	246076	10
Number of ULBs	Number	138	3842	9
Human Development Index (HDI), 2007-08	Value	0.367	0.467	21

(Source: Census 2011, Thirteenth Finance Commission Report, Planning Commission, GoI)

¹ 38 ZPs, 531 PSs and 8398 GPs

1.2 Organisational setup of PRIs

At the State level, Panchayati Raj Department (PRD) co-ordinates and monitors the functioning of PRIs. The ZP is headed by the *Adhyaksha*, while the PS and the GP are headed by the *Pramukh* and the *Mukhiya* respectively who are elected representatives of the respective PRIs.

The Deputy Development Commissioner (DDC) and the Block Development Officer (BDO) are the executive heads of the ZP and the PS respectively. The Panchayat Secretary is in-charge of the office of the GP. The organisational structure of PRIs is depicted in **Chart - 1.1 & 1.2** below:

Chart – 1.1: Elected Bodies

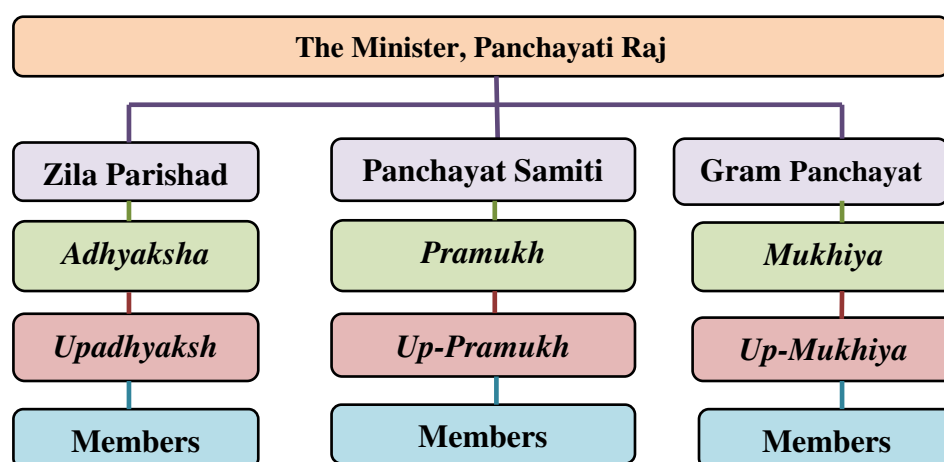
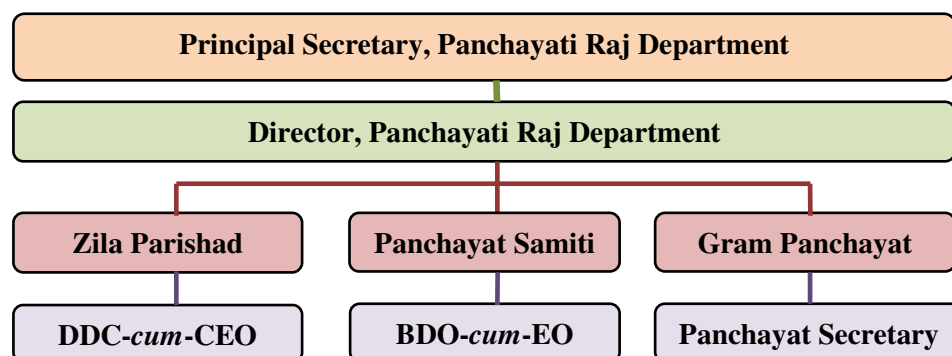


Chart – 1.2: Administrative set-up



(Source: BPRA, 2006 and www.biharprd.bih.nic.in)

1.3 Functioning of PRIs

1.3.1 Power and Functions of PRIs

Articles 243G and 243H of the Constitution of India stipulate that the State Government may endow the PRIs with the following powers, authority and responsibilities:

- Preparation of plans for economic development and social justice;
- Implementation of schemes for economic development and social justice as may be entrusted to them in relation to the matters listed in the Eleventh Schedule; and

- Powers to impose taxes and constitute funds for crediting all moneys of the panchayats.

Besides, Section 22, 47 and 73 of the BPR, 2006 describe the nature of power and duties to be performed by the GPs, PSs and ZPs respectively.

1.3.2 Powers of the State Government

The BPR, 2006 entrusts the State Government with following powers to enable it to monitor proper functioning of the PRIs. A brief summary of powers and roles of the State Government in respect of PRIs is given in **Table 1.2** below:

Table 1.2: Powers of the State Government

Authority	Powers of the State Government
Section 146 of BPR, 2006	Power to frame rules: The State Government may, by notification in Official Gazette, make rules to carry out functions as specified in BPR, 2006, subject to approval by the State Legislature.
Section 150, 152 and 153 of BPR, 2006	Power of Government to make model regulations and Inquiry: The Government may make standard rules for the purposes of the BPR, 2006 and has the power to inspect any office or records under the control of the PRIs.
Section 167 of BPR, 2006	District Planning Committee: The State Government shall constitute in every district a District Planning Committee to consolidate plans prepared by the Panchayats and the Municipalities in the district and to prepare a Draft Development Plan for the district as a whole.
Section 168 of BPR, 2006	Finance Commission for Panchayats: The State Government shall constitute in every five year, a Finance Commission to review the financial position of PRIs, and to make recommendations for devolution of funds and measures to improve the financial position of PRIs.
Section 27, 55 and 82 of BPR, 2006	Taxation: The PRIs may impose taxes on holdings, professions and levy tolls, fees and rates subject to the maximum rates notified by the State Government.
Section 172 of BPR, 2006	Removal of difficulties: If any difficulty arises in giving effect to the provisions of the Act, the State Government, may by order, do anything necessary to remove the difficulty.

(Source: BPR, 2006)

1.3.3 Devolution of Functions, Funds and Functionaries to PRIs

The 73rd amendment to Constitution envisages transfer of functions listed in the Eleventh Schedule to PRIs, and funds and functionaries required for implementation of activities were to be devolved along with the transfer of functions. Accordingly, the GoB transferred (September 2001) 61 functions to ZPs, 60 functions to PSs and 79 functions to GPs which were related to its 20 functional departments (**Appendix-1.1**). A study conducted by the PRD in August 2014 revealed that the PRIs were entrusted 621 types of responsibilities by various departments from time to time which includes selection of beneficiaries, financial powers, preparation of plans, construction of infrastructure, management of programmes, monitoring works, maintenance of assets etc. Chief Secretary, Bihar stated (July 2014) that provisions of devolved functions and responsibilities to be performed by the panchayats were not made clear and practical and effective delegation

was required to be done and one month time was given to frame clear guidelines for devolution of functions. But, the operational guidelines for implementation of functions devolved to PRIs was not framed (November 2015). Further, the ZPs in the State did not have adequate staff to discharge the devolved functions and 71 *per cent*² of sanctioned posts were vacant as of November 2015. In two ZPs³, men-in-position was less than 10 *per cent* of sanctioned strength.

Bihar is one of the weak performing States in the devolution of funds, functions and functionaries and stood third from the bottom (23rd rank) in the devolution index across Indian States.

1.4 Formation of various Committees

1.4.1 Standing Committees

As per Sections 25, 50 and 77 of BPR, 2006, the PRIs shall constitute various Standing Committees for performance of the assigned functions. A GP may constitute six⁴ Standing Committees from amongst its elected members and shall function under general guidance, supervision and control of the GP. Similarly, every PS and ZP shall constitute seven⁵ Standing Committees from amongst its elected members. Roles and responsibilities of these Standing Committees are detailed in *Appendix-1.2*.

1.4.2 District Planning Committee

In pursuance of article 243-ZD of the Constitution of India and Section 167 of the BPR, 2006, the State Government notified (September 2008) the Constitution of Bihar District Planning Committee and Conduct of Business (BDPC) Rules, 2006 to constitute the District Planning Committee (DPC) at district level for consolidating the plans prepared by the Panchayats and the Municipalities in the district and for drafting the development plan for whole district. The Chairman of the ZP shall be the Chairman of the DPC and the Chief Executive Officer of the ZP shall be the Secretary of the Committee. The MPs, MLAs and MLCs who represent the district, District Magistrate, Chairman of the District Co-operative/Land Development Bank are the permanent invitees of the Committee. At least four-fifth members of the DPC shall be elected by elected members of the ZPs and the Municipal bodies in the district according to the ratio of the population of rural and municipal areas and rest of the members are nominated by the State Government.

After lapse of 15 years of passing the Constitutional amendment, the State Government had taken steps to achieve the objectives of Article 243-ZD of the Constitution regarding preparation of integrated development plan for the whole district. Further, neither the BPR, 2006 nor the BDPC Rules, 2006

² Total Sanctioned strength - 3440; Men-in-position - 987; Vacancy - 2453

³ Buxar and Supaul

⁴ Planning, Co-ordination and Finance Committee; Production Committee; Social Justice Committee; Education Committee; Committee on Public Health, Family Welfare and Rural Sanitation; and Public Works Committee

⁵ General Standing Committee; Finance, Audit and Planning Committee; Production Committee; Social Justice Committee; Education Committee; Committee on Public Health, Family Welfare and Rural Sanitation; and Public Works Committee

prescribed time schedule for preparation and submission of annual plans by Local Bodies to the DPC and the district development plan for whole district by the DPC to the State Government. However, in test checked eight districts, inordinate delay in submission of Annual Action Plan to the State Government by DPCs was noticed.

The State Government intimated (August 2015) that DPCs have been constituted in all the districts and plans were passed by them as per Government instructions. However, it was noticed that the plans under BRGF scheme only was being consolidated by the DPC and development works taken under Centrally/State sponsored schemes by the PRIs and ULBs were not considered by it. Thus, the purpose of the Article 243-ZD was only partially fulfilled.

1.5 Audit Arrangement

1.5.1 Primary Auditor

Sections 31, 59 and 86 of BPRA, 2006 provide for audit of PRIs by an authority as may be prescribed by the State Government. The Government of Bihar declared (2006) the Examiner of Local Accounts (ELA), Bihar the prescribed 'authority' for audit of PRIs. The word 'authority' was replaced by the 'CAG of India or an authority authorised by him' through BPRA (Amendment) Act, 2011. Accordingly, audit of the accounts of PRIs in Bihar is being conducted by the ELA under supervision of the Accountant General (Audit), Bihar, as per provisions of the Bihar and Orissa Local Fund Audit (LFA) Act, 1925. During 2014-15, out of 8967 PRIs, audit of 1050 PRIs was conducted by ELA (*Appendix – 1.3*).

1.5.2 Audit by Comptroller and Auditor General of India

The Eleventh Finance Commission had recommended that the Comptroller and Auditor General (CAG) of India should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit for all tiers of panchayats. The Thirteenth Finance Commission had also recommended that the CAG must be entrusted with Technical Guidance and Support (TGS) over the audit of all the Local Bodies (LBs) at every tier and his Annual Technical Inspection Report as well as Annual Report of Director of Local Fund Audit (DLFA) must be placed before the State Legislature. Fourteenth Finance Commission had also recommended that the initiatives made by the previous Finance Commissions regarding improvement in maintenance of accounts of LBs and their audit and TGS arrangement by the CAG should be continued.

In this regard, the State Government had created (October 2013) a cell⁶ under the Finance Department for audit of LBs. Further, as per recommendations of Finance Commissions and continuous persuasion of the AG (Audit), Bihar, the State Government notified (June 2015) the establishment of Directorate of Local Fund Audit headed by the DLFA and it is functioning since 11 June 2015. The Finance Department, GoB intimated (December 2015) that the State Government had accepted the Standard Terms and Conditions under Regulations on Audit and Accounts, 2007 for audit of Local Bodies under TGS arrangement.

⁶ Comprising 39 senior auditors and one deputy Finance Controller

1.6 Response to Audit Observations

1.6.1 Poor response to Inspection Reports

After completion of audit, Inspection Reports (IRs) containing audit findings were issued to the PRIs concerned with a copy to the State Government. The Executive Officers (EOs) of the ZPs and PSs and the *Mukhiyas* of GPs were required to respond to observations contained in the IRs and send compliance report to the ELA within three months. However, the EOs did not take effective steps to comply with the observations raised in the audit paragraphs as evident from increasing number of paragraphs outstanding as on 31 March 2015. Details of paragraphs outstanding are given in **Table 1.3** below:

Table – 1.3: Outstanding paragraphs in PRIs for the last five years

(₹ in crore)

Year	No. of IRs	No. of paras in IRs	Amount involved	No. of paras settled	Amount of settlement	No. of paras Outstanding	Money value of paras outstanding
1	2	3	4	5	6	7 (3-5)	8 (4-6)
2010-11	866	2365	178.80	1959	27.52	406	151.28
2011-12	518	5447	117.15	2694	0.38	2753	116.77
2012-13	416	7449	92.80	12	0.37	7437	92.43
2013-14	503	8748	128.12	1	0.00	8747	128.12
2014-15	574	8528	99.14	992	59.67	7536	39.47
Total	2877	32537	616.01	5658	87.94	26879	528.07

(Source: Inspection reports on the accounts of PRIs)

It is evident from the **Table 1.3** that a large number of paragraphs remained outstanding during 2010-15. Out of total 32,537 outstanding paragraphs only 5,658 (17 per cent) paragraphs were settled and 26,879 paragraphs involving ₹ 528.07 crore were pending for settlement as of 31 March 2015.

Increasing trend of outstanding paragraphs indicated lack of efforts by authorities concerned in furnishing compliance to these paragraphs.

1.6.2 Compliance to the ELA's Annual Audit Reports

The Finance Department, GoB had constituted (March 2010) three tier Committees – High Level, Departmental Level and District Level for review /compliance of the ELA's Annual Audit Reports. The District level committee⁷ has the responsibility to ensure compliance of audit paragraphs/reports received from PRIs and ULBs of that district. The department level committee⁸ had to review the status of compliance made by the district level committees. The High level Committee⁹ was to meet once in six months to review the functioning of District and Department level committees.

It was observed that six district level committee meetings were held for PRIs during April 2014 to August 2015 and one meeting of Department Level committee was held in July 2015. High Level committee meeting was not

⁷ Headed by the District Magistrate/Deputy Development Commissioner

⁸ Headed by the Principal Secretary, Panchayati Raj Department, GoB

⁹ Headed by the Principal Secretary to the Finance Department, GoB and have the Pr. A.G. (Audit), Bihar as a member

held since August 2013. Thus, the purpose of constituting three tier committees was defeated.

1.6.3 Status of Local Bodies Report

Sections 31(4), 59(4) and 86(4) of the BPR (Amendment) Act, 2011 stipulate that the Annual Report of the Comptroller and Auditor General of India or an authority authorised by him shall be laid before both the houses of the State Legislature. However, there is no provision for discussion of Annual Report of CAG of India/authorised authority on local bodies in Public Accounts Committee (PAC) or PAC like committee.

The Finance Department, GoB informed (July 2015) that the Hon'ble Chairman, Bihar Legislative Assembly had been requested to select a committee for discussion and review of CAG's report on Local Bodies. Meanwhile, the ELA's report on Local Bodies, GoB for the year ended 31 March 2014 was submitted (15 June 2015) to the State Government with copies to the Departments concerned, but the report was not laid before the State Legislature (November 2015).

Accountability Mechanism and Financial Reporting Issue

1.7 Accountability Mechanism

1.7.1 Ombudsman

As per Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) guidelines, in order to ensure transparency and responsibility, the State Government shall appoint an ombudsman and establish an office of ombudsman for redressal of complaints under MGNREGS. The State Government replied (December 2015) that out of 17 ombudsmen, tenure of seven ombudsmen was completed in November 2015 and appointment of ombudsman in 21 districts was under process.

1.7.2 Social Audit

The basic objective of social audit is to ensure public accountability in the implementation of projects, laws and policies. The Government of India (GoI) enacted Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) Audit of Scheme Rules, 2011. The rules include social audit, audit of accounts and social audit facilitation by State Government and creation of independent organisation for conduct of social audits. It was noticed that 235 Social Audit of GPs were conducted in the State during 2014-15 under MGNREGA scheme in which cases of non-observance of rules such as wall paintings showing details of money paid to all Job Card holders not done, non-preparation of list of grievances that required redressal etc., were noticed.

The BRGF guidelines also prescribe for Social audit by Gram Sabha in rural areas. The High Powered Committee (HPC) approved (July 2012) Social Audit to be conducted under BRGF as per guidelines of MGNREGS. But, Social Audit was not conducted under BRGF scheme in 10 test checked districts¹⁰ during 2010-15.

¹⁰ Aurangabad, Bhagalpur, Bhojpur, Katihar, Lakhisarai, Madhepura, Patna, Saharsa, Samastipur and Sitamarhi

1.7.3 Submission of Utilisation Certificates

The instruction contained in the allotment letters of the funds released to the PRIs required furnishing of Utilisation Certificates (UCs) to the State Government within the prescribed date. It was noticed that the PRD released grants of ₹ 3,618.84 crore to PRIs during 2003-04 to 2012-13 under TFC, FSFCs, Third SFC, MMGY, furniture and equipment etc. But, the UCs for only ₹ 883.27 crore (24 per cent) were submitted by the PRIs as of June 2015. Details are given in the **Table 1.4** below:

Table – 1.4: Utilisation against allotment under different heads
(₹ in crore)

Sl. No.	Head	Total Allotment	UCs submitted	UCs not submitted	Percentage of UCs submitted
1.	TFC	1624.00	198.97	1425.03	12
2.	FSFC	1252.72	636.07	616.65	51
3.	Third SFC	90.52	40.67	49.85	45
4.	MMGY	61.00	7.56	53.44	12
5.	Representative Allowance	357.80	0.00	357.80	0
6.	Furniture and equipment	224.38	0.00	224.38	0
7.	Others	8.42	0.00	8.42	0
Total		3618.84	883.27	2735.57	24

(Source: Information provided by the Panchayati Raj Department, GoB)

Non - submission of UCs of ₹ 2735.57 crore for such a long periods indicate weak internal control and possible misutilisation of funds.

1.7.4 Utilisation of grants under major Centrally Sponsored Schemes

Details of utilisation of grants under major Centrally Sponsored Schemes (CSSs) are given in **Table 1.5** below:

Table - 1.5: Utilisation of grants under major CSSs
(₹ in crore)

Sl. No.	Grant / Scheme	Year	Fund Available	Utilisation	Percentage of Utilisation
1	MGNREGS	2010-11	3193.84	2642.67	83
		2011-12	2566.45	1668.69	65
		2012-13	2377.68	1971.13	83
		2013-14	2344.22	2038.48	87
		2014-15	1374.24	1090.88	79
2	IWDP	2010-11	16.93	4.26	25
		2011-12	6.18	0.67	11
		2012-13	10.11	2.25	22
		2013-14	10.68	0.75	7
		2014-15	NA	NA	NA
3	BRGF	2010-11	1363.43	646.34	47
		2011-12	1172.08	457.88	39
		2012-13	1179.82	546.34	46
		2013-14	1162.36	786.80	68
		2014-15	740.00	280.23	38

(Source: Annual Report of RDD, GoB; data provided by the PRD, GoB)

NA- Not Available

The utilisation under BRGF decreased from 68 per cent (2013-14) to 38 per cent (2014-15). Status of utilisation of grants under IWDP scheme ranged between seven to twenty five per cent during 2010-14.

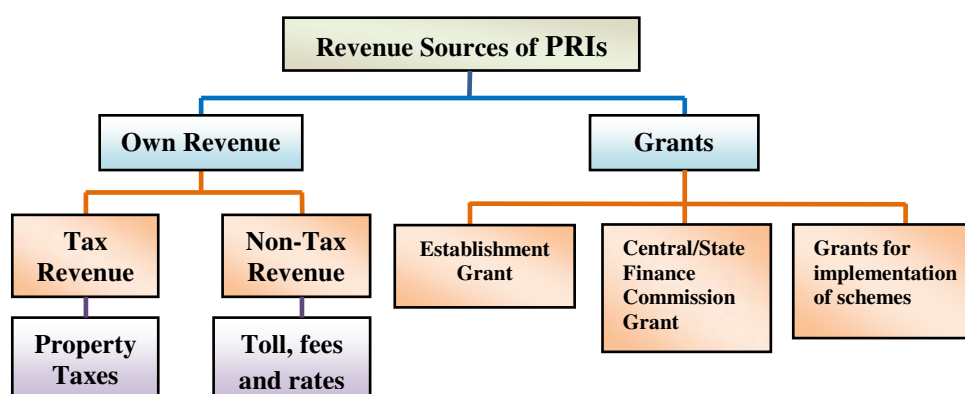
1.8 Financial Reporting Issues

1.8.1 Source of Funds

1.8.1.1 Sources of Finances

The resource base of PRIs consists of own revenue generated by collection of tax and non-tax revenues, devolution of funds from State and Central Finance Commission, Central and State Government grants for maintenance and development purposes and other receipts. As per sections 27, 55 and 82 of BPR, 2006, the PRIs may impose taxes on holdings, professions and levy tolls, fees and rates subject to the maximum rates notified by the State Government. A flow chart of sources of finances of PRIs is depicted in the **Chart 1.3** below:

Chart – 1.3: Source of Finances



(Source: Section 27, 55 and 82 of BPR, 2006)

But, the PRIs do not have any own tax revenue as the State Government had not yet notified the maximum rates of taxes, tolls and fees etc. However, the ZPs have some own non-tax revenue from rent of shops/Inspection Bungalow, settlement of ponds/bus-stand etc., whereas PSs and GPs do not have any revenue from own sources.

1.8.1.2 Fund Flow arrangement of Centrally/State Sponsored Schemes

Fund Flow arrangement for major Centrally/State Sponsored Schemes is given in **Table 1.6** below:

Table – 1.6: Fund Flow arrangement of Flagship schemes

Sl. No.	Name of Scheme	Fund flow arrangement
1.	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	The State receives MGNREGS fund from the Central Government. The scheme fund is managed through State Employment Guarantee Fund and transferred to the districts. The districts transfer the fund to ZP, implementing agencies, Programme Officers at block level and to the GPs.
2.	Backward Region Grant Fund (BRGF)	Grants are released to the DDC-cum-CEO (the DDO) of the ZPs with instruction to transfer the fund to the PRIs of the district in their core bank accounts without delay.
3.	Thirteenth Finance Commission (ThFC) grants	Grant is released in two installments to the DDC-cum-CEO (the DDO) of the ZPs with instruction to transfer the fund to the PRIs of the district in their core bank accounts without delay.
3.	Fourteenth Finance Commission (FFC) grants	Grants shall be released in two instalments in June and October every year which must be transferred to the GPs within 15 days of receipt from the Central Government. The GoB releases funds to ZPs with instruction to transfer the same to GPs concerned through core banking.
4.	Fourth State Finance Commission (FSFC) grants	Grant is released in two installments to the DDC-cum-CEO (the DDO) of the ZPs with instruction to transfer the fund to the PRIs of the district in their core bank accounts without delay.

(Source: Scheme Guidelines and allotment letters of GoB)

1.8.1.3 State Budget allocation vis-à-vis expenditure

The budget provisions of State Government to PRIs including State share towards GoI schemes and grants received under recommendations by Central Finance Commissions (CFCs) for the year 2010-15 is given in **Table 1.7** below:

Table – 1.7: Budget allocation vis-à-vis expenditure

(₹ in crore)							
Sl. No.	Particulars	Head	2010-11	2011-12	2012-13	2013-14	2014-15
1	Budgetary Allocation	Revenue	1888.84	3299.79	3276.75	4074.14	4709.01
		Capital	177.00	250.00	250.00	0.00	100.50
		Total	2065.84	3549.79	3526.75	4074.14	4809.51
2	Expenditure	Revenue	1297.80	2179.80	2591.06	3003.35	2374.78
		Capital	0.00	210.31	0.00	0.00	0.00
		Total	1297.80	2390.11	2591.06	3003.35	2374.78
3	Savings (1-2)		768.04	1159.68	935.69	1070.79	2434.73
4	Percentage of savings		37	33	27	26	51

(Source: Appropriation Accounts of Government of Bihar)

It is evident from **Table 1.7** that the State Government did not transfer entire amount as provided in the budget to the PRIs and percentage of short-transfer ranged between 26 to 51 per cent. The allocation under Capital head was less than nine per cent of the total allocation during 2010-15 while capital expenditure during 2010-11 and 2012-15 was nil.

1.8.2 Recommendations of the State Finance Commission (SFC)

In terms of Article 243-I of the Constitution, the GoB had constituted five State Finance Commissions¹¹ to assess the financial status and to determine

¹¹ First SFC - April 1994, Second SFC - June 1999, Third SFC - July 2004, Fourth SFC - June 2007 and Fifth SFC - December 2013

the principles on the basis of which adequate financial resources would be ensured to the Local Bodies (LBs). The first two SFCs did not submit its report. Third SFC made important recommendations (November 2004) to uplift the financial status of LBs which included devolution of three *per cent* of State's net own tax revenue to LBs, grant for salary payment and lump sum grant for infrastructure which were accepted and implemented by the State Government. The fourth SFC recommended (June 2010) devolution of 7.5 *per cent* of State's own tax revenue net of collection costs to LBs, grant for salary of employees of LBs by the State Government and grant for high priority sectors.

It was observed that in 2014-15, a sum of ₹ 1003.79 crore was to be released under fourth SFC to the PRIs but only ₹ 50.68 crore was released. Thus, there was short release of ₹ 953.11 crore. The Panchyati Raj Department, GoB replied (October 2015) that in light of instruction of Finance Department, GoB, the funds could not be released to PRIs.

The fifth SFC was constituted in December 2013 and had to submit its report by March 2015 but the report has not yet been submitted (November 2015).

1.8.3 Recommendations of the Central Finance Commission

Thirteenth Finance Commission

The Thirteenth Finance Commission (ThFC) recommended grants-in-aid to the Local Bodies as a percentage of the previous years' pool of taxes over and above the share of the states. The State Government for the period 2010-15 was eligible to get grants of ₹ 4,954.29 crore. It was observed that the State Government released (2010-15) ₹ 4,972.93 crore to the PRIs. Out of this amount, the PRIs could utilised only ₹ 704.05 crore (14 *per cent*) leaving unspent balance of ₹ 4,268.88 crore as of June 2015.

1.8.4 Maintenance of Records

1.8.4.1 Budget

As per Rules 8, 11 and 14 of the Bihar Panchayat Samitis and Zila Parishads (Budget and Account) {BPS and ZP (B&A)} Rules, 1964, the annual budget estimates of the ZPs are to be prepared on the basis of the average of its last three years' actuals of income and expenditure. The budget of ZP is to be approved by the Parishad not later than 15 February. The budget so prepared and approved by the Parishad shall be sent to the State Government before 1st March. Further, Rule 16 of the Rules *ibid* prohibits the ZPs from incurring expenditure without budget provisions.

Scrutiny of records (May 2014 - November 2015) revealed that out of 38 ZPs, six ZPs¹² did not prepare budget for the period 2012-15, whereas ZP Nalanda prepared budget for 2013-14 by including only a few heads of income and expenditure without considering the previous years' data of income and expenditure. The ZP Banka prepared budget for 2014-15 with a delay of nine months.

¹² Bhagalpur (2013 - 14), Khagaria (2013 - 15), Kishanganj (2013 - 15), Muzaffarpur (2012 - 15), Shiekhpora (2013 - 15) and Supaul (2013 - 14)

The ZP Khagaria, Kishanganj and Bhagalpur replied (November 2014 - December 2015) that due to shortage of staff, the budget estimate could not be prepared. The ZP Muzaffarpur and Supaul replied (August - December 2014) that the budget estimate will be prepared in future while the ZP Shiekhpora replied (November 2014) that post facto approval of the Board for expenditure of 2013-14 would be obtained. The ZP Nalanda replied (May 2014) that complete budget will be prepared in future.

Incurring expenditure without budget is not a healthy financial practice as it undermines the importance of prioritisation of resources, besides diluting the exercise of control over receipt and expenditure.

1.8.4.2 Non-maintenance of records

Rule 40 of BPS and ZP (B&A) Rules, 1964 prescribe maintenance of basic records, registers and accounts for transparency and accountability. Scrutiny of records (2014-15) revealed that six ZPs did not maintain key records¹³ viz., Grant Register, Asset Register, Daily Collection Register etc.

1.8.5 Reconciliation of Balances

As per Rule 80 (a) to (d) of BPS and ZP (B&A) Rules, 1964, at the end of each month, a statement indicating the reconciliation of balances should be prepared in the Cash Book. Scrutiny of records (September - November 2015) revealed that in ZP Bettiah and Shiekhpora, reconciliation statements were not prepared and there was a difference of ₹ 2.34 crore¹⁴ (Bettiah) and ₹65.59 lakh in (Shiekhpora - ThFC) between Cash Book balance and Bank balance as on 31 March 2015. Non-reconciliation of difference was fraught with risk of misuse of funds.

1.8.6 Maintenance of Accounts by PRIs

1.8.6.1 Maintenance of Accounts by PRIs

The PRIs were maintaining accounts on cash basis in single entry system. The PSs and ZPs followed the BPS and ZP (B&A) Rules, 1964. These accounts rules have not been reviewed according to the contemporary best practices. In the High Level Committee meeting¹⁵ (August 2013) the PRD, GoB intimated that revised Budget and Accounts rules for PRIs would be completed by September 2013 but, no action was taken for framing the Budget and Accounts rules for PRIs (November 2015).

1.8.6.2 Model Accounting System and PRIASoft

Model Accounting System (MAS) was prescribed (2009) by GoI in consultation with the CAG of India for exercising proper control and securing better accountability. Consequently, the PRD, GoB notified (July

¹³ Asset Register - ZP Sheohar and West Champaran; Daily Collection Register - ZP West Champaran; Grant Register - ZP Banka, Khagaria and West Champaran

¹⁴ ThFC - ₹0.10 crore, FSFC - ₹ 0.99 crore, BRGF - ₹1.25 crore

¹⁵ Headed by the Principal Secretary, Finance Department, GoB

2010) that the accounts of PRIs would be maintained in the MAS formats¹⁶ from 1 April 2010. In Bihar, the MAS was implemented through Panchayati Raj Institutions Accounting Software (*PRIASoft*) developed by the National Informatics Centre (NIC). It aims at computerisation of accounts of all the three levels of PRIs through MAS. However, it was observed that out of total eight MAS formats, only three formats¹⁷ were being generated under *PRIASoft*. The online entry of 12798 vouchers¹⁸ was completed during the year 2014-15.

The PRD, GoB stated (August 2015) that due to cash basis system of accounting in PRD, absence of proper records of immovable and movable property, non-maintenance of inventories at panchayat level for schemes mapped in *PRIASoft* and non-imposition of taxes by the PRIs, the rest five MAS formats could not be generated. Thus, despite completion of five years, the decision to maintain PRIs accounts in MAS formats remained unimplemented.

1.8.7 Impact of Audit

Recoveries amounting to ₹ 10.82 lakh were made from the person(s) concerned in nine PRIs¹⁹ at the instance of audit conducted during 2014-15.

1.8.8 Good Practices

With the objective of making the three tier PRIs inclusive, responsive and accountable, the GoB launched the Bihar Panchayat Strengthening Project aimed at infrastructure development and capacity building of the PRIs. The project is being implemented at a cost of ₹ 667.44 crore in 1304 GPs of six districts²⁰ of the State with credit aid from the World Bank since 2014-15.

The Bihar Panchayat (Inspection of offices and Inquiry into officers, Supervision and Guidance) Rules, 2014 have been framed (December 2014) for supervision and guidance over affairs of the PRIs.

¹⁶ *Format-I: Annual Receipt and Payments Accounts; Format-II: Consolidated Abstract Register; Format-III: Monthly Reconciliation Statement; Format-IV: Statement of Receivables and Payables; Format-V: Register of Immovable Property; Format-VI: Register of movable property; Format-VII: Inventory Register; and Format - VIII: Register of Demand and Collection*

¹⁷ *Format-I, II and III*

¹⁸ *ZP - 489 vouchers, PS - 1658 vouchers and GPs - 10651 vouchers*

¹⁹ *ZP - Arwal (₹0.23 lakh), Gopalganj (₹0.88 lakh), Kaimur (₹1.42 lakh), Muzaffarpur (₹0.57 lakh) and Supaul (₹ 0.72 lakh); PS - Karai Pasurai (₹1.35 lakh); GP - Amauna (₹4.29 lakh), Berthu (₹0.36 lakh) and Jehana (₹1.00 lakh)*

²⁰ *Bhojpur, Madhepura, Nalanda, Patna, Saharsa and Supaul*

